

**THE DIRECTION OF THE PARALLEL IMPORT
INDUSTRY IN A STRATEGIC CONTEXT**

By

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To Whom It May Concern

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Due to the strategic importance of this research it would be appreciated if the contents remains confidential and not be circulated for a period of five years.

Sincerely

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DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Patel
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June, 2003

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ABSTRACT

The study investigated the perception of Business Management students towards the grey market industry.

An extensive literature review on customer satisfaction, buyer behaviour and market segmentation was undertaken. The research instrument took the form of a questionnaire, using five-point likert scale questions, multiple rating list scale questions and dichotomous questions. The questions were distributed to a sample of ninety students.

The study is based on fifty returned questionnaires.

The descriptive statistics were generated using the SPSS software program.

The study is concluded with recommendations, which Govan Mani may wish to consider during its strategic planning process.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Parallel imports, are goods produced genuinely under protection of a trademark, patent, or copyright, placed into circulation in one market, and then imported into a second market without the authorisation of the local owner of the intellectual property right. This owner is typically a licensed local dealer. Thus, grey imports are identical to legitimate products except that they may be packaged differently and may not carry the original manufacturers warranty.

The aim of this study is to increase awareness and investigate consumer perception with regards to the quality and after sales service of these grey products. If the consumer found out about the product from some other source than the advertisements of the authorised corporation, then it is reasonable to say that the consumer voluntarily chose to buy the goods from the parallel importer. But if the consumer chose the cheaper goods from the parallel importer because of that advertising then the market only exists because of the trade mark reputation that was created by the authorised corporation and the parallel importers are merely taking advantage of that.

By undertaking this study it is hoped that we gain a greater insight as to why these products, although cheaper, are not always preferred.

1.2. Background

Govan Mani is an independent retailer in the electronics industry. Its core business for the last 30 years has been consumer electronics, more specifically home electronics. It has branches throughout KZN. The company deals directly with all the major suppliers including Philips, Sony, Panasonic, Samsung, LG, etc.

All purchases through these suppliers are not deemed to be parallel imports.

Although these products carry all the same brand names, they look the same, they feel the same, they are different from the genuine product in the following ways:

- All warranties are carried in-house by the respective parties
- Thus, local agents do not offer any back-up service for the grey imports
- Once the warranty has expired, spares for these products become a problem as importers rarely bring them in. Reason for this is that spares are an added cost which thus diminishes their profit margins.
- Time delays for repairs and service are much longer for these products.

Reasons are as follows:

- Qualified technicians are not readily available
- Non-availability of spares
- Spares being of inferior quality
- No proper quality check procedures in place

These parallel imports have impacted negatively on the retailer over the past few years. Consumers, not receiving good after-sales service, are also at a loss. This also has a ripple effect on the suppliers whose market share is also being eroded.

It would therefore be imperative to study the perceptions of these role players.

A segment of consumers prefer the authorised version as they place more value on the warranty and services that come with the authorised version. Another segment switches to parallel imports because a lower price is offered due to lack of country-specific features or warranties. Parallel imports also generate a third and new segment that would not have bought this product before. Unlike counterfeits that are fabricated by importers, all parallel imports are genuine and sourced from the manufacturer in the lower-priced country through authorised dealers. Therefore, the manufacturers global sales quantity should increase, but profits may rise or fall depending on the relative size and profitability of the segments.

1.3. Motivation

Reinforcing the positive spin-offs and benefits of dealing with Govan Mani will help increase their market share.

Once we estimate the impact parallel imports has had on consumer behaviour, new strategies can be implemented.

The competitive nature of this industry demands high quality and service standards, facts regarding grey imports need more exposure and corrective actions where necessary have to be taken.

1.4. Value

The company has created a household brand name for itself. Positive responses can be used to market the company's high quality standards, core values and service delivery.

The study of consumer perception has great value in that it is easier to influence or educate a consumer, if it is found that a lack of education is a major factor for consumers preferring the grey imports.

The study will serve a dual purpose, firstly as an opportunity to "voice" their opinions and secondly as a marketing initiative.

1.5. Problem Statement

"What can be done to increase awareness of consumers to parallel imports and thus increase market share of the authorised retailers?"

1.6. Objectives Of The Study

The objectives of the study can be defined as follows:

- To investigate what the perceptions are of the grey market industry.
- To establish if consumers would be prepared to pay a slight premium if they knew they were purchasing the genuine product and receiving better back-up service.
- To gain insight into consumers perception of Govan Mani.

1.7.Gap Analysis:

Back-up service on the grey products can be explained by the gaps shown in figure 1.1.

Gap 1: E.g. a charge may be levied on certain spares for the product whereas the customer's expectation may be that they are for free.

Gap 3: E.g. untrained technicians can cause a mismatch between the actual quality of the service provided by the operation and its internal quality specification. Also some importers may initially offer a minimum charge for back-up service and this influences customer's expectations for the next service where they may be disappointed.

Gap 4: E.g. an advertisement offering extended warranties for grey imports in the event of breakdown, may not in fact be available should this happen.

The problem of quality lies in the 'gap' between customers expectations and the organizations specification of quality.

This 'gap' is shown in figure 1.1 (Pycraft, 1997).

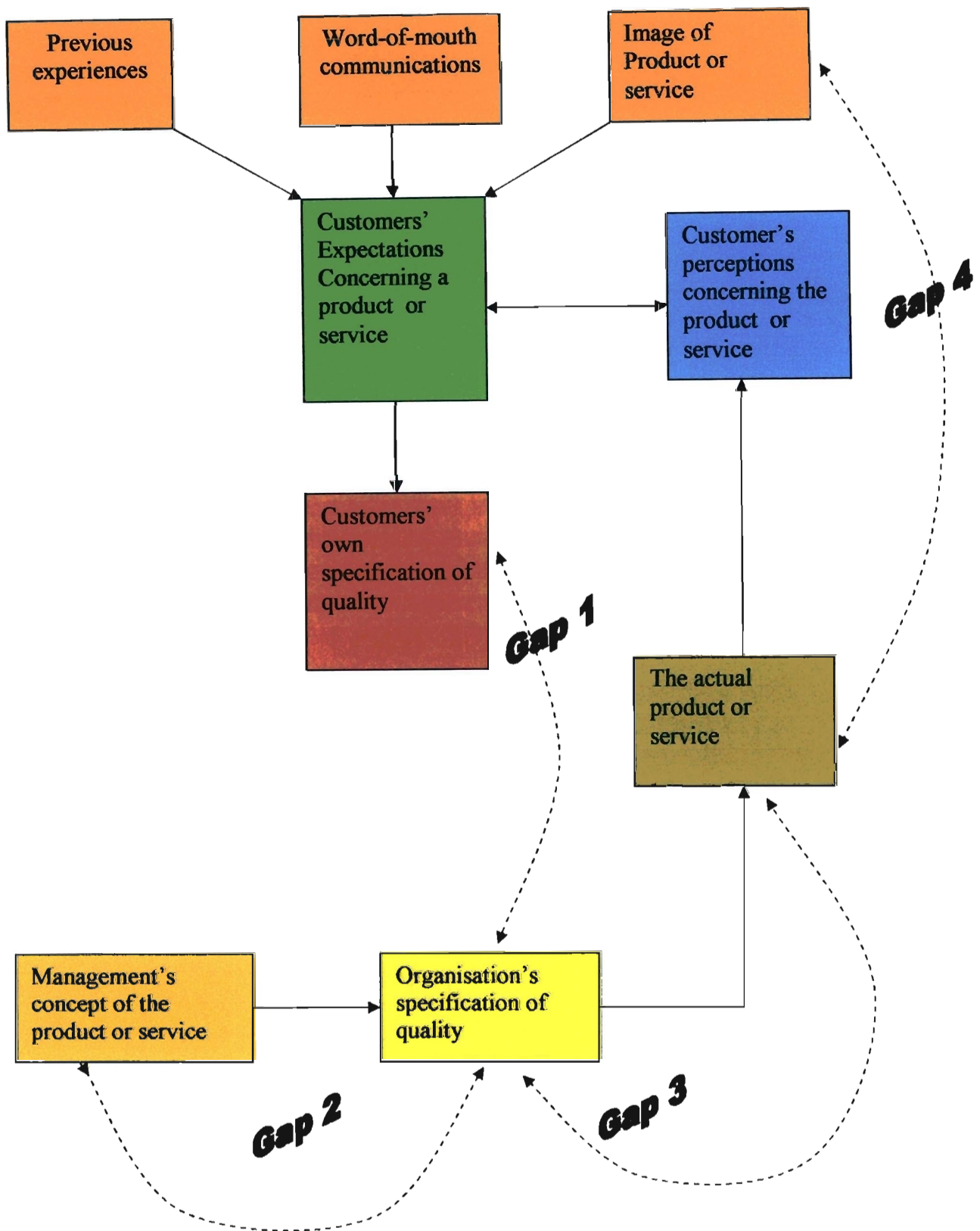


Figure 1.1: A gap between customers expectations and their perception of a product or service

It is important that managers take action to prevent quality gaps. Having recognised that there is a gap, the manager needs to develop strategies that will close the gap, manage the process of change, and finally, monitor the process to ensure that the same gap does not reappear and, if possible, to open a favourable gap with the competition (Ambrosini, p220).

1.8. Hypothesis

H 1 : Consumers regard the quality and service of grey imports to be inferior to that of the authorised product.

H O : Consumers regard the quality and service of grey imports to be identical to that of the authorised product.

1.9. Research Design and Methodology

The applied research will be a descriptive study for the following reasons:

- > The hypothesis will be tested quantitatively.
- > Generalisations will be made on the representativeness of the sample and reliability and validity of the research design and instrument.

1.9.1 Design Strategy

The study will be designed to elicit responses from consumers to provide information so that the objectives can be met.

1.9.2 Questionnaire Design

A questionnaire was designed to gauge the respondents perceptions, preferences and attitudes towards grey products compared to the legitimate product. The questionnaire will be a pre-formulated written set of questions. These will include simple dichotomous questions, single-response scale questions and multiple rating list scale. The researcher will consider categorisation, reliability and validity as principles of measurement when designing this questionnaire.

An alpha numeric code will be devised to capture the data responses from the dichotomous questions whereas respondents would rate their attitudes towards a particular product on a five (5) point scale for the semantic differentials.

This will ensure more accurate and manageable handling of the data. The alpha-numeric code will be set up according to the coding rules i.e. appropriate to the research problem, exhaustive, mutually exclusive and derived from one classification principle. A preliminary codebook used with pilot data may reveal coding problems that will need to be corrected before the data for the final study are collected and processed. A codebook contains each variable in the study and specifies the application of coding rules to the variable. The sample questionnaire is included in the appendix.

1.9.3 Sample

A convenience sample will be employed to provide insight into the perception of both the grey and the authorised product distributed by dealers.

The questionnaire will be administered to Business Management students studying at Damelin. The researcher utilised this approach as it was the most suitable and convenient way to obtain the required information.

This format has been identified for its cost and time effectiveness in securing feedback from the respondent.

1.9.4 Research Reliability and Validity

The Cronbach's coefficient alpha method is used to assess internal consistency. Reliability less than 0.50 are considered to be poor whilst those in the 0.7 range are considered to be acceptable. The closer the reliability coefficient gets to 1, the more reliable the measure is. The assumption is that the various indicators should correlate positively, but they should not be perfectly correlated (if all the indicators were perfectly correlated, they would all capture exactly the same score).

One would also apply the Kuder Richardson Formula 20 (KR20) for the multi scale items.

The respondents replies would be unaided allowing for no prompting bias.

Content Validity: This is the extent to which it provides adequate coverage of the investigative questions guiding the study. The researcher would ensure that this is the case.

External Validity: Relates to the extent to which the findings can be generalised to particular persons, settings and times, as well as across types of persons, settings and

times. This could pose a threat if respondents refuse to participate in the questionnaire for whatever reason.

Other factors: Some people react or role-play when they know they are part of a survey or experiment.

1.9.5 Data Analysis

Descriptive statistics will be used to get a feel for the data. Computer software like SPSS make it possible to edit/code data as well as for cross-classification analysis. Graphical techniques and visual representations will be used to represent the statistical data results. An unknown/no answer entry will be created for answers that are not appropriate i.e. either they are not ticked or double ticked.

1.9.6 Data Collection

A total of 50 questionnaires were returned completed by the respondents. The sample size of 90, using the EPISTAT software, provided substantial data to analyse and interpret. The overall purpose of the sampling method was mainly for convenience. The data was coded upon collection and SPSS helped formulate the descriptive statistics.

1.10. Limitations

- ▶ Research is conducted in Durban only
- ▶ It will be focused on a selected sample
- ▶ It is conducted without any financial figures due to sensitivity

1.11 Structure of the study

The chapters in this study are as follows:

Chapter 1: Overview

Chapter one is the introduction to the problem that will be investigated. It introduces one to the foundation of the study, and covers areas such as the background, its purpose, its limitations as well as the manner in which the study has been structured.

Chapter 2: Theory Review

Included in this chapter is a framework starting with strategic management which then moves on to consumer markets and buyer behaviour. The external environment followed by the marketing mix are further discussed in great depth. Corporate philanthropy is also touched on as part of an organizations competitive advantage. All relevant literature and previous studies have been covered in this chapter.

Chapter 3: Case Study of the Organization

This chapter details the history and current operations of Govan Mani. All aspects of its business are discussed in this chapter.

Chapter 4: Research Methodology, Findings and Discussion of the Results

Chapter 4 deals with the statistical results of the research, the methods of data interpretation and analysis that was used. Attitudes of consumers towards grey imports will be established. The researcher will draw on the theory and objectives of the study in discussing the research findings. This will assess the appropriateness of the methodology and data collection techniques that were used in this study. The results are presented in the form of tables and figures.

Chapter 5: Recommendations and Conclusion

Here conclusions will be drawn from the results and recommendations regarding the implications and effects of grey imports will be made.

1.12 Summary

This chapter has indicated the aim of the study and the questions to be answered. Very few, if any, studies of this nature have been undertaken, which makes this study almost unique. The main area to be researched that was highlighted is the impact of the grey market on the retailer and the end-user. Consumer attitudes and perceptions towards parallel imports will be elicited. The next chapter will review the respective theory on customer satisfaction and buying behaviour.

CHAPTER 2: MARKETING STRATEGY IN CONTEXT

2.1 Introduction

The aim of this study is to increase awareness and investigate consumer perception with regards to the quality and after sales service of grey products. By undertaking this study it is hoped that we gain a greater insight as to why those products, although cheaper, are not always preferred.

More than 20 years ago, Peter Drucker wrote, "...business is not determined by the producer, but by the customer." This quotation had been universally approved; 99% of business people will agree it is correct. Yet most business people act as though they are in full command of the situation and the customer will merely buy what they offer. This is not the case. Customers are better educated than ever before, with greater spending power and mobility and they are able to shop around much more in order to buy whatever meets their needs. Therefore it is imperative for business people to understand consumer behaviour in this competitive world.

2.2 Nature of Strategy and Marketing Management

Strategy is not new. Successful businessmen and non business leaders have always had strategy. These strategies have varied from unwritten plans in the minds of the organizations leader to detailed blueprints of what is to be achieved and how. Every organization functions in a dual setting: the microenvironment made up customers, markets, related industries and competition; and a macro environment, a four dimension overlay of societal, government, economic, and technological forces that affect the organizations operations. Its own resources include all its human and material assets in such as planning and design, production, marketing, financing, and management.

"A strategy is a statement of an organizations investment priorities, the management thrust, and the way that it will use its strengths and correct its limitations to pursue the opportunities and avoid the threats facing it" (Rothschild, 1976).

2.2.1 Benefits of Strategic Management

Strategic thinking requires data collection, processing, analysis, evaluation, and decision making. Each of these activities is complex and time consuming and requires money and manpower. How much time, money, and manpower will depend on the type and degree of change from the past and present you wish to make in the future. A company's actual strategy is partly planned and partly reactive as shown in figure 2.1 below:

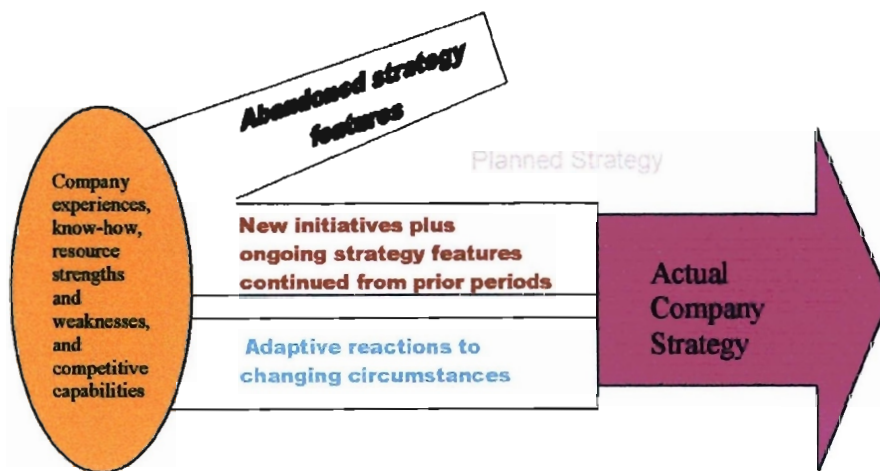


Figure 2.1: A company's actual strategy-planned and reactive

Source: Adapted from Thompson and Strickland, *Crafting and Executing Strategy*, Singapore: McGraw-Hill, 2001, p12

Actually the entire process of strategic thinking is aimed at helping you answer the question of what your organization can and should become. Each leader, whether business, political, or humanitarian, has a vision and strives to make reality conform to it. Some vision call for a complete transformation, others entail marginal change.

Pearce and Robinson (2000) define strategic management as the "set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives.

Thompson outlines the following advantages of strategic thinking:

- a) Providing better guidance to the entire organization on the crucial point of "what is it we are trying to do."

- b) Makes managers and organizational members more alert to new opportunities and threatening development.
- c) Helps to unify the organization.
- d) Creates a more proactive management posture.
- e) Promotes the development of a constantly evolving business model that will produce sustained bottom-line success for the company.
- f) Provides managers with a rationale for evaluating competing budget requests.

2.2.2 Role of marketing in organizational performance

Marketing can be defined as a response to customer needs for the exchange of products/services (solutions) with monetary value through the management of mutually beneficial relationships.

“Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties” (Kotler, 1997). This definition recognizes that marketing management is a process involving analysis, planning, implementation and control, that it covers goods, services, and ideas; that it rests on the notion of exchange; and that the goal is to produce satisfaction for the parties involved.

There are four competing concepts under which organizations can choose to conduct their marketing activities:

- The production concept: holds the view that consumers will favour low-cost products that are widely available. Managers operating within this philosophy focus on achieving production efficiency and wide-scale distribution. Service organizations e.g. medical and dental practices operate on the production concept. While this management orientation can handle many cases per hour, it is open to charges of impersonality and poor service quality.
- The product concept: holds the view that consumers will favour these products that have unique features and offer the best quality and performance. Managers operating under this philosophy focus on product differentiation, product improvement and new product development. Product-oriented companies often design their product with little or no customer input. They trust that their engineers will know how to design or improve the product. Very often they will not even examine competitor’s products.

•The selling concept: holds that consumers will not ordinarily buy enough of the organizations products. The organization must therefore undertake an aggressive selling effort. Most firms practice the selling concept when they have overcapacity. Their aim is to sell what they make rather than make what the market wants.

•The marketing concept: focuses on the customer as a core reason for being. “It begins with a well-defined target market, followed by an understanding and focus on customer needs, integrating all the activities of an organization that affects customers and profitability” (Kotler, 1997).

- Target market: no company can operate in every market and satisfy every need. Nor can it do a good job within one broad market. Companies do best when they define their target market carefully and prepare a tailored marketing program.
- Customer needs: customers have needs of which they are not fully conscious. Or they cannot articulate these needs. Customer-oriented thinking requires the company to define customer needs from the customers point of view. Every buying decision involves trade-offs, and management cannot know what these are without researching customers.
- Integrated marketing: when all the companies departments work together to serve customers interests, the result is integrated marketing.
- Profitability: a company makes money by satisfying customer needs better than its competitors do.

2.2.3 Implementation of marketing strategy

Implementation is the link between the marketing strategies and the attainment of organizational objectives. While both strategy and implementation reflect the performance of the organization, it is not always possible to tell whether poor performance resulted from poor strategy, poor implementation or both. However, a good marketing strategy is of no value if the implementation process is poor. The implementation process consists of four elements:

2.2.3.1 Communication of marketing strategy

Communication requires the management of information flow amongst the members of the team responsible for the implementation process. An organization structure plays an

important role in shaping how people communicate within the organization. The marketing function plays an interdisciplinary role in the implementation of marketing strategies, in an organization with a decentralized structure.

2.2.3.2 Interpretation of the marketing strategy

Implementation is dependent on the manner in which the marketing staff interprets and understands their role in the implementation process. A high level of contribution in strategy formulation suggests a high level of empowerment, which has a positive impact on implementation success.

2.2.3.3 Adoption of the marketing strategy

Once the strategy has been interpreted and the staff members understand their roles in the implementation process, the next step would be to assess the likely outcomes of this process, especially competitor reaction. This evaluation process also involves identification of the skills and financial resources needed for the successful implementation of the strategies. When the above components of the implementation process are in place, the marketing strategy can be adopted.

2.2.3.4 Enactment of marketing strategy

At this stage, an action programme that identifies the decision and action needed to implement the marketing program is drawn up. The action programme gives a timetable that states what must be done, who will do it and how the different actions will be coordinated. If the objective of the company has been to increase market share by introducing new products, the action programme would have to pull all the people from the different functions to co-operate in the implementation process to develop the new products.

This is shown in figure 2.2.

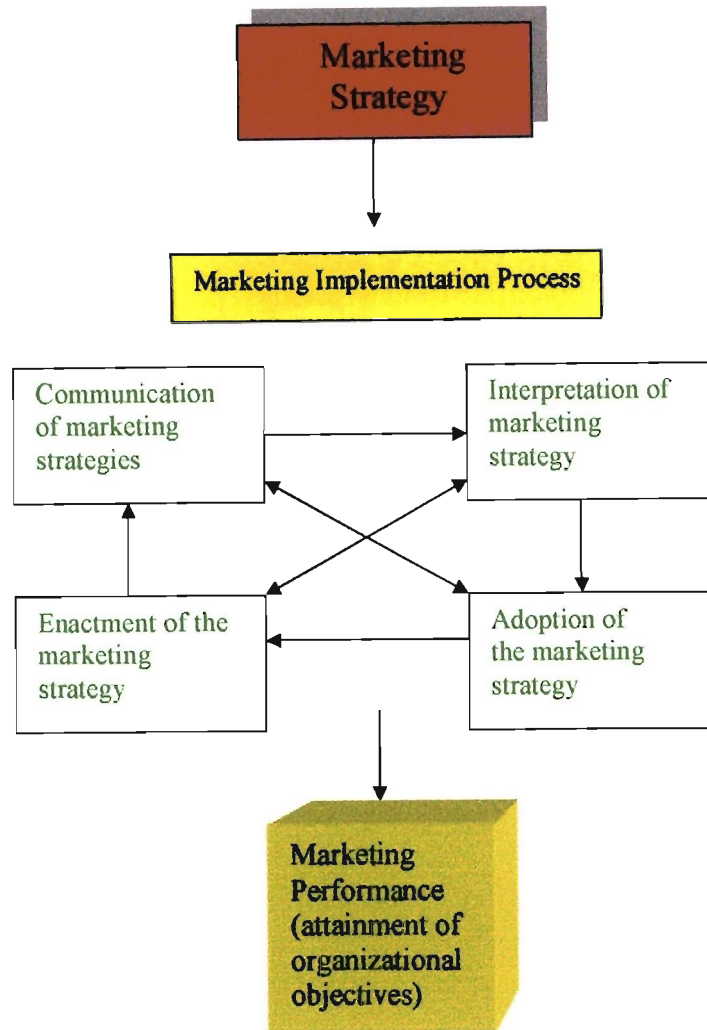


Figure 2.2: The marketing implementation process

2.2.4 Setting Performance Standards

To set performance standards, company objectives need to be translated into departmental objectives. Performance standards are thus derived from the departmental objectives. A number of tools to measure different performance standards are developed by marketing managers:

- ▶ Sales analysis: actual product sales versus target product sales. This is a very basic measure that requires marketing managers to allocate sales targets to their sales force. The sales targets are then compared to the actual product sales.
- ▶ Expense to sales analysis: the ratio of sales volume to sales expenses. This tool sheds more light on the actual product sales by indicating the amount of money spent to create

the sales. Profitability can improve, not necessarily by increasing sales, but by cutting down expenses for creating sales. This analysis helps to ensure that the company is not overspending to create sales.

►Market share analysis: takes into consideration external environmental factors influencing performance by giving an indication of how competitors are performing. If market share is declining, the company is losing market share to competitors.

►Profitability control: is used to measure profitability of the company's various products. Product life cycles of different products are drawn from the profitability and sales data. The data helps management to make decisions on whether to maintain, harvest or drop the product line.

Marketers also perform customer attitude tracking to check the attributes of customers towards a firm's products. This is done through customer panels or customer surveys.

2.2.5 Evaluating Performance

While detailed analysis of performance is often needed to pinpoint the source of a problem, sometimes it does not always shed light on the causes of problems. Causes of problems could be external. External environmental factors, for example competition, advances in technology, economic and social factors could be changing and the company's marketing strategy may not have kept up with these changes. When a company is overwhelmed with performance problems, a more robust evaluation technique such as the marketing audit would be the most appropriate tool to use. A marketing audit is a comprehensive systematic evaluation of a company's external environment, objectives, strategies and overall marketing effectiveness. This audit is normally conducted by an objective outside party who is independent of the marketing department to ensure an unbiased evaluation. Another purpose of a marketing audit is to evaluate how well marketing managers are equipped to make important marketing decisions. The organizational structure is also examined to see if proper co-ordination among the different marketing functions is taking place. Marketing audits should not be carried out only when there are problems. They should be carried out periodically to prevent problems reaching crisis proportions.

2.2.6 Building Customer Satisfaction

Customer satisfaction can be defined as the customers feeling of pleasure or disappointment of the products perceived performance in relation to expectation. There are more chances of a satisfied customer becoming a loyal customer than a dissatisfied one. Customer value is the value a customer places on the organizations offering after weighing up the benefits. Perceived benefits go beyond product performance, to service quality, company image, sales service and relationships. The marketing department plays a vital role in communicating these needs to the rest of the organization. Customer satisfaction leads to new customers entering the market segment and existing customers staying in the market segment. We know that it can cost five times as much to attract a new customer than to retain an existing customer. The key to customer retention is customer satisfaction. Satisfied customers:

- ☺ remain loyal longer to the product/service
- ☺ purchase other products that the company sells
- ☺ find it easier to upgrade to the companies more expensive product options
- ☺ talk favourably about the company's products and services
- ☺ pay less attention to competitive products
- ☺ are less price sensitive
- ☺ enter into a dialogue with the company and offer product/service ideas to the company
- ☺ cost less to service than new customers because of routinised transactions
- ☺ bring in new customers

Customer retention is about understanding the historical behaviour of customers to identify customers who will be repeat purchases. A 5% increase in retention can dramatically increase the net present value of an average customer and improve profits anywhere from 25% to 85%. In terms of customer retention, organizations should be able to answer the following questions:

- ~ what is our customer retention rate ?
- ~ what is our customer retention cost?
- ~ how does our customer retention rate translate into growth?
- ~ what is our competitors retention rate?
- ~ what is the retention norm for the industry?
- ~ what are the triggers that indicate a customer is likely to leave our business?
- ~ what value can we provide to retain a customer?

~ where do lost customers go?

Just a few years ago, Faith Popcorn and Lys Mangold explained in their book, *EV Evolution*, that the “customer of today is the one who buys your brand, the customer of a lifetime is the one who joins it.”

Perhaps the most frightening cliché is the one that says something like “most dissatisfied customers don’t complain, they just don’t come back.” This is true, unfortunately, but it can be offset by building a hassle-free complaint mechanism into your customer-retention program. E.g. is the iron-clad guarantee of complete satisfaction. This makes it easy for a person to express displeasure without sounding like a malcontent.

2.2.6.1 Quality

Most customers will no longer accept or tolerate average quality performance. If companies want to stay in the race, let alone be profitable, they have no choice but to adopt total quality management (TQM). TQM is an organization-wide approach to continuously improving the quality of all organization processes, products and services (Kotler, 1997).

The drive to produce goods that are superior in world markets has led some countries – and groups of countries- to establish prizes that are awarded to companies that exemplify the best quality practices and improvements. Higher levels of quality result in higher levels of customer satisfaction while supporting higher prices and (often) lower costs.

Therefore, quality improvement programs (QIP’s) normally increase profitability.

One implication of TQM is that marketing people must spend time and effort not only to improve external marketing but also to improve internal marketing. The marketer must complain like the customer complains when the product or service is not right. Total quality is the key to value creation and customer satisfaction. Total quality is everyones job, just as marketing is everyones job.

2.2.6.2 Service

What is customer service? According to Peter Cheales, “ From the customers point of view, if they can see it, walk on it, hold it, hear it, step in it, smell it, carry it, touch it, even taste it, if they can feel it or sense it, its customer service.”

► Delight them

If you want customers, delight them. They want to be wowed by remarkable service. They want to be dazzled. Lets assume we've improved service delivery by introducing TQM, re-engineering, restructuring, and other trendy management programmes. Yet customers want more. They'll always want more. Every time we leap to clear the service bar, they raise it. So how can we delight them.

► Practice the high-jump technique

Here's a tried, tested and proven four-phase method of clearing the bar to improved customer service every time:

1. Really get to know the customer
2. Balance systems with people
3. Put customers to work- they like it
4. Offer knowledge

Table 2.1: Customer service methods

Source: Adapted from Peter Cheales, *The Whole Works*, Saxonwold: Peter Cheales Publications, 1997

► Under-promise...over-deliver

To improve service delivery to more than just acceptable levels, under promise and over deliver. E.g. if promised delivery at 3pm, deliver maybe at 2pm. The company is then in the customer delight arena.

► Penalize yourself

Companies could penalize themselves for not keeping up to standards. E.g. they could give their customers the pledge "if we don't deliver it within 30 minutes, you could get it for free."

Two elements are crucial to service success: good people supported by and working within good systems. The problem is you have to deal with both at the same time if you hope to improve long-term service quality.

► Become performers

To make the retail business an entertaining experience, implement:

- regular change of interior décor
- mounting dynamic animated window displays
- display merchandise in an outrageous manner
- celebrate customer service achievements

2.2.6.3 Value

Porter proposed the value chain as a tool for identifying ways to create more customer value as seen in figure 2.3 below:

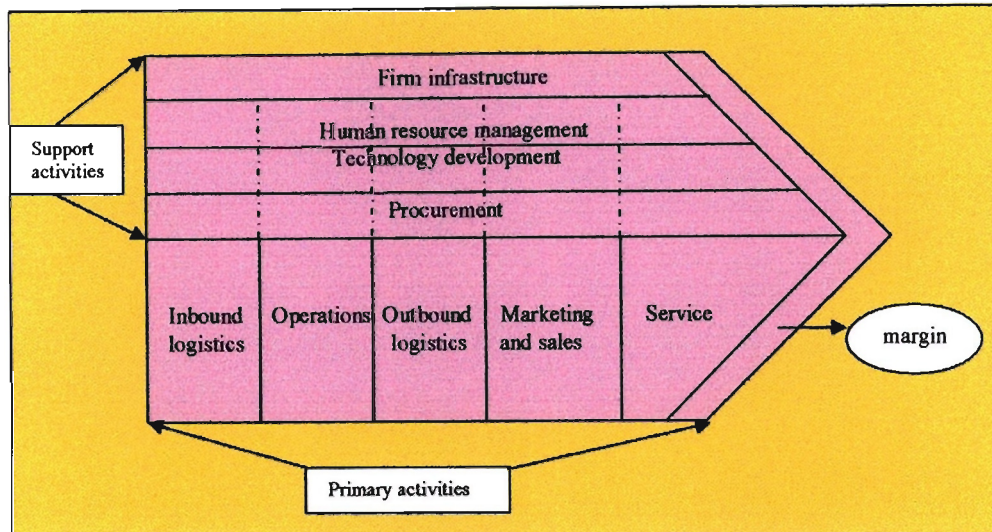


Figure 2.3: The generic value chain

Source: Adapted from Michael Porter, *Competitive Advantage*, New York: Free Press, 1985

This chain identifies nine strategically relevant activities that create value and cost in a specific business. These nine value-creating activities consist of five primary activities and four support activities. The primary activities represent the sequence of bringing materials into the business (inbound logistics), converting them into final products (operations), shipping out final products (outbound logistics), marketing them (marketing and sales) and servicing them (service). The support activities- procurement, technology development, HR management, and firm infrastructure- are handled in certain specialized departments.

The firm's task is to examine its costs and performance in each value-creating activity and to look for ways to improve it. The company should estimate its competitor's costs and performances as benchmarks against which to compare its own costs and performances. To the extent that it can perform certain activities better than its competitors, it can achieve a competitive advantage.

2.3 Competitive Advantage

Customers buy from those companies that they perceive as offering the best value. Customers place value on quality, price, and added benefits. If the competitor offers or can offer similar benefits, there is no competitive advantage.

Organizations need strategies to sustain their advantage by building barriers to entry. This can be done effectively by building successful brands, building and maintaining relationships with all collaborators including customers and through core competencies. The reputation of a successful brand offers customer confidence in the brand and solid relationships ensure repurchases. Core competence is the specialized knowledge and skills that a company possesses to deliver superior value.

Another stimuli to customer satisfaction is the **staffs demeanor** and communication skills. An aura of “informal professionalism” will instill customer confidence, while still allowing for good-natured interaction. Casual uniforms or coordinated dress for the staff, in addition to training and knowledge, will contribute to the idea of informal professionalism. Periodic communication with your customer using a vehicle such as a newsletter not only provides a means of cementing that informal-professional image, but also allows you to create a sense of belonging for your customers- an important aspect in the customer-satisfaction game.

All retailers buy the same brand names from the same suppliers. Since they buy the same product, speed and execution are a definite advantage. As consumers become more discerning, businesses are turning to complex marketing methods such as **loyalty cards** to gain a competitive advantage. But should you decide to begin a loyalty scheme, be realistic. Loyalty cards offer rewards- such as discounts, cash or special services- as an incentive for customers to return. But they also generate considerable data for the business. Each time the card is used, purchases are recorded on a database. This means companies can profile customers and tailor offerings, promotions and advertising to their needs, as well as determining the profitability of each market segment. Because loyalty-schemes are complex to run, small and medium companies should look at sharing the burden in a coalition rather than a stand-alone programme.

2.3.1. Retail assortments

The unlimited growth of retail assortment size has recently come to a halt. Retailers increasingly come to understand that bigger is not always better and that assortment composition has a significant effect on store patronage and sales. Several retail chains reduce the number of items within each product category while maintaining or even increasing the number of categories they carry.

Increasingly, retailers adopt a more customer-oriented view on how assortments should be composed and merchandised. E.g. retailers recognize consumers uniqueness and try to differentiate their retail mix accordingly. Another development related to assortments is a wider variety of store formats.

Retailer cost of providing consumer benefits through assortment should be balanced against revenues. While exact determination of optimal assortment composition is a complex and difficult task that is unfeasible for many retailers, they often rely on more pragmatic ways to evaluate their assortments. One perspective from which a retailer can evaluate assortment composition is by realizing that each item in a retail assortment should support one or more functions with respect to consumer buying behaviour.

The challenge for retailers is to identify the function that each item in an assortment performs- build traffic, increase sales, support sales of other items, or build company image- and to determine its relative contribution to store turnover.

2.3.2 The Competitive advantage of corporate philanthropy

Most companies feel compelled to give to charity. Few have figured out how to do it well. Increasingly, philanthropy is used as a form of public relations or advertising, promoting a company's image or brand through cause-related marketing or other high-profile sponsorships. Most corporate expenditures produce benefits only for the business, and charitable contributions unrelated to the business generate only social benefits. It is only where corporate expenditures produce simultaneous social and economic gains that corporate philanthropy and shareholder interests converge.

Companies have influenced the following factors through philanthropy and have thus improved their long term economic prospects:

- Factor conditions: achieving high levels of production depends on the presence of trained workers, high quality scientific and technological institutions, adequate

physical infrastructure and available natural resources. All are areas that philanthropy can influence.

- Philanthropy initiatives also improve the local quality of life, which benefits all but is increasingly necessary to attract mobile employees with specialized talents.
- Philanthropy can also improve the quality of local research and development institution, the effectiveness of administrative institutions such as the legal system, the quality of the physical infrastructure, or the sustainable development of natural resources.
- It can influence both the size and quality of the local market.
- Philanthropy can have a strong influence on creating a more productive and transparent environment for competition.

A company that initiates corporate philanthropy in a particular area will often get disproportionate benefits because of the superior reputation and relationships it builds.

2.4 Consumer Markets and Buying Behaviour

Consumer behaviour consists of those acts of decision-making units (families as well as individuals) directly involved in obtaining and using need-satisfying products and services, and includes the decision-making process that precedes and determines these acts (Cronje, 1994).

Knowledge of the behaviour patterns of consumers enables marketing managers to make available need-satisfying products in suitable packaging, at prices which consumers are willing to pay, and in places which they prefer to patronize. The market offerings of competing enterprises in turn influence the market. While needs, demands and preferences of each individual are unique, there are also common or similar behaviour patterns. Consumers follow more or less the same process when making a decision. In decision-making, all individuals are influenced to some extent by the action of others with whom they come into contact. Buyer behaviour is influenced by three sets of variables shown in figure 2.4.

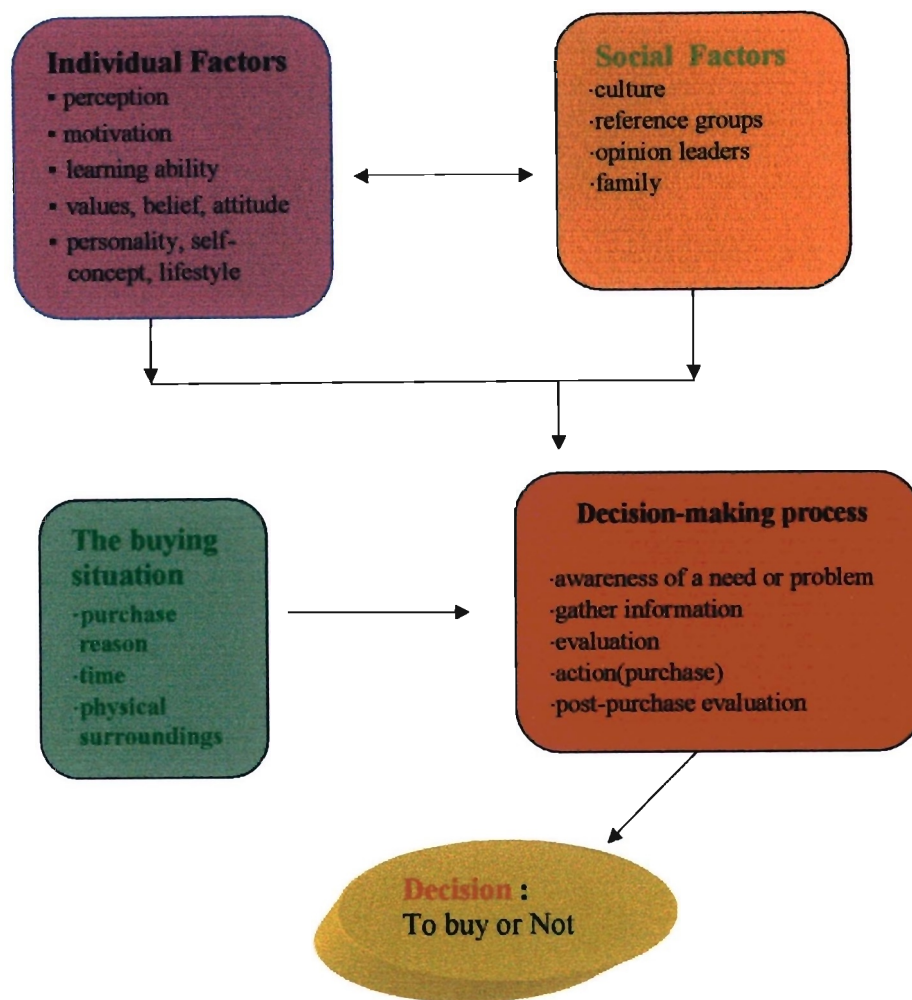


Figure 2.4: A model of consumer behaviour

Source: Adapted from Perreault, W.D & McCarthy, E J, *Basic Marketing*, Chicago: Irwin, 1996

Individual factors in the figure refer to factors inherent in human behaviour. E.g. motivation refers need to purchase and specific market offering. It can be said that these factors give rise to consumers developing product and brand preferences.

Group factors refer to the cultural background, social class and the immediate social environment in which the consumer must make purchasing decisions. The family, reference group and opinion leaders are components of the consumers immediate social environment. The decision-making process consists of several successive phases and illustrates how a consumer goes about choosing how to spend money. The first need is obviously awareness of an unfulfilled need which can be satisfied by purchasing a

specific product. The individual then gathers and processes information, evaluates alternatives, makes a decision and acts. Finally, the outcome of the decision is evaluated in the light of the consumers experience with the purchased product.

External factors influencing buyer behaviour include culture, social factors, personal factors and psychological factors. Although these factors are not in direct control of the marketer, a thorough understanding of them and their impact will help in formulating marketing mix strategies that are applicable as well as appealing to the target groups preferences.

2.4.1 Culture

Culture is dynamic, it is constantly adapting to ever-changing needs in a rapidly evolving environment. Strydom defines culture as the values, beliefs and symbols that a group shares. It is passed on from parents to children, generation after generation, to ensure survival and thus facilitates adaption. Within each cultural group, there are four sub-cultural groups namely: nationality, religion, race and geographical area of residence, which is sub-divided further into smaller subcultures namely: language, age, interests and occupation. Each subculture has its own norms, values and symbols. An important determinant of culture is the environment in which it exists. The two types of cultural values that has been widely researched and validated are the individualistic and collectivist cultures. Individualists and collectivists differ significantly in their self-expression and social relationships, and these differences influence the efficacy of marketing strategies. According to Hofstede, the members of an individualistic culture (low context), value their independence and self-sufficiency and think in terms of "I". while on the other hand, the collectivist culture (high context), behaves in accordance with social norms preset in the group and think in terms of "we".

The members of the collectivist culture feel the need to belong, fit in and engage in actions that will gain the groups approval thus evoking social harmony. In low-context communication, the listener knows very little and must be told practically everything. In high-context communication the listener is already "contexted" and so does not need to be given much background information.

The rapid technological evolution has contributed enormously to cultural change. The internet is affecting culture in the way consumers shop, expanding their choice options and the voicing of complaints. There is a change in the traditional shopping culture. With

regard to media, television has changed the entertainment patterns and increased the public awareness of important current and past events.

Marketers must be wary of the hidden cultural meanings when they are translating product names, slogans and advertising messages in foreign languages, to prevent conveying the wrong message. As firms expand their operations both globally and locally, marketers need to understand the various cultures and thereby adapt to them. The manner in which people interact with one another creates values and norms that prescribe acceptable behaviour for each culture. By establishing common expectations, culture gives order to society.

2.4.2 Social Factors

There are many types of reference groups that an individual can belong to, in which he or she can interact with others to accomplish goals. These groups include families, close friends, clubs, co-workers, neighbours etc. Any of these groups can become an individual reference group. Consumers are prone to adopt behaviours that are generally “advocated by an association if they identify with the group. If they perceive the source as credible and as an expert in the products in which it endorses, consumers are likely to purchase the product” (Danesvary, 2000).

Reference groups hold more power than sales personnel or advertisements, provided the group/ member is held in high regard by society. Their influence is strongest with regard to publicly-consumed luxuries (digital cameras) rather than privately-consumed luxuries (icemaker) and public-consumed necessities (shoes).

All reference groups have their own distinct norms, values and customs to which each member is expected to conform, to prevent any type of sanctions being applied against them.

Opinion leaders are individuals in a reference group who influence the attitudes of others. They often possess outstanding achievement records, are very knowledgeable, possess a high level of interest in certain aspects and are new product indulgers. They are trendsetters and have a desire to be unique.

To ensure effective communication of the advertising message and acceptance of this message to its intended target market, marketers must identify the relevant opinion leaders and opinion receivers.

Family members constitute the most influential primary reference group (Kotler,1997). The family is the group that an individual is closest to and with whom they spend most of their childhood learning experiences. As one passes through the various stages in the family lifecycle i.e. from newly-wed to sole survivor, their consumption and purchase patterns change significantly. Marketers are interested in the roles and relative influence of the husband, wife and children in the purchase of a large variety of products and services. These roles vary widely in different countries and social classes.

2.4.3 Personal Factors

These include the buyers age and stage in the life cycle, occupation, economic circumstances, lifestyle, and personality and self-concept (Kotler,1997).

- Age and stage in the life cycle: people buy different goods and services over their lifetime. Peoples taste in clothes, furniture, and recreation is also age related. Marketers often choose lifecycle groups as their target market. They also pay attention to changing life circumstances- divorce, widowhood, remarriage- and their effect on consumption behaviour.
- Occupation: marketers try to identify the occupational group that has above-average interest in their products and services. A company could even specialize its products for certain occupational groups.
- Economic circumstances: these include disposable income, savings and assets, debts, borrowing power and attitude towards spending vs. saving. If economic indicators point to a recession, marketers can take steps to redesign, reposition and reprice their products so they continue to offer value to target customers.
- Lifestyle: refers to the way of living of individuals or families (Van der walt, 1996). Lifestyle provides an overview of ones behavioural and purchasing patterns i.e. the manner in which one spends his/her time and money. Lifestyles of people change and may even integrate with other cultures. Consumer lifestyles can be measured by psychographic analysis. This technique is useful when segmenting and targeting consumers.
- Personality and self concept: personality refers to those psychological characteristics

of people, which both determine and reflect their reaction to environmental influences (Strydom, 2000).

It is a cluster of interrelated beliefs and is in effect a processor or filter for incoming stimuli (Du Plessis, 1999).

Advertisers and marketers target specific personality traits or characteristics in advertising messages. Sigmund Freud theorizes that an individual's personality is formed as he or she passes through a number of stages in infancy and childhood. Related to personality is a person's self-concept. The self-concept represents the "totality of the individual's thoughts and feelings having reference to himself as an object...as though the individual turns around and evaluates in an objective fashion just who or what he or she is" (Rosenburg, 1998).

Consumers link and/or associate themselves with symbols that are on par with their self-concept, which they interpret from the surrounding symbolic environment. These symbols can be one of the products the person uses. Customers maintain their self-esteem, integrity and gain predictability in interactions with others, by acting in a manner that is consistent with their self-concept.

2.4.4 Psychological Factors

These include motivation, perception, learning and beliefs and attitudes.

► **Motivation:** can be defined as the driving force within an individual which impels action in order to attain a certain objective. This driving force is the result of an unfulfilled need. Thus it can be said that unfulfilled needs motivate behaviour (Solomon, 1994).

Maslow classifies the diversity of needs as shown below. He classifies human needs in a scheme in which the lower-level needs must first be satisfied, or partly satisfied, before the higher-level needs can fully emerge. The lowest-level needs are physiological, which helps to ensure the survival of the individual. The highest level is reflected in the desire for self-actualization. According to the theory, the individual is motivated to fulfill whichever need is most strongly felt at any given moment. This is reflected in figure 2.5.



Figure 2.5: Maslow's hierarchy of needs

Source: Maslow, AH, *Motivation and Personality*, New York: Harper and Row, 1954

► Perception: can be defined as the process whereby an individual selects, organizes and integrates stimuli into a meaningful and coherent overall picture (Van der walt, 1996). People can emerge with different perceptions of the same object because of three perceptual processes: selective attention, selective distortion and selective retention. One must therefore be careful to take these perceptual processes into account in designing marketing campaigns.

► Learning: is the process that creates changes in behaviour through experience and practice. It is not possible to observe learning directly, but we can infer when it has occurred by a persons actions (Lamb, 2000).

Learning, in consumer decision making, takes place at the mental and physical level. In order to learn, the consumer must be motivated, must give full attention to the message and there must be some measure of effective repetition. In proper combination these three elements result in a successful learning situation. Imbalance in any way invariably leads to failure. Researches believe that the effectiveness of repetition, is achieved by increasing the strength of the association, thereby decreasing the process of forgetting (Schiffman, 1997).

Repetition and reinforcement boost learning and motivate the consumer to engage in repeat buying behaviour. However, repetition is successful to a certain degree i.e. excessive repetition will aid retention. To aid retention, marketers repeat the same

advertising theme in a variety of formats such as different print types, different backgrounds and different advertising spokespersons.

► Beliefs and attitudes: it is ones value system that determines ones beliefs, lifestyles, self-concept and personalities which thereby affects buying behaviour and consumption patterns. Consumer beliefs “are all the knowledge a consumer has and all the inferences a consumer makes about objects, their attributes and their benefits (Moven, 1998).

It is as organized pattern of knowledge that an individual holds as true about his/her world. Marketers usually find it easier to change the product than to change the consumers attitudes. Once an attitude is formed, it is stored in long term memory and retrieved when the individual is faced with an issue of concern or the desire to satisfy an unfulfilled need. One will thus act according to ones previously set “attitude”, to rectify the problem or need at hand. Attitudes therefore play a major role in the evaluation of alternatives and the purchase decision.

Marketers need to understand how consumers actually make their buying decisions. In order for a consumer to reach a buying decision, they normally pass through five distinct stages as illustrated in figure 2.6 below :

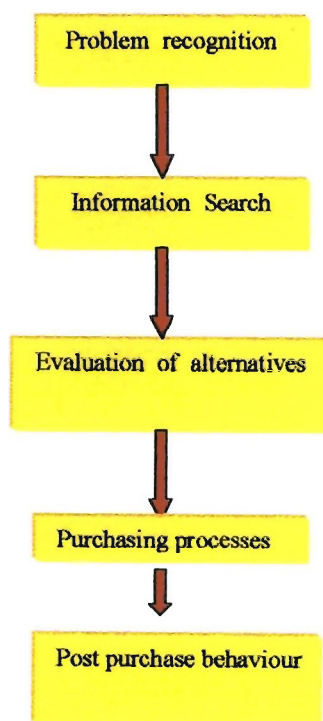


Figure 2.6: Model of the decision making process

It must be noted that consumers do not need to pass through every stage of the process and may in fact bypass some stages on a more routine, low involvement purchase. Consumer decision making varies with the type of buying decision. Complex and expensive purchases are likely to involve more buyer deliberation and more participants. These can include stereo equipment, cameras, DVD's, computers etc. There is a high level of personal relevance when somebody is contemplating the purchase of an expensive and highly visible piece of equipment. This could be because of the social values applied (friends being envious or admiring), or perhaps because of a situational change. The consumer contemplating a high-tech purchase is likely to have acquired, or be acquiring, extensive means-end knowledge. Factors in the decision-making framework might include following:

- Self-image considerations: does this piece of equipment fit into the kind of image the buyer has of himself, or the kind of image to be projected to others?
- Product-related considerations: how long will the equipment last? Consumer durables are usually bought only rarely- perhaps every five or six years or so, and therefore there is a strong incentive to buy products that will suit the purpose, since they will be around for a long time.
- Information considerations: purchases will probably be information seekers, since frequency of purchase is low, and the high-tech products change frequently. Personal sources of information are therefore likely to be obsolete.
- Financial risk: this is fairly high, since high-tech goods are usually expensive (Blythe,1997).

Marketers can adopt a rational, information-based approach to promotion, since the buyers are likely to be information seekers. Typically marketers of hi-fi equipment produce very detailed, highly technical brochures and information. Occasionally consumers criticize these, but many hi-fi owners not only understand all the jargon in the brochures, they welcome it as an indication of their membership of an elite group.

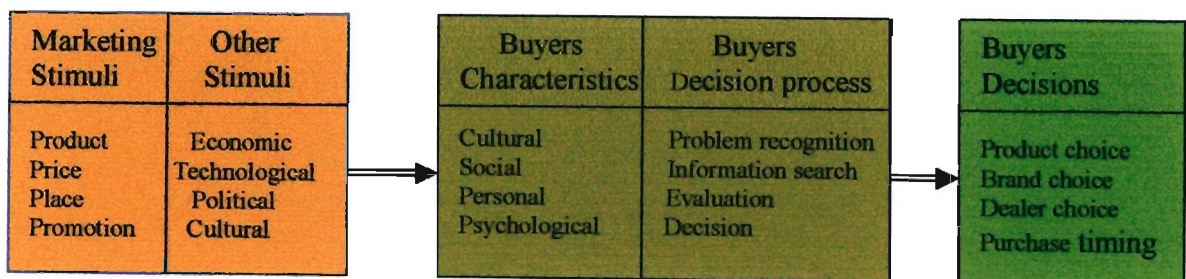


Figure 2.7: A summary of the buyer behaviour

Source: Adapted from Philip Kotler, *Marketing Management*, New Jersey: Prentice-Hall, 1997

After purchasing the product, the consumer will experience some level of satisfaction or dissatisfaction. Marketers must monitor post-purchase satisfaction, post-purchase actions and cognitive dissonance carefully (where the buyer often begins to doubt the wisdom of the decision). Marketers can reduce dissonance through effective communication with the buyer via post-purchase letters, follow-up calls, congratulatory notes, instruction manuals and ads that display the products superiority over competing brands.

2.5 The External Environment

The survival of any organization depends on good strategy that is formulated from careful scanning of the ever-changing environment. This is important in order to have an understanding of the current situation, forecast trends and identify opportunities and threats. Regular scanning of the environment is essential for review of strategy. Figure 2.8 shows a step by step approach to analyzing the environment:

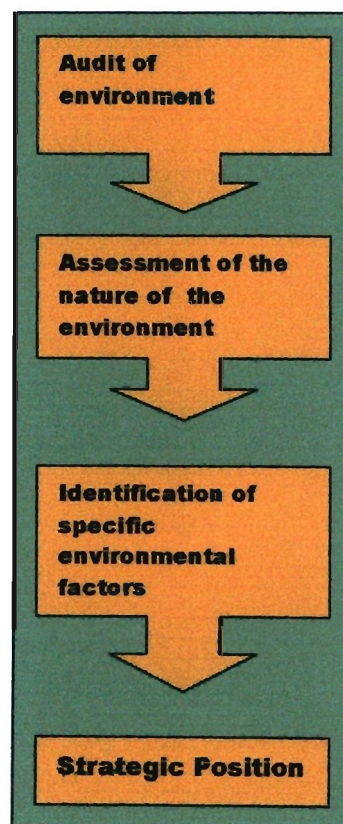


Figure 2.8: Framework for analysis

The first step entails developing a list of factors that are likely to have an impact on the organization and which requires further analysis.

Step two would be to complete an assessment of the nature of the environment.

The third step would be to identify specific environmental factors that impact on an organization. These are the factors that have relevance to the organization. Trends are developed for each of the factors by using various forecasting techniques.

2.5.1 Pest Analysis

The macro environment can be divided into four components namely:

2.5.1.1 Political/Legal Environment

This environment is characterized by the laws that govern a country, government agencies and pressure groups that limit and create opportunities for organizations. Organizations need to operate within the confines of the law and therefore it is appropriate to understand which laws and regulations exist in the political/legal environment. The first is to establish which factors exist in this environment that will influence an organizations strategic position. The second is to establish which factors in this environment will force organizations to produce formal plans and programmes to deal with policy change. The third is to establish which factors are likely to develop and how organizations can influence legislation by means of industry pressure or lobbying of parliament.

Marketers need to also know how public interest groups are likely to react to their product offering. Consumer groups can play a major role in how organizations price, promote and package their products. The need for careful and continual monitoring of the political/legal environment is obvious to avoid political risk.

2.5.1.2 Economic Environment

Important factors here are consumers income and spending patterns, which are influenced by the amount people earn, save, pay for products and use debt and credit services available. Marketers are interested in the purchasing power of consumers. When prices of goods and services increase, the purchasing power of income decreases especially if income did not increase at the same rate. Consumers who have high debts, generally have less disposable income or have less disposable income and therefore incur debt. The

distribution of income depends on the type of economy and the supply and demand of various occupations in an economy. The world development report (World Bank report 2000, 2001) classifies economies as low income, lower middle income, upper middle income and high income. South Africa is classified in the report as being upper middle income (<http://www.worldbank.org>).

Countries would then have to be further segmented by the number of consumers in each category to justify launching a product or service in that country.

Consumer spending patterns are affected by consumer savings, debt and credit availability. When interest rates are high, it discourages consumer spending. South Africa has high interest rates compared to other parts of the world, which slows down spending and makes it expensive for low income consumers to borrow money. Markets need to be aware of the short-term and long-term economic patterns such as patterns of real income, patterns of savings, debt, consumption patterns and inflationary and deflationary pressures, especially on luxury products.

2.5.1.3 Socio-Cultural / Demographic Environment

- Demographic environment: size, structure and trends of a population have the greatest influence on demand. The size of a population determines the quantity that will be demanded. The structure and trends of the population will determine what quantity will be demanded at what prices. In South Africa, a breakdown of the population by age, gender and region is available from the Central Statistical Service (CSS). The change in the structure of the population will affect the size and profitability of market segments. With the onset of HIV/ AIDS, some countries are expecting no growth in the long-term. Changes in household structures impacts on future marketing strategies e.g. non-family structures play a different role to the traditional family structure. Demographic changes have resulted in a larger number of micromarkets emerging, with a shift away from the traditional mass market. These groups have different needs and require more flexible, non-conventional marketing approaches.
- Socio-cultural environment: lifestyles, motives, cultures and needs & values are largely derived from cultural influences. Marketers need to understand the extent to which purchasing behaviour is culturally driven. While there are some customs that are deeply rooted, there are others that are in the process of change. Some of these changes are:

- the changing role of women in society
- a move towards a healthier lifestyle
- a move towards diversity. This is reflected in multicultural schools, suburban living and mixed marriages.

2.5.1.4 Technological Environment

Most technological events that affect an industry originate outside it. Technological changes lead not only to new products but also to new technological processors that are designed to meet customer needs. Technology has been a great force in shaping lives. It allows people more time to do more work or have extra leisure hours. This environment provides opportunities to those organizations in a position to capitalize on them and could pose a significant threat to others. This careful monitoring of the environment is essential. Marketers should be aware of the potential damage products could cause to the environment during production, product usage and product disposal stages. Countries with a weak currency such as South Africa pay a high price for fuel. Marketers need to evaluate new products for the amount of energy each one consumes and look at cost-effective alternatives.

2.5.2 Industry Analysis

Retailing has become an increasingly dynamic line of business. Due to technological innovations, such as the emergence and widespread availability of the internet, and changing demographics, consumers are open to new views on retailing. Changing consumer behaviour has led to retailer strategic adjustments. Virtually every element of the retail mix, in particular assortment, ambience, location, information provision, and delivery, is subject to change and a number of large scale retailers have implemented significant changes to their store formats. Transformation with respect to store assortment composition and presentation are among the most striking changes carried out in present store formats. Increasingly, retailers adopt a more customer-oriented view on how assortments should be composed and merchandised.

Judgements about what strategy to pursue need to flow directly from solid analysis of a company's external environment and internal situation. The two most important situational considerations are (1) industry and competitive conditions and (2) a

companies own competitive capabilities, resources, internal strengths and weaknesses, and market position (Thompson, 2001).

All companies operate in a macro environment as depicted in figure 2.9 below:

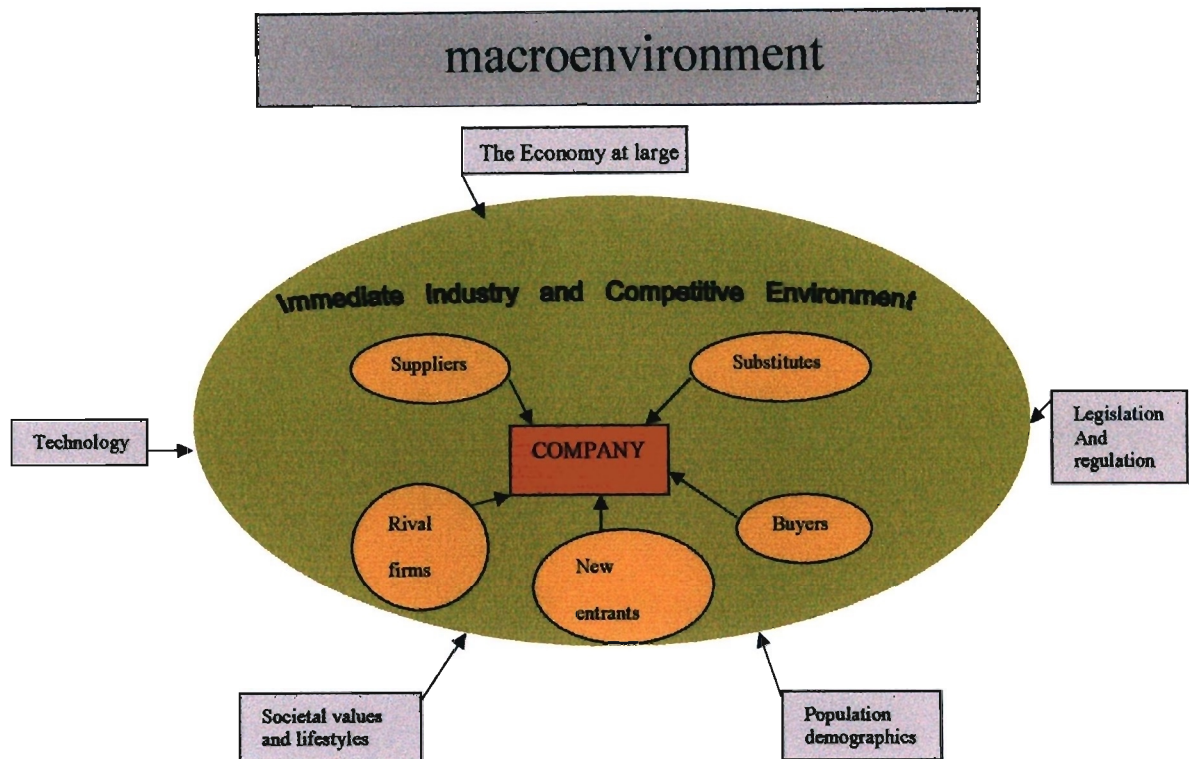


Figure 2.9: A company's macroenvironment

Source: Thompson and Strickland, *Crafting and Executing Strategy*, New York: McGraw-Hill, 2001, p74

The macroenvironment includes all relevant forces outside a company's boundaries-relevant in the sense that they are important enough to have a bearing on the decisions a company ultimately makes about its business model and strategy. While many forces in the macroenvironment are beyond a company's sphere of influence, company managements are nevertheless obliged to monitor them and adapt the company's strategy as may be needed. The economic characteristics of industries varies according to such factors as:

- ▶ overall size and market growth rate

- ▶ scope of competitive rivalry
- ▶ the number of buyers and their relative sizes
- ▶ competitors and their sizes
- ▶ technological change
- ▶ the types of distribution channels used to access consumers

These factors are important because of the implications they have for strategy. In industries characterized by one product advance after another, companies must spend enough time and money in research and development to match their technical prowess and innovative capability with that of competitors. A strategy of continuous product innovation becomes a condition of survival (Thompson, 2001).

2.5.2.1 Industry prospects and overall attractiveness

If an industry's overall profit prospects are above average, the industry can be considered attractive, if its profit prospects are below average, it is unattractive. Attractiveness is relative, not absolute, and conclusions one way or the other are in the eye of the beholder – industry attractiveness always has to be appraised from the standpoint of a particular company. The important factors on which to base such conclusions include:

- the industry's growth potential
 - adequate profitability with the current competition
 - the company's competitive position
 - the degree of risk and uncertainty in the industry's future
 - the company's potential to capitalize on the vulnerability of weaker rivals
- (Thompson, 2001).

Industry environments unattractive to weak competitors may be attractive to strong competitors. These are best described by the McKinsey directional policy in figure 2.10.

Industry attractiveness

←

		High	Medium	Low
Business strength	High	Investment And Growth	Selective growth	Selectivity
	Medium	Selective Growth	Selectivity	Harvest/ divest
	Low	Selectivity	Harvest/ divest	Harvest/ divest

Figure 2.10: The directional policy matrix

Source: Adapted from Veronique Ambrosini, *Exploring Techniques of Analysis and Evaluation in Strategic Management*, Essex: Prentice Hall, 1998

As shown above, where high industry attractiveness meets high business strength, investment with the objective of growth is recommended. Correspondingly, low attractiveness/ low strength leads to the recommendation “harvest/divest”. The other boxes follow a similar logic. An assessment that the industry is fundamentally attractive suggests that current industry participants employ strategies calculated to strengthen their long-term competitive position in the business, expanding sales efforts and investing in additional facilities and equipment as needed. If the industry and competitive situation is judged as relatively unattractive, more successful industry participants may choose to invest cautiously, look for ways to protect their long-term competitiveness and profitability, and perhaps acquire smaller firms if the price is right; over the longer term, strong companies may consider diversification into more attractive businesses.

2.5.3 Competitor Analysis

A company's closest competitors are those pursuing the same target markets with the same strategy. A group of firms following the same strategy in a given target market is called a strategic group. A company needs to identify the strategic group in which it competes. Although competition is most intense within a strategic group, there is often rivalry between the groups as well. Some strategic groups may appeal to overlapping customer groups. Also, customers might not see much difference in the different strategic groups offers.

2.5.3.1 How competitive forces shape strategy

Once a company has identified its main competitors and their strategies, it must ask: What is each competitor seeking in the marketplace? What drives each competitors behaviour? A useful initial assumption is that competitors strive to maximize their profits. However, companies differ in the weights they put on short-term versus long-term profits. Furthermore, some companies orient their thinking around "satisficing" rather than maximizing- they set target profit goals and are satisfied when they achieve them, even if they could have produced more profits with other strategies or more effort. A competitor pursuing a low-cost leadership will react more strongly to a competitor that has reduced costs significantly than to an advertising budget increase by the same competitor.

Whether a company's competitors can carry out their strategies and reach their goals depends on each competitors resources and capabilities. Companies normally learn about their competitors strengths and weaknesses through secondary data, personal experience, and hearsay. They can augment their knowledge by conducting primary marketing research with customers, suppliers and dealers. Porters model highlights five forces that impact upon the dynamics of competition and that together determine the attractiveness and long-term profitability of any given industry.

2.5.3.2. Sources of competition-five forces framework

► Threat of new entrants

A segment's attractiveness varies with the height of its entry and exit barriers. Barriers to entry form a "buffer" that extends some measure of protection to existing firms. The most attractive segment is one in which entry barriers are high and exit barriers are low. There are several such barriers that may make entry difficult for new firms: the large capital outlays, high levels of expertise and sophisticated technology required to enter certain industries are but a few examples. Other barriers include the economies of scale that existing players are able to take advantage of, exclusive arrangements that they may have with suppliers or distributors and the strong brand names and reputations that they have managed to develop.

► Availability of substitutes

The presence of substitute products can reduce industry attractiveness and profitability because they put a constraint on price levels. If the industry is successful and earning high profits, it is more likely that competitors will enter the market via substitute products in order to obtain a share of the potential profits available. The threat of substitute products depends on the following factors:

- the buyers willingness to substitute
- the relative price and performance of substitutes
- the costs of switching to substitutes

The threat of substitute products can be lowered by building up switching costs. These costs may be psychological. Examples are the creation of strong, distinctive brand personalities, and maintaining a price differential commensurate with perceived customer values (Hollensen, 2001).

► Bargaining power of buyers

Firms can attempt to lower buyer power by increasing the number of buyers they sell to, threatening to integrate forward into the buyers industry, and producing highly valued, differentiated products. Their power is higher when:

- buyers are concentrated and/or purchase in large volumes
- buyers pose a credible threat of integrating backwards to manufacture the industry's product
- products they purchase are standardized or undifferentiated
- when switching costs are low

► Bargaining power of suppliers

The strength of suppliers is related to how dependent firms are on these suppliers. If there are few or no alternative sources of supply, then suppliers have greater power. In such a case, if suppliers were to raise prices or restrict supply for instance, there is really not much that firms can do to counteract. The best defences are to build win-win relations with suppliers or use multiple supply sources. Firms could also integrate backwards with supply.

► Nature of rivalry between firms

Aggressive competition requires greater resources to be used for advertising, research and new product development for instance, and is thus costly. It may also call for the firm to 'fight' on the basis of price, and the lowering of prices will also have an impact on profit margins. If there is a monopoly in existence, then potential challenges will struggle in trying to win market share from the established firm.

2.5.3.3 Key factors for competitive success

Every company should monitor three variables when analyzing its competitors:

- share of market
 - competitors share of the target market
- share of mind
 - the percentage of customers who named the competitor in responding to the statement, "name the first company that comes to mind in this industry."
- share of heart
 - the percentage of customers who named the competitor in responding to the statement, "name the company from whom you would prefer to buy the product."

Companies that make steady gains in mind share and heart share will inevitably make gains in market share and profitability. In an attempt to improve their market share, many companies have begun benchmarking their most successful competitors.

An industry's key success factors are factors that most affect industry members ability to prosper in the marketplace- the particular strategy elements, product attributes, resources, competencies, competitive capabilities and business outcomes that spell the difference between profit and loss, and ultimately, between competitive success and failure. Key success factors are the rules that shape whether a company will be financially and competitively successful. Managers need to understand the industry situation well enough to know what is more important to competitive success and what is less important. They need to know what kinds of resources are competitively valuable. Key factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change.

2.5.4 Swot Analysis

This is a popular tool used by managers as an organizing framework for intuitive information and as a means of summarizing and integrating more formal analyses about the external operating environment and an organizations current resources and capabilities. Strengths and weaknesses are statements of the internal capabilities of an organization. A strength, therefore, would be an internal resource which would enable an organization to deal effectively with its business environment- for e.g., close and good links with customers. An internal weakness would leave opportunities poorly accounted for, or not addressed at all.

Opportunities and threats exist outside of the organization in many different areas; examples include competitor moves, government legislation, technological advances and changing customer needs. Typically the environmental opportunities and threats presented in a market are the same for all competitors, the issue that will vary will be their ability to capitalize on them. The aim of swot analysis is to match the likely external environmental changes with internal capabilities, to test these out and challenge how an organization can capitalize on new opportunities, or defend itself against future threats.

2.5.4.1 Steps in a swot analysis

a) Identification of strengths, weaknesses, opportunities, and threats.

The key external forces and the key capabilities constituting strengths and weaknesses must first be identified. Strengths can be any of the following:

- a skill or important expertise
- valuable physical assets
- valuable human assets
- intangible assets

Thus strengths have diverse origins. The caliber of resources and the ability to mobilize them in a manner calculated to result in competitive advantage are the biggest determinants of how well the company will be able to perform in light of the prevailing industry and competitive conditions.

Internal weaknesses could relate to:

- deficiencies in important skills or expertise
- lack of important physical or intangible assets
- weak competitive capabilities in key areas

These weaknesses are thus shortcomings in a company's complement of resources. Once managers identify a company's resource strengths and weaknesses, the two compilations need to be carefully evaluated for their competitive value and strategy making implications.

b) Challenging managers mindsets

Swot can be used in this regard by switching the labelling of environmental influences from threats to opportunities, in a sense, this is just being able to see external change from different angles.

Managers might assume that their organizations current strength will remain as strengths as the environment changes, but this is not necessarily so. Managers might view their organizations brand name as a strength- however, if the company is trying to increase sales from outside its traditional customer base, the image conjured by the brand may be a weakness when viewed from the new market segment.

2.6 Market Segmentation

Market segmentation represents an effort to increase a company's targeting precision. To achieve maximum customer satisfaction, marketers therefore divide the heterogeneous market into fairly homogenous subsets of customers. Each segment of the market, it is assumed, will have similar needs, and will respond in a similar way to the market

offering and marketing strategy. After selecting the market segment(s), the organization must decide how to compete effectively in this target market. A decision has to be made concerning the competitive advantage to be achieved. Several variables are used to segment consumer markets. These include:

2.6.1 Geographic segmentation

With geographic segmentation, the location of potential consumers is used to divide the market. It is assumed that the needs of consumers in certain locations differ from those situated in other locations. The advantages of geographic segmentation are that it is relatively easy to identify and reach segments. It is also quite cost-effective.

2.6.2 Demographic segmentation

Demographics refer to “the vital and measurable characteristics of a population” (Schiffman, 1994).

In demographic segmentation, the market is divided into groups on the basis of demographic variables such as age, family size, family life cycle, gender, income, education. These variables are the most popular bases for distinguishing customer groups. Demographics are useful in pinpointing groups with special needs. However, market segments can be unrelated to demographics as well, since the fact that people are in the same age or income group is no guarantee that they will have similar attitudes to a market.

2.6.2.1 Segmentation according to age

Consumers wants and abilities change with age. This can be seen in the marketing of vitamins, magazines etc. Also night-clubs are targeted at under 18's, while others are exclusively for over-25's.

2.6.2.2 Segmentation according to gender

The markets for most clothing and many cosmetics are segmented on the basis of gender. Women have traditionally been the purchasers of many household products and advertisements for these products have generally been aimed at them. However, with the blurring of gender roles, this is starting to change.

2.6.2.3 Segmentation according to income/language

While income certainly reflects an ability to buy a product, it does not necessarily translate into a purchase as various other factors such as tastes and lifestyle influence the actual product purchased. Television programmes and books are examples of products for which the markets could be segmented by language.

2.6.2.4 Segmentation according to social class

A person's preference in cars, clothing, electronic equipment and so on is highly influenced by social class. Companies design products / services for specific social classes.

2.6.3 Psychographic segmentation

This kind of segmentation involves the breaking up of the market in terms of attributes such as social class, lifestyle or personality. To establish the different lifestyle categories, information concerning the respondents' activities, interests and opinions or values and lifestyles, is collected and then subjected to factor analysis to identify separate sub-groups. Far more difficult to execute than geographic or demographic segmentation, it is not frequently used. It is however, a very powerful segmentation basis, warranting far more attention by marketers in South Africa.

2.6.4 Behavioural segmentation

Consumers can also be segmented on the basis of their buying behaviour. This may take the form of:

- **Benefits:** the different benefits sought by consumers in using a product could be used to segment a market.
- **User-status:** consumers can be segmented into groups consisting of non-users, ex-users, potential users or regular users. A balanced approach would require an enterprise to focus on regular users as well as on potential users. While the regular users guarantee survival in the medium term, potential users who can be enticed into becoming users represent future growth.
- **Frequency of purchase:** some buyers may use a product very regularly, whilst others may use it only on special occasions.
- **Loyalty status:** consumers vary in their loyalty towards the organization or its brand names. At the one extreme one finds the switchers, or those consumers who show no loyalty toward any brand. They can be attracted through frequent sales, but it may sometimes not be worth attracting them. Hard-core loyalists on the other hand, represent the consumers who are very loyal buyers.
- **Occasions:** the situation or occasion often determines product consumption-e.g. whether the product is being purchased for one's own use or as a gift; greeting cards are bought for

special occasions such as birthdays, mothers day etc. This helps firms expand product usage.

●Degree of use: consumers can be categorized as heavy, medium, light, or non-users of a product. According to the '80: 20' principle, 80% of product volume is consumed by 20% of buyers. Thus heavy users are of great interest to marketers.

2.7 Target Market Selection

To be useful, market segments must be

- measurable
- substantial
- accessible
- differentiable
- actionable

(Kotler,1997).

Once the marketer has developed a complete profile of the various segments found in the market, one or more must be selected for a concerted marketing effort. Deciding which segments to appeal to comprises two activities – segment evaluation and selection.

2.7.1 Segment Evaluation

Before a specific market segment is selected as a target market, it must be evaluated in terms of the following five criteria:

2.7.1.1 Target market size and growth possibilities

The target market need not necessarily be “big”. A small one can often be more profitable than one in which a large sales volume can be realized. There should be prospects for growth and thus the target market should not be for the short term only.

2.7.1.2 Attractiveness and potential profitability

The attractiveness of a target market lies not only in its size and growth possibilities but also in the promise of long-term profitability. Attractive segments attract competitors and intense competition can have a detrimental effect on future profits. A target market is also attractive if it has some degree of interrelationship with other segments. Instead of serving a number of small segments it would be better to combine interrelated segments.

2.7.1.3 The resources and skills of the company

An analysis of the firm's resources and capability will suggest which target market it may have a competitive advantage in, as well as which target market fits best with the expertise and strategic interests of the firm.

2.7.1.4 Compatibility with the company's objectives

If it is found that the objectives of the company cannot be enhanced by the choice of a particular market segment, it should be disregarded. If the segment fits the company's objectives, it must consider whether it possesses the skills and resources that it needs to succeed in that segment.

2.7.1.5 Cost of reducing the target market

When a target market is inaccessible to a company's marketing strategies, or the cost to reach it is too high, it should not be considered.

2.7.2 Segment Selection

Target markets are selected after careful evaluation of the various market segments. Marketers may choose one, two, or multiple market segments to target. In essence, marketers can choose between three broad approaches to the market: concentrated marketing, differentiated and undifferentiated marketing.

2.7.2.1 Concentrated marketing

Concentrating the market offering on one specific target market can lead to greater expertise in production, distribution and marketing communication. A company can attain greater customer satisfaction in this single target market. The disadvantage is that risk of product failure and non-acceptance of the product is thus concentrated in a single target market.

2.7.2.2 Differentiated marketing

Here the company elects to target two or more target markets, developing a unique marketing strategy for each one. This allows the company to cater for the diverse needs of the different target markets, but this can be expensive due to production costs, advertising and administration costs.

2.7.2.3 Undifferentiated markets

The company chooses to ignore the differences in the market. Instead, the total market is pursued with one basic offering. The company concentrates on the commonalities of the market rather than in the differences. Economies of scale can be achieved with a standardized market offering and marketing strategy (Strydom, 1996).

Once the company's target markets have been chosen, it becomes necessary to position its offering. Positioning refers to the way consumers perceive a product in terms of its characteristics and advantages and its competitive positioning.

Thus the marketers knowledge and understanding of both consumers and competitors is vital for effective positioning. Research on consumers, especially heavy users, aims to determine how they position the firm i.e. how they compare the firm to its competitors. Perceptual mapping is widely used for this purpose. This provides a visual representation of the views and attitudes of a target market towards currently available products or brands in a product category.

2.8 Differentiation

Differentiation is the process of identifying how a company's product differs from its rivals and then establishing that difference in consumers minds by suitable advertising and promotion. The product differences that a firm chooses to promote must be:

- important
- distinctive
- communicable
- pre-emptive
- affordable
- profitable

(Determan,M).

By differentiating its product or service, the company has created value that can, for example, be reflected in a higher selling price for the product or service. To do this, the company must be able to demonstrate the superiority of its products to those of others in the industry and must be able to justify the price difference. The aim of the differentiation strategy is to generate brand or customer loyalty.

A categorization of the various bases for differentiating a product or service is shown in table 2.2.

Bases for Differentiating an Offering				
PRODUCT	SERVICES	STAFF	CHANNEL	IMAGE
CONFORMANCE DESIGN DURABILITY FEATURES FORM PERFORMANCE RELIABILITY REPAIRABILITY STYLE	CONSULTING DELIVERY EASE OF ORDER INSTALLATION MAINTENANCE TRAINING	COMMUNICATION COMPETENCE CREDIBILITY RELIABILITY RESPONSIVENESS	COVERAGE EXPERTISE PERFORMANCE	ATMOSPHERE EVENTS MEDIA SYMBOLS

Table 2.2 : Bases for differentiation

Source: Adapted from Philip Kotler, *Marketing Management: analysis, planning, implementation and control*, New Jersey: Prentice-Hall, 2000

2.9 Marketing Mix

Marketing mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market. The marketing mix tools include product, price, place, promotion and people.

2.9.1 Product

The product mix is the entire range of various kinds of products that are either made or marketed by an organization. The product is the key variable of the marketing strategy in the sense that all the other marketing decisions concerning methods of distribution, marketing communication and prices are based on and coordinated with the product decisions. It incorporates product quality, design, features, branding and packaging. A product may be broken down into four concepts:

- the core product
- the basic product
- the augmented product
- the potential product

The core product represents the essential benefit offered to the consumer. People do not spend their money on goods and services, but on the need-satisfying attributes and value that, in their opinion, are inherent in what they purchase.

The marketer has to turn the core product into a basic product that clearly represents and communicates the offer of the core benefit. This is achieved using tools such as design specifications, product features, quality level, branding and packaging. It is important for products to function according to consumer expectation. An augmented product refers to features that are added on in order to add value to the core product and make it more attractive to the consumer. Example would be free lessons with a purchase of a new digital camera.

The potential product refers to future possibilities that the product may hold, and enables the marketer to view the product in a strategic manner.

Marketers usually divide products into two groups i.e. industrial products and consumer products. Industrial products are designed for use in a production process in order to generate other goods and services. These include materials and components, machinery, services and supplies. Consumer products are those that are 'consumed' by people in their private capacity, and are further subdivided into convenience products, shopping products, speciality products and unsought products. Examples of shopping products include hi-fi sets, DVD players etc. In this case product features and quality varies, so price comparison, although still a factor, becomes less important for purchase decision. Marketers may choose selected distributors to sell their products, as consumers 'shop around' and goods can be sold at retail stores that tend to be clustered together to increase their attraction for shoppers. The responsibility for promotion is normally shared between the retailer and the manufacturer, as the name of the retailer may be more important than the name of the manufacturers brand.

Marketers also strive to achieve initial brand recognition for their products, and yet this may not be sufficient to ensure sales for the company. It is necessary to build brand loyalty among consumers and achieve brand preference and ultimately brand insistence if possible. Packaging fulfills the dual role of promoting and protecting the product. Good packaging can make the product easy to identify and communicate information about the product and the character of the brand. Although good packaging may be costly, additional costs are usually offset by an increase in sales turnover. Labelling is a subset of packaging. It identifies the product or brand. It contains information about the product and/or manufacturers and is usually part of the packaging or is directly attached to the product.

The product life cycle is the four basic stages that a product goes through. The first stage is the introductory stage, where the product is newly available in the market place. Intensive promotion is needed in order to inform consumers about the new product and its benefits. The second stage is the growth stage where sales start to increase at a gradual/rapid rate depending on the success of the product. The industry as a whole experiences its greatest profits at this time, and the organization should strive to prolong this stage. Stage three is the maturity stage where sales of the product reach a peak. Effective promotion is crucial at this stage, as there are so many competing brands in the marketplace, with minimal variances among them. For example, flat screen TV's, are replacing the conventional semi-flat TV's. The fourth stage is the decline stage where sales start to decline, until a stage is reached where it is no longer profitable to keep selling the product. Company's that succeed in differentiating their products from those of competitors may still manage to make profits at this stage.

It is vital that the product be carefully managed at each stage of its life cycle, with the appropriate 'marketing mix' of product, place, promotion and price strategies being implemented at each stage.

2.9.2 Price

The price of a product plays two major roles in marketing. Price firstly influences how much of a product consumers or companies purchase. Potential customers look for a price that reflects the benefits they think they will receive from the product. Price, secondly, influences whether selling the product will be profitable for the marketer or reseller (Strydom,1996).

To the customer, price means a value that they would be prepared to pay for a product or service in exchange for need satisfaction. The price charged for a product or service may have an impact on how it is perceived in terms of its quality. A product may be perceived as being of high quality, if its price is high and vice versa.

Companies set prices for current, new, or modified products, distribution channels, or for services rendered. The company decides where to position its product on quality and price. Figure 2.11 shows nine-price strategies:

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PRICE

	High	Medium	Low
High	Premium pricing Strategy	High-value Pricing Strategy	Value for money Strategy
Medium	Over-charging Pricing Strategy	Medium-value Pricing Strategy	Affordable Pricing Strategy
Low	Rip-Off Strategy	False economy Strategy	Low-cost Pricing Strategy

Figure 2.11: Nine Price-Quality Strategies

Source : Philip Kotler, *Marketing Management*, New Jersey: Prentice-Hall, 2000, p457

If customers perceive product quality to be high, then they might be prepared to pay a premium for the product. Company's can set their pricing objectives to yield maximum return, maximum market share, a predetermined gross margin, or to survive in the marketplace. Some companies objective are just to recover cost (fixed and variable). This occurs when there is an over-capacity, when companies want to exit a market or a product line to make space for a new modified product. This objective is usually short-term.

Both internal and external factors influence price determination. External factors include the nature of the market and the elasticity of demand. The market is structured according to the number of buyers (demand), the number of sellers (supply) and the degree of product differentiation. Demand reflects the number of buyers that buy a specific quantity of product or service at a given price over a specified time period. The shape of the demand curve for a company is influenced by the market structure in which it is operating. This structure may be one of pure monopoly, oligopoly, monopolistic competition or pure competition.

Pure monopoly exists when there is only one supplier. The supplier is in a position to fix prices and quantity supplied. An unregulated monopolist might charge a high price, offer minimal service and conduct very little marketing. Pure oligopoly consists of a few suppliers supplying the same product, such as TV's or VCR's, at market prices. If one supplier lowers the price, the others might follow in fear of losing customers. A competitive advantage is obtained through lowered cost. In monopolistic competition, many suppliers exist. They differentiate their product through market segmentation, marketing communication, branding, packaging, design and other marketing decisions. They meet specific customer needs and command a price for their service. Pure competition exists where many suppliers offer the same product or service. The products are largely homogenous and marketers have little flexibility in price setting.

Internal factors include cost estimation, marketing objectives, marketing mix strategy and organizational factors. Cost is an important determinant of price. The price to the customer must cover all the costs of production, distribution, marketing and sales, including profit. If the company's objective is to gain market share, the low price strategy is likely to facilitate the achievement of such an objective. After considering the price constraints and the price objective, the aim is to arrive at a basic price for the product or service. The various pricing methods fall into the following categories: cost, profit, value (to the customer) and competitive-oriented pricing. Cost-plus pricing is when the seller adds a standard mark-up to the cost of the product. It ignores the consumers price sensitivity to demand at the selected price. Perceived-value pricing assigns a price to a product based on the customers perceived value. This is based on elements such as advertising, sales outlets, product differentiation and image as well as personal selling. Market research would be essential to establish perception of value. Using this approach, pricing is no longer a technical issue solved by applying a formula (Strydom,1996).

Prices are based on the marketers understanding of demand and the price behaviour of buyers. Some companies base their pricing decisions on what competitors are charging for similar products, and pay less attention to their own costs and demand schedules. This does not mean that they charge the same prices as their competitors, some may discount their price or add a premium. In selecting the final price, companies pay attention to factors such as psychological pricing, the influence of the other marketing-mix elements, geographical pricing. With psychological pricing, customers rely on price

as a predictor of quality and prestige. Most retailers price products with an odd number because they believe that customers perceive such prices as bargains. This method is called odd-even pricing.

Price plays an important role in the marketing mix as it has a direct influence on profitability. It is not merely a financial function and can lead to the success or failure of a product or service.

2.9.3 Place

Place refers to :

- where the product is to be sold (shops, markets, televisions, catalogues)
- the channels of distribution (all retail outlets, limited stockists or wholesalers only)
- the methods of transport

Efficient marketing requires careful consideration and selection of the most suitable outlets to present the company's products to its target market, simultaneously the most economic method of distribution to the various outlets must be decided on. Distribution channels are defined as the internal and external organizational units that direct the flow of products or services to customers, and perform functions that add value to a product (Keegan, 1995).

Those participating in the distribution process are known as channel members.

There are two basic types of channels- direct and indirect. A direct channel of distribution, also referred to as a one-level channel, involves the movement of goods from producer to consumers. An indirect channel of distribution involves the movement of goods from producer to independent intermediaries to consumers. Both the direct and indirect channels of distribution are used for the movement of consumer goods, organizational goods and services. These can be seen in figure 2.12.

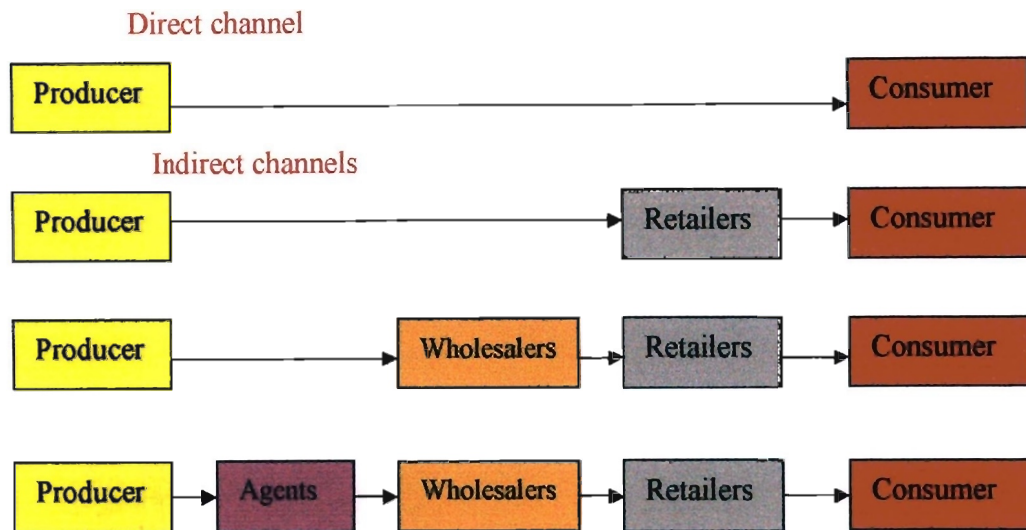


Figure 2.12: Distribution channels for consumer goods

Marketers also use multiple distribution channels as well as reverse channels. Reverse channels move goods from end users to producers, in the opposite direction to traditional distribution channels. For marketing channels to perform efficiently, channel members should function in a way that complements the activities of other channel participants. Vertical marketing systems have been developed to achieve greater efficiency and marketing impact.

Retailing is an important type of intermediary situated at the point of direct contact with customers. The retailing function adds value in a number of ways, most of which are difficult for manufacturers to replace. The retailing function has changed, often reacting to changes in a number of factors, for example, the rise in the proportion of expenditure allocated to services. Secondly, demographic shifts such as the migration from inner cities to suburbs and from rural areas to urban areas have had an effect on retailing. Traditional retailers are feeling the pressure from large players with better economies of scale; from smaller players with more focused selection or a greater emphasis on convenience; and from electronic retailers that have few physical assets. The South African retailing industry is characterized by both a sophisticated, formal retailing infrastructure, and informal retail systems unique to the South African environment.

Speciality stores carry a narrow product line, offering a wider choice within that line. They can be further classified by the degree of narrowness in their product line. For example, an electronic store such as Govan Mani would be a speciality store. These are full service retailers offering additional services such as delivery, installation of products, different credit plans and after-sales support services.

2.9.4 Promotion

Advertising is the most important element of a businesses marketing communication strategy. The main function of advertising is to provide the consumer with relevant information that aids decision making. In most instances consumers are reluctant to change established behaviour, and advertising is a powerful force in modifying the mental mindsets of users and potential users of products and services. An important relationship between advertising and the product is that advertising can build a wonderful picture of a brand for consumers which can be shattered when they actually try the product. It follows that advertising is unlikely to succeed in selling an inferior product more than once. And since it is applied most heavily against fast-moving consumer goods, the purchases right not to buy a second time is a powerful sanction against both misleading advertising and inferior products.

It influences the choice behaviour of consumers by ensuring that the brand is present in the consumers memory at the moment that the decision to buy is reached. Advertising communication involves a perception process and four of the elements shown in the model: the source, a message, a communication channel, and a receiver as shown in figure 2.13.

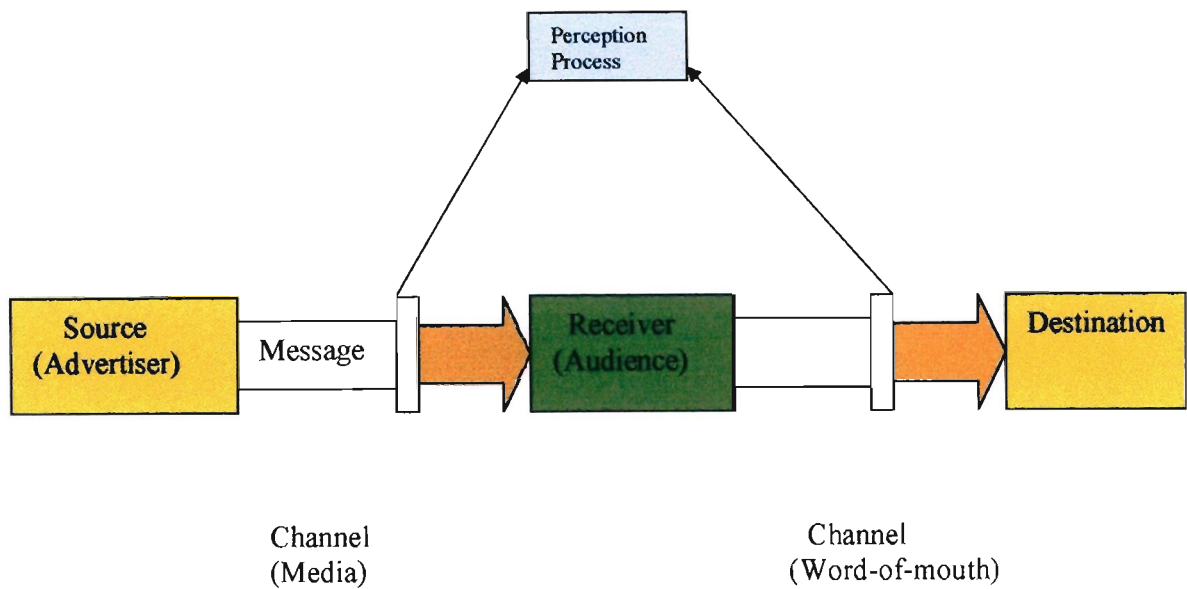


Figure 2.13: Model of the advertising communication system

Source: Batra, Meyers and Aaker, *Advertising Management*, New Jersey: Prentice Hall, 1996

Advertising is usually most effective on new brands, because people take time to form definite opinions about them are not determined from buying through previous experience. What is more, new product advertising is likely to attract above average interest, since novelty holds great fascination. Once a brand has been on the market for some time, it becomes harder for advertising to make an impact. Most consumers will already have a firm opinion about the brand. Here, the advertising has to change attitudes rather than create fresh ones.

The AIDA model is an example of the ‘hierarchy of effects’ theory. It stands for attention, interest, desire and action. It represents the assumption that various steps have to be taken before the consumer proceeds to take action of purchasing (Wilmschurst, 1999).

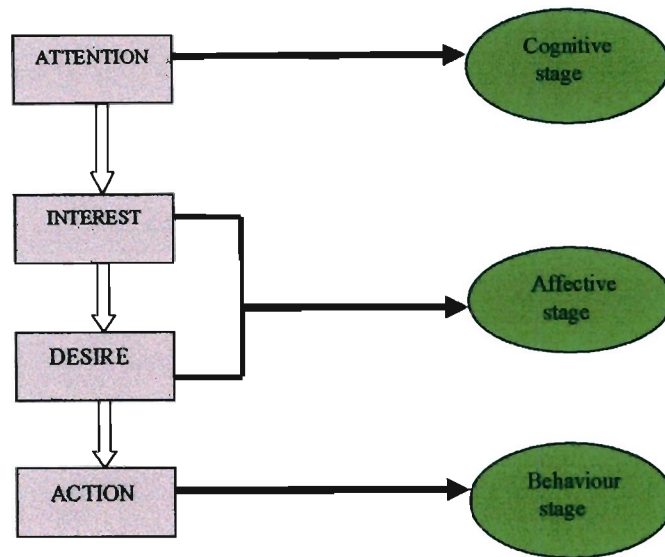


Figure 2.14: AIDA model

For advertising to be effective, it must draw the viewers or listeners attention from the very first glance or hearing. If not, the rest of the advertisement will be of little use if the target market has not first been influenced to pay attention to the message. After the viewers attention has been attracted, the next step would be to maintain interest. Usually interest follows automatically if the attention getter is powerful enough. In order to create desire for the product, advertisers use various appeals in order to persuade consumers to desire and ultimately to make the buying decision. The fourth stage involves persuading the consumer to take action. There are two main types of advertising, namely institutional and product advertising. Advertising that promotes the name, image, personnel, or reputation of institution or corporation is institutional advertising. The objective is usually to establish, change or maintain the institutions identity (Lamb,2000).

Advocacy advertising is used by companies to safeguard against negative consumer attitudes and to enhance the firms credibility among consumers. Product advertising focuses on creating demand for goods or services. It can take the form of pioneering, competitive or comparative advertising depending on the lifecycle of the product. The task of advertising is to pre-program the consumers choice of products and brands as

much as possible. Persuasion in advertising rests on the psychological appeal to the consumer (Franzen,1999).

An appeal is something that makes a product or a brand particularly attractive or appealing to the consumer. A rational appeal focuses on key benefits that are perceived to be highly functional or important to target consumers.

A rational appeal is effective when a product has a unique attribute that represents a meaningful, distinctive consumer benefit. Price or value appeal is a promise to give consumers more for their money. This is achieved through lowering prices, offering more at the same price etc. Celebrity appeal assumes that consumers will be more inclined to use products that celebrities use and that the celebrities image rubs off on the products they use. But this could also have a negative impact. E.g. if the celebrity gets into trouble, the brand can get into trouble too.

A mix of various media are used to communicate an advertising message. These include TV, print, radio, outdoor media, direct mail and internet. There are important trade-offs among the variables: reach, frequency, impact, and rating. The budget dictates the most cost effective combination of the variables. Media planners also consider which media are best suited for the positioning of products.

Once an advertisement has been developed and has run in the chosen media, posttesting is used to determine if the advertisement has met the objectives set by management. Posttests usually measure brand awareness, changes in attitudes toward the brand or the number of enquiries generated about the product.

2.9.5 People

Customers, service personnel and other customers fall into this category and these groups need to be carefully managed in order to deliver a superior service that meets and exceeds customers needs and expectations. The following factors should be taken into account:

- recruitment and selection of staff
- training
- dress code
- work hours
- exchange programs

- motivating service staff

Booms and Bitner suggested physical evidence and process management as additions to the above P's. Physical evidence can be classed as what the customers physically sense and receive in a product as well as what they perceive the product or service to be. Process management deals with how the service is delivered to the customer and strives for it to be as effective and efficient as possible in its delivery.

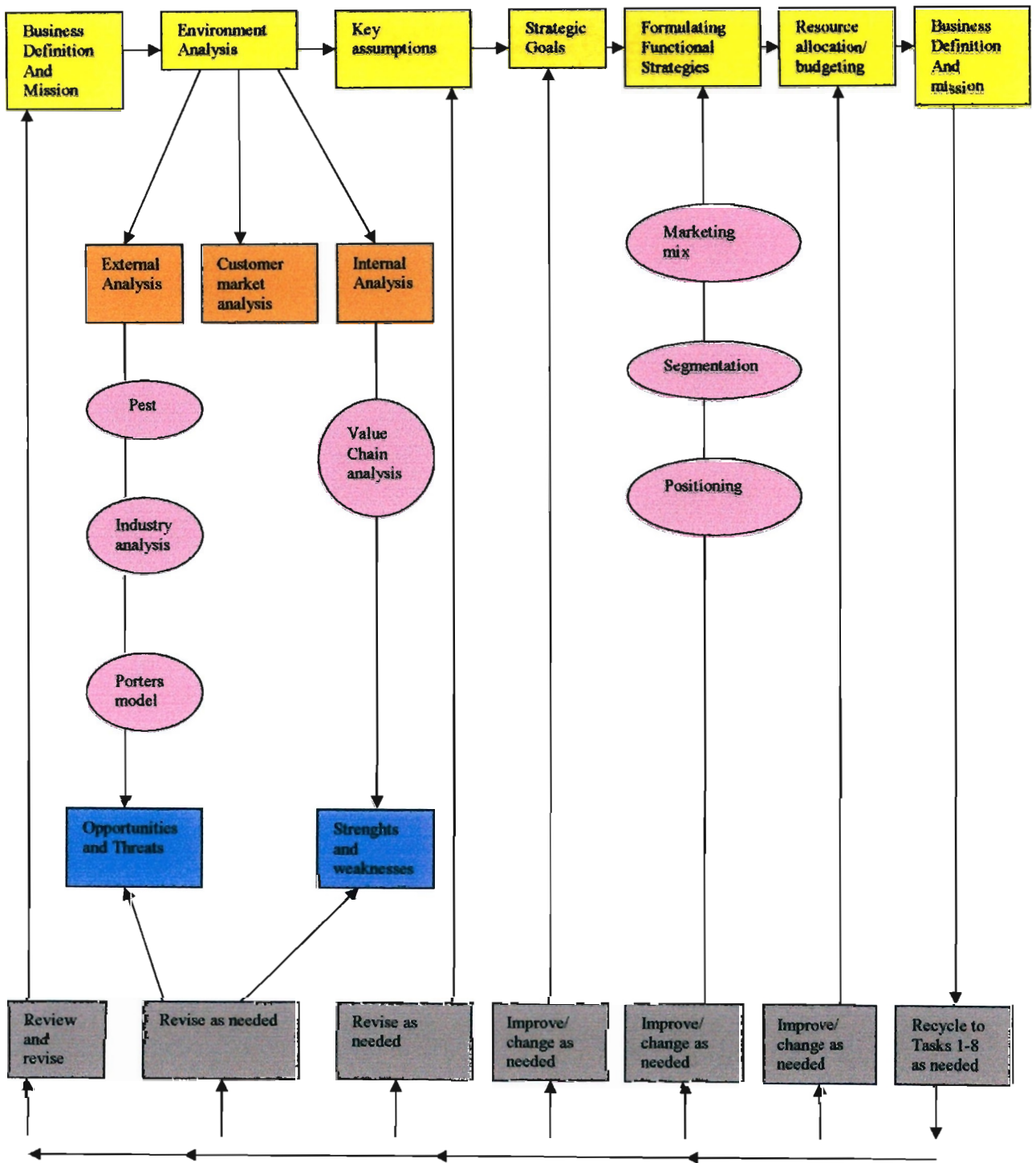


Figure 2.15: The strategic decision-making model

2.10 Conclusion

This chapter focuses on whether a company's position is likely to improve or deteriorate if the present strategy is continued, how the company matches up against key rivals on industry key success factors and other chief determinants of competitive success, and whether and why the company has a competitive advantage or disadvantage. Also, the areas where company strengths match up against competitors weaknesses represent the best potential for new offensive initiatives. Understanding consumer behaviour is important to marketers and researchers in understanding consumer needs and wants, consumer decision-making processes and predicting and influencing buyer behaviour.

This process assists Govan Mani in understanding customer buying patterns and thus ultimately aims to make this process a very simple one.

CHAPTER 3 : CASE STUDY OF THE ORGANIZATION

3.1 Introduction

Govan Mani is a specialist electronics retailer in KZN. The company has been in operation for the last 75 years, and electronics has been its core business for more than two decades.

It is known for its quality and exceptional after sales service. The company carries a vast range of products to suit all needs. All its merchandise is acquired from local manufacturers and thus carry local warranties.

The company does not deal nor is it associated with the grey market industry.

3.2 Analysis of the Grey Market Industry

The grey markets have traditionally been opaque and secretive, and participants have been reluctant to reveal anything about their activities. Some of the most senior figures in the industry, however, are pushing for change. Everybody watches the screens, but nobody knows what is going on behind them. Nobody except the people who run them, and they are not telling. The volumes behind grey market trading have been a secret for as long as people have been buying and selling shares before they list on the official markets.

But among the grey market brokers, people are demanding change. Free markets tend to evolve and mutate in quite remarkable ways. The more marketers attempt to restrict distribution, the more markets develop alternative channels.

3.2.1 Parallel Imports

Parallel imports are genuine articles imported through channels other than authorized agents. Parallel imports tend to level prices. There would likely be price increases in the very countries that can least afford it i.e. the third world. In terms of denying or reducing access to electronic goods, pharmaceutical or engineering technology, there could be significant social repercussions. The sole beneficiaries would be parallel traders who would pocket windfall profits at the expense of the manufacturers without necessarily passing any significant savings on to consumers. Price differences are not artificially imposed by greedy manufacturers. They are an inevitable result of differing states of

national economic development and largely a product of tax and employment regimes. The basic principle of parallel imports is that the same goods sell at different prices in different markets. To make a profit, goods that have sold well in one country are selected by the importer and parallel imported. In a unified and free market, it would make sense for prices to be standardized but price differences exist because of demand elasticity due to differences in exchange-rates and tariffs in the international markets. In order to build their local market, the authorized corporations must pay the high cost of licenses, advertisements and postal costs. These costs lead to higher prices. The parallel importers take advantage of the investment, trade mark establishment and the service costs that the authorized corporations have made. Therefore, profits made by the parallel importer are founded on the losses of the authorized corporations. Consumers who buy parallel imported goods are largely deprived of the benefits of product guarantees and support.

Parallel imports relate to the issue of exhaustion of rights. The exhaustion of trade mark rights is generally understood to mean that as soon as the products that are marked with a registering trade mark are sold on the open market, the exclusive right of the trade mark owner or the licensed third party will end at once. No matter how these products are divided or resold later on, the dealers do not infringe the trade mark right. The scope of this rights exhaustion can be divided into three categories: the national exhaustion of trade mark rights, the regional exhaustion of trade mark rights, and the international exhaustion of trade mark rights.

Under the national exhaustion of trade mark rights, the exclusive rights of trade mark exhaust following the first sale within a particular country but the owners of intellectual property rights may exclude parallel imports from other countries. In fact, this is an issue of domestic law. In order to build a unified market inside the scope of the whole nation and guarantee that the products circulate freely, the nation generally admits the national exhaustion of trade mark rights. Otherwise the trade mark rights would become the tools by which the right owners could monopolize domestic markets and compete unfairly. Under the regional exhaustion of trade mark rights, the rights end on the original sale within a group of countries or regions, thereby allowing parallel trade among them, but are not ended by first sale outside the region.

Under the international exhaustion of trade mark rights, rights are exhausted following the first sale anywhere. Once products are put on the market, trade mark rights are exhausted worldwide, no matter whether they exist in the domestic or foreign markets.

The trade mark rights owner does not have the right to prohibit its use in relation to goods. This is an issue to do with how to coordinate conflicting laws. So parallel imports include both regional and international parallel imports.

The globalization of price competition, in short, is lagging far behind the globalization of commerce. Price rigging remains a form of “non-tariff barrier” that nobody is seriously contesting. Neither the rules of the world trade organization, the European Union, nor the domestic antitrust laws of leading nations reach this problem. In one scenario, when the number of parallel importers increases, the optimal authorized price gap should narrow, but the prices and quantity of parallel imports may rise or fall. In another scenario, we find that when the manufacturer has other means, such as monitoring dealers, differentiating designs, and unbundling warranties- to contain parallel imports, the unauthorized price gap can widen as a function of the effectiveness of nonpricing controls.

The threat of parallel imports is rising and poses concerns for product manufacturers about potential erosion of their profits from international sales. It is evident that parallel imports interfere with a right-holders ability to establish separated international markets. Such exclusive territories are privately profitable but also set up arbitrage opportunities for parallel imports, with a mix of benefits and costs for the countries involved.

Some products such as chemicals have strict storage and transport requirements that differ based on local climate conditions and unrestricted parallel imports can potentially compromise product and consumer safety. In sectors such as motor parts or pharmaceuticals, there are strong consumer safety justifications for allowing manufacturers to keep control of the supply chain. This will enable them to conduct effective product recalls in the event of problems and to ensure that where different markets have different technical requirements they receive the correct product.

So far as the economists are concerned there seem to be as many views as there are economists. Some advocate free trade and that the global market should be allowed to regulate itself, others believe that differential pricing best balances a reasonable rate of return to the rights owner against the amount which consumers in different countries are prepared to pay.

Manufacturers and retailers often invest large sums in building a brand’s prestige in a region. Parallel imports can damage a brands value- and the profits go to the importer. Such trade involves nothing more than free riding by the people who create nothing.

3.2.2 Counterfeit

Pirated goods are flooding the region, and there are only glimmers of improvement on the horizon. Counterfeiting and piracy are trade in unauthorized versions of products, which is a different concept than parallel imports. In either case, customs authorities are empowered to act against such trade without restricting genuine parallel imports. It is often argued that permitting parallel imports encourages consumer deception and trade in counterfeit goods and pirated goods. However, such arguments are irrelevant in the strict sense of assessing the impacts of parallel imports. Consumer deception would occur if lower-quality parallel imports were marketed as legitimate versions of higher-quality products.

New technology has broadened the range of goods that are vulnerable to copying. It has dramatically improved their quality, as well as lowering their cost of production. Where once counterfeits were cheap and shoddy imitations of the real thing, today their packaging and contents (especially for digital products such as software, music cd's, and film DVD's) often render them almost indistinguishable from the genuine article. Counterfeits come in many shapes and sizes. They range from the cheap look-alike Rolex, bought knowingly by a happy customer, to the counterfeit, sub standard brakes on an unsuspecting driver's car. The international intellectual property association claims that 90% of musical recordings sold in China are pirated. Milan is a leading producer of counterfeit luxury goods and Florida is an international haven for fake aircraft parts.

Counterfeits are as diverse as any legal business, ranging from back-street sweatshops to full scale factories. Counterfeiters often get their goods by bribing employees in a company with a valuable brand to hand over manufacturing moulds or master discs for them to copy. One of the most infuriating problems for brand owners is when their licensed suppliers and manufacturers "over-run" production lines without permission and then sell the extra goods on the side.

Reducing the brand owners control over his supply chain inevitably makes it easier for counterfeits to enter the market. The trade mark's purpose to guarantee the origin and quality of goods is therefore significantly diminished. Instead of criminal prosecution, anti-piracy advocates are trying a new approach- bringing in the tax authorities, because the grey market almost always involves tax evasion. Distribution networks can be as simple as a stall in the street, or a shop on the other side of the world. The internet has

been a boon to counterfeiters, giving them detailed information about which goods to copy and allowing them to link consumers and suppliers with ease and relative anonymity.

Counterfeiting is not a victimless crime. For a start, legitimate businesses lose sales because of competition from counterfeiters. If their brand loses value (because it is seen as less exclusive or is confused with shoddy imitations), this poses a long term threat to profitability. In addition, firms have to bear the cost of anti-counterfeiting measures. Countries with endemic counterfeiting may sacrifice foreign investments too. Sony, for example, has toned down its music operations in Hungary because of counterfeiting.

Companies use covert features, primarily to help them trace their products through the supply chain and to distinguish genuine articles from fakes, especially should they need to take the copycats to court. Molecular tags (such as DNA) are being used in products or on packaging to mark them in such a way that special assays can distinguish the real thing. A number of firms have thus sprung up to provide authenticating technologies.

3.2.2.1 Online Piracy

Most online piracy happens through what is called file-sharing software, such as Kazaa, Grutella and Direct connect, that links millions of computers to one another over the internet. File-sharing software takes advantage of the fact that music and movies are stored as digital data- they're not vinyl and celluloid anymore, but collections of disembodied, computerized bits and bytes that can be stored or played on a computer and transmitted over the internet as easily as e-mail. Using file-sharing software, people can literally browse through one another's digital music and movie collection, picking and choosing and swapping whatever they want. An average song might take two minutes to download to your computer if you have a broadband connection. About three years ago, the recording industry association of America, which represents most US record labels, filed suit against Napster, the granddaddy of file-sharing services, for "contributory and vicarious copyright infringement." The recording industry won, Napster lost. A judge ordered its servers shut down. However, the file-sharing services didn't go away. They evolved, getting smatter and more decentralized and harder to shut down. Napster's network relied on a central server, an Achilles heel that made it easier to unplug and shut down.

3.2.3 Packaging and labelling

Parallel importers who do not restrict themselves simply to moving products from one country to another but go further and actually re-package it or add their own additional labelling seem to be on the increase. This has been a common practice for many years in the electronics industry but is now having an increasing impact on other branded products. This increased level of re-packaging may be because brand owners recognize the potential of country specific packaging as a means of deterring parallel imports. A digital camera whose features are described only in Japanese on the box is not a lucrative prospect for a parallel importer.

The case of Sony vs. Tesco, centered on Tesco's adaptation and resale of imported Sony consoles from France, which resulted in an injunction against Tesco. Here the retailers interpretation of how far it is allowed to go regarding re-packaging was challenged by Sony in respect of their mark 'Playstation' for the well-known games consoles. The consoles distributed by Sony in the UK are fitted with a UK plug and a radio frequency modulator (RFM) to connect them to a UK television. The consoles marketed in France differ in that they have a continental style plug and one also sold without any RFM. Tesco imported consoles from France and, to make them saleable in the UK, adapted them by adding an RFM unit (made by a third party) and by including an adaptor for the mains plug. On the outside of the box they added a notice to warn customers that it had been opened and that this adaptation had taken place. There were four different types of third party RFM units and one type bore the word's 'Sony Playstation'. Sony sued for trade mark infringement in respect of use of its mark without its license or consent on the third party RFM units and on the basis that use of the mark on the outer box associated Sony with everything inside it and was as infringement under the trade marks act.

3.2.4 The Aids Plague and Parallel Imports

A rampant AIDS epidemic is ripping through South Africa, and few victims can afford the costly drugs devised to keep the virus at bay. In a law passed in 1997, Pretoria claims the right to parallel imports- cheap knockoffs of patented medicine often made by countries that are not signatories to international copyrighting agreements. The big pharmaceutical companies feared that South Africa could inspire other nations to violate patents. Some 40 companies have sued in South African courts to get the law thrown out. So far, Pretoria has suspended implementation of the law to avoid pariah status as a

trading partner. Nonetheless, South Africa maintains its right to extraordinary measures and comments by the Health Minister states that we as South Africans must help our people. He mentions that South Africa is “held at ransom” since the multinationals won’t cut prices enough for AIDS sufferers. The pharmaceutical manufacturers association of South Africa says local companies aren’t set up to produce these drugs. The industry has offered to sell some AIDS drugs at discounts, but Pretoria says they aren’t big enough.

3.3 Overview of the Electronics Industry

Free markets tend to evolve and mutate in quite remarkable ways. The more marketers attempt to restrict distribution, the more markets develop alternative channels. Consumer electronics is perhaps a good illustration of how manufacturers attempt to limit distribution to particular retailers. This is partly motivated by the need for a consistent price and also because electronic brands are uniquely vulnerable to being presented in the wrong kinds of retail settings. As a result, however, the three shades of the market have emerged in electronic distribution: white, grey and black. The white market is the approved market. For the manufacturer, this is the ideal distributor and a major source of the product for consumers. For electronics, Govan Mani is a white market. It has a tremendous retail brand that co-brands the products. Price promotions are usually with the distributors consent. Best of all, Govan Mani has the space and setting to present each product in its ideal context: on its own island within the store populated by highly trained and motivated sales staff. The organization, like all white markets, is awarded a host of manufacturer-bestowed benefits such as in-store ad displays, exclusive promotional items and invitations to attend off-shore conferences.

Walk out of Govan Mani and turn left. The small electronic stores are a grey market because it does not usually get its products from the manufacturer but rather from the parallel importer, who are able to sell the product for a small margin. The brands are sold at a steep discount, often up to 30% and rather than being presented in exclusive manufacturer islands, they are stacked up shoulder to shoulder against each other. There are no product service personnel and, devoid of manufacturer-supplied promotional material, the grey market stores usually uses framed magazine ads to present the illusion of manufacturer sponsorship.

Exit the grey market store and at some point, one will spot the black market in action. A lone trader will be selling three or four electronic brands from a sheet of cardboard placed

precariously on top of a rubbish bin. As a black marketer, he must have broken the law, and not just a manufacturers agreement in order to get his stock, so the goods are likely to be either stolen or counterfeit. His only promotional aid is his verbal sales pitch and his only market intelligence comes in the form of his partner, the spotter, who remains out of sight watching out for any policeman on patrol. Rather than shun the white and grey markets, the black marketer actively seeks them out and attempts to market his products in close proximity to his more expensive competitors.

These three markets, black, white and grey, operate literally within a stone's throw of each other. Each offering apparently the same brand, and yet each representing a completely different form of distribution channel. Sometimes the beauty and complexity of markets can be literally right in front of us.

3.3.1 Swot Analysis

In business as in music, timing is everything. One wrong turn and the results can turn from mild cacophony to total disaster. The major driving force continues to be digital TV, as plasma, LCD and direct-view flat screen sets brings consumers into stores. And when they do, they either buy or come back soon afterward for DVD players and home-theatre in-a-box systems. Buying group membership, ranging from single-store, family-owned businesses to regional chains, have been training their people so they are more knowledgeable about consumer electronics than ever before. One major positive factor for buying group is that unlike 10, 15 or 20 years ago, their members knew how to control costs and make better investments in their operations. They have become better business people. That helps them, their suppliers, and, hopefully their customers.

Troubled economies, the war in Iraq, and severe acute respiratory syndrome (SARS) continue to take their toll on the electronics industry in the first half of the year. The period has also witnessed the introduction of many new brands, most of them low-value items from China. Growth for the major brands, however, has nevertheless been significant.

The flood of "first" and "fastest" products to hit the market has been on the rise in recent weeks, as companies seek to position themselves for the market upturn. Unfortunately, they seem to have jumped the gun. While the market for electronics is beginning to show signs of life and is expected to show even more robustness in the second half, it isn't expected to really start rebounding until at least next year. This is partly due to an

astounding lack of visibility on a grand scale. Aside from an inability to judge international markets, no one planned for the war in Iraq, when they started developing new products. By late last year, it looked as if the rebound would be underway already, making it a good time to roll out new products. Instead, everything got postponed by three to six months. The electronics market in pre-war Iraq was reasonably upbeat mostly for low-value items.

With corporate travel plans becoming disrupted worldwide, fear of severe acute respiratory syndrome (SARS) is threatening to have a significant negative impact on the global electronics industry. Reuters is reporting the SARS outbreak has already claimed at least 84 lives, and has affected almost 2300 people in a dozen countries. According to IT researches the Aberdeen Group, Motorola Inc. has temporarily closed a cell phone manufacturing facility in Singapore after authorities quarantined 305 workers due to SARS exposure. For the past 18mths, digital consumer technologies have sold strongly and continue to be a bright spot. Unfortunately, most of this technology is produced in the Asia-Pacific region, and particularly the people's republic of China. As an example, China is a major source of AC- to DC power supplies- those little black cubes that clutter your power strip. You can assemble a laptop elsewhere, but you cannot sell it without a power supply. Thus SARS threatens the supply of key component building blocks, not just the assembly plants.

Schedule slippages and disruptions in growth plans for global electronic companies would cause problems for the electronic industry. A worst case scenario includes the major supply chain disruptions and a potential "nuclear winter" for the semiconductor and electronics industry. It has made the industry, which has pinned its hopes on Chinese markets and migrated much of its manufacturing to China, very nervous.

3.4 Overview of the company

Govan Mani's first store was opened in 1928 in Victoria Street, Durban by Mr Govan Mani. This was an 80 sq m store trading as a general dealer. A few years later, another store was opened in Grey Street. This was a humble beginning of a company that has become a tradition with quality. The three partners in the business were Mr Govan Mani, Mr D Bhikha and Mr B Kara. With the passing on of Mr Mani in the early 1960's and Mr Kara in the late 1950's, the business was succeeded by Mr Bhikha. His three sons, Mr HD Bhikha, Mr D Patel and Mr H Bhikha, who were part of the business, had now become actively involved. In the two decades up to 1970, the company stocked a vast range of products including shoes, traditional Indian garments such as sarees; fabric was another line and many more. Mr HD Bhikha had left for England in 1960. Upon his arrival in 1969, a transition in the business had begun. The company had slowly changed to electronics.

In 1973, a third store was opened in Church Street, PMB. By 1975, Govan Mani was a fully fledged electronics store. From this point onward, with hard work and dedication, the company was on an expansion drive. In 1982, the company purchased property in Commercial Road, Durban. Another store was thus opened. This was now the new head office and also a central warehouse. In 1986, the company purchased property in Long Market Street, PMB. The store in Church Street was thus moved to the new bigger premises. The company had also started expanding its product range to include home appliances. In 1991, a store in Pinetown was opened. Thereafter Pavillion in 1998 and Gateway in 2001.

Today, Govan Mani is noted for quality, service, and a product range to suit every need.

3.4.1 Govan Mani Today

The organizational structure is detailed in figure 3.1.

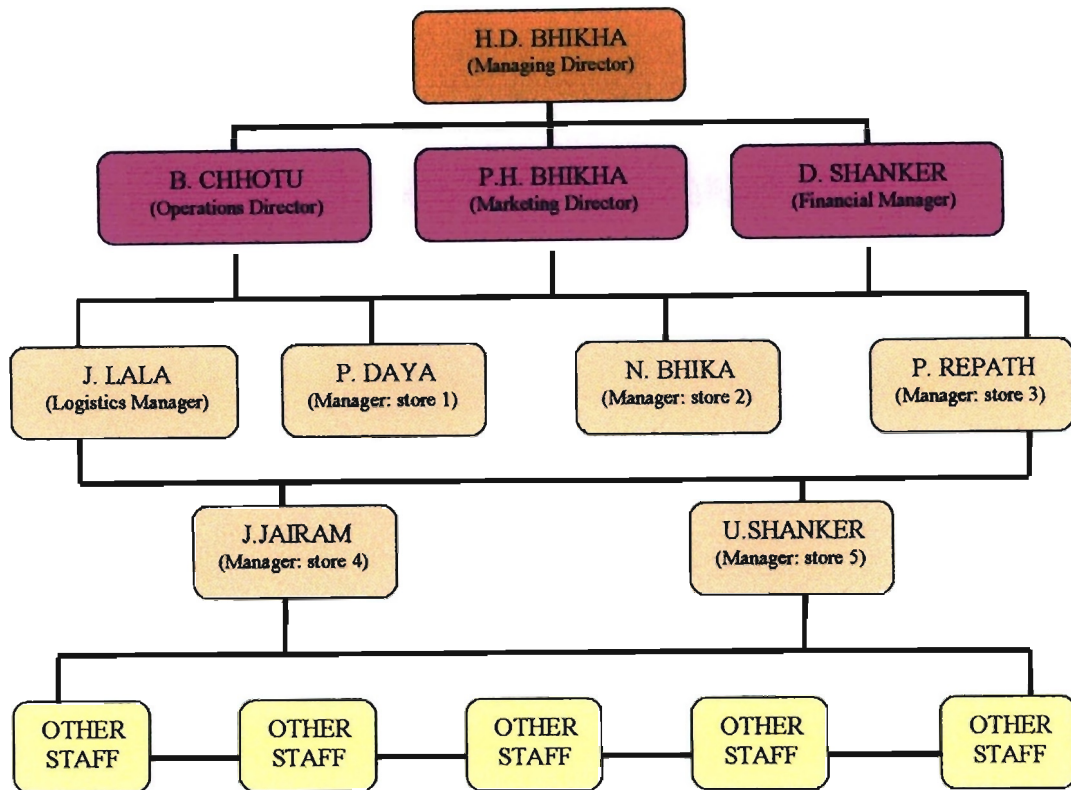


Figure 3.1: Govan Mani structure

The company has all the fundamentals below in place:

- A smooth customer flow
- A clean, well designed environment
- A vast product range
- Well-trained staff to provide exceptional service
- A continuous stream of ideas to improve operational performance

The companies logistic operations are crucial to its day to day activities. Inbound logistics are controlled at a central warehouse in Durban. It is from this location that all outbound logistic activities transpire. Goods are dispatched from here on a daily basis to all branches. The retail outlets are suppliers to the external customer and an internal customer to the warehouse. Thus the efficiency in this division is a major contribution to the company's success.

The effectiveness of the company is continuously improved by treating its internal customers with the same degree of care that it exercises with its external customers. If the macro operation is not working, as it should, the problem can be traced along the internal customer and supplier root.

The company implements JIT, which aims to meet the demand of customers instantaneously, with perfect quality and no wastage. Just in Time (JIT) is a disciplined approach to improving overall productivity and eliminating waste. It is depended on the balance between suppliers ability to deliver goods on demand and the companies ability to sell the product to the consumer. The benefit of using JIT reduces stockholding and meets the changing demand of customers. Cash flow improves as a result of continuous flow of goods. Slow selling items can be more easily identified. To achieve JIT, both suppliers and Govan Mani work as a team. Orders are planned and suppliers deliver at the beginning of each month with exact quantity. Therefore building good supplier relationships is important. The company chooses suppliers who share their vision and this allows them to deliver what they promise every time to the consumer, if not, they will gladly replace or refund the purchase.

The company's business is best described in figure 3.2.

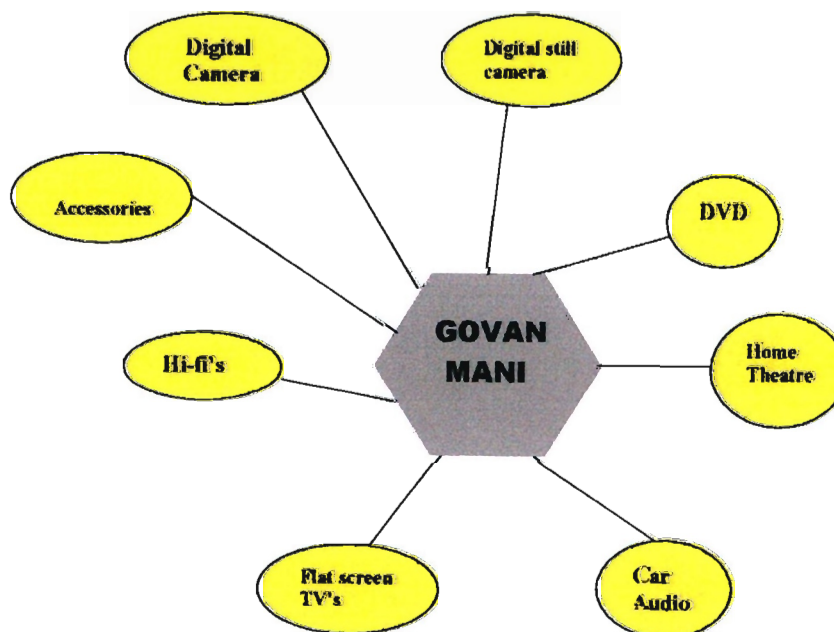


Figure 3.2: Govan Mani's Business

Govan Mani believes that its image sets them apart from other retailers. It is not a tangible item that can be smelt or touched, it exists in the consumers mind. The company has to ensure that their quality is never compromised whilst still ensuring that everything that they sell offers the best value for money. Govan Mani approaches things differently and their stores look and feel different. The quality of their operation is determined by the evidence of the goods and in the service the customer receives. The customer in the store judges not only the outcome of the services, but also the aspect of the way in which it was produced. E.g. In purchasing a TV the customer might be perfectly satisfied with the range available and that he was promptly served. If the sales person was discourteous, abrupt or threatening, the customer may not consider the service to be of a high quality. Some customers on the other hand might be less sensitive. Staff training is done on an ongoing basis. Staff are rewarded for high quality service.

Govan Mani is also committed to serving the following parties:

- Customers -Who are needed for their survival. Emphasis is placed at providing good customer service.
- Suppliers – Good working relationships are maintained with suppliers. This ensures loyal relationships and exceptional back up service.
- Directors – Govan Mani strives to continuously increase its bottom line and return on investment.
- Employees – The company offers all the employees equal opportunity in order to develop their full potential, thus resulting in less staff turnover.
- Society – Govan Mani works closely with the rotary foundation in assisting the community. The managing director is personally involved with such projects.

3.5 Competitor Analysis

The major competitors in the electronic industry are Game, Makro, Hi-Fi Corporation, Hirsch's.

3.5.1 Game

Game stores- a subsidiary of the listed holding company Massmart- was established as Game Discount World in Durban in 1970, where it had opened its first store in Smith Street in the city's CBD and rang up sales of R78000 in its first month of trading. Game was born out of the belief by its founders that shopping had become a tedious and boring pastime. They conceptualized retailing as a game and then pooled their limited savings to turn the concept into reality by creating a firm environment for shoppers, who were attended by staff in shocking pink- a corporate colour which has prevailed to this day. A second Game store was established on Durban's Brickhill Road a year later, and by 1980, the company had six stores in KZN. The Game stores successfully challenged the dominance of the entrenched department stores by offering a unique shopping experience with a wide range of consumable and durable goods discounted to a level that attracted an increasingly stronger consumer following. A fast-track expansion programme- launched in the early nineties- virtually doubled the store network in just five years. Today it has stores in all nine provinces of South Africa and beyond the border in Botswana, Namibia, and Zambia.

Supported by the financial strength of Massmart- which is controlled by R10 billion sales a year South African retail giant Wooltru- Game is on the brink of even more expansion. By the year 2010, the Game development planners anticipate having an expanded network of 130 stores in place- 75 of these in South Africa and the rest in Africa as far afield as Kenya, Uganda and Tanzania.

3.5.2 Makro

From a single store to a countrywide group, Makro has grown into a powerful force in the South African wholesale trade. Makro has its origin in Holland, where it is owned by the SHV group. Makro SA was started by a partnership between SHV and Rennies, with Makro Germiston opening its doors in 1971 and other stores following in five major cities. Today, Makro is owned by Massmart Holdings, with SHV and Wooltru as major shareholders and trades through 12 large Makro warehouse clubs in South Africa, 1 free-

standing Makro office outlet and 2 Makro warehouse clubs in Zimbabwe. Makro's online offering is made up of over 5000 general merchandise and liquor products. Weekly promotions and killer deals are updated every week on a Tuesday. An internet support centre exists to assist with online purchases and operators to assist with any queries.

The Makro card is absolutely free. It assists them to create a complete profile of all their customers. Makro's peace of mind guarantee ensures customer satisfaction. They refund or exchange most goods if returned within 14 days of purchase.

Massmart's dividend policy is to pay total annual dividends representing three-times cover ratio, unless circumstances dictate otherwise, given the cash-generative nature of the group, it is anticipated that these dividends will generally be cash. In the appropriate circumstances, the board will reduce the group's dividend cover ratio. 75% of sales are for cash, 23% are trade credit, and 8% are retail credit.

Massmart is committed to outsource contracting with black empowerment service providers. Of Massmart's total permanent staff, 79% comprise equity employees.

3.5.3 Hirsch's

The Hirsch group was started just over 21 years ago and is a family run business, which initially did domestic appliance repairs. Over the years, Hirsch's have grown from a repair company that sold the odd electric appliance, to become a major force in the appliance industry today and are specialized in all areas, from a small iron to the most expensive and imported German products.

And during this time they have become renowned not only for the quality range of products they sell but also have set very high standards for service and back up, something that customers can rely on. They have also added TV's, VCR's, Hi-Fi's, DVD's, as well as bedding and air-conditioners to their range.

The first two or three years were tough but rewarding as hard work often is and during this time Hirsch's started buying and selling the odd product in the case where a customer's washing machine or fridge wasn't worth repairing. A new unit was purchased, delivered to a customer and installed and the operations explained to the customer. Here again, a reputation of service which Hirsch's gave, had a very early beginning and it is true to say that Hirsch's have matured and flourished by giving service.

Twenty-one years later Hirsch's consists of 6 branches, in Pietermaritzburg, Pinetown, Durban North, Glenwood, Broad Street and their new Super Store in Umgeni Business

Park. Hirsch's considers themselves experts in the appliance industry and carry an enormous range of products from the locally made products to the top of the range German made products from AEG, Bosch, Miele and Gaggenau which are often described as a Lamborghini of appliances.

3.6 The Macro Environment

Three major macro-economic factors that affect Govan Mani are interest rates, exchange rates and custom and excise duty. An increase in interest rates will mean that the goods become less "affordable" to the customer and sales will eventually decrease. Those purchases on credit will also be impacted by the increase in their monthly repayments. The company's financing costs will thus also increase resulting in price increases to cover increased overheads. Its competitive position in the market will also be affected. In South Africa, interest rates are at their lowest levels in 20 years. The fluctuating of interest rates can be attributed to factors like the stability of the government, AIDS epidemic, crime rate and the fluctuation of the rand. The rand is a market determined exchange rate. E.g. In 1997, the rand appreciated during the Asian crisis compared to the Asian currencies. South Africa is a mineral rich country, and the rand is thus dependent on commodity prices. A devaluation of the rand will mean imports become more expensive. Prices thus automatically increase because production costs increases. This results in a decrease in purchasing power of consumers who will then demand an increase in wages. Thus costs of production increase again.

Duty is calculated on the day of shipment. Thus exact costing is only realized on shipment date.

3.7 The South African Environment

South Africa is a middle-income developing country with abundant natural resources, well established financial, legal, communication, energy, and transport sectors, and a stock exchange that ranks among the ten largest in the world. On the downside, much of its population remains impoverished with inadequate access to housing, medical care, and education. Jobs are more plentiful than in most neighbouring countries, but their availability is poor when compared to other middle-income countries.

Various external factors have impacted on recent economic performance. These include loss of confidence in emerging markets in the wake of the Asian, Russian and

Argentinean financial crisis, consequent weakness of the rand; weak prices for some mineral commodities that are key components of South African output; a spike in fuel and hence transportation costs.

Foreign direct investment has increased in South Africa, but not as much as was hoped or expected. Spooked by the irresponsibility of the Mugabe government in neighbouring Zimbabwe, foreigners who can get their money out of South Africa have been increasingly endeavouring to do that and that has been a factor in the rapid decline in the international value of the rand.

South Africa has made credible progress in its commitment to open up markets, privatize major sectors of the economy and foster a favourable investment climate. Regionally, it plays a dominant role in the Southern African Development Community, a 14- nation group that has expressed its intent to form a free-trade zone.

Of longer term concern is the fact that gross fixed investment has declined to about 15% of GDP in the recent past and has less than 20% of GDP for a decade. The country needs more investment to sustain its infrastructure and to equip its labour force to compete in world markets.

3.8 Conclusion

Govan Mani has proved themselves as a sound and solid business, offering legitimate products to consumers, excellent after-sales support, credit facilities to cash strapped consumers and simultaneously expanding.

The company's strategy has always been to offer the consumer a quality product at a fair price. This is what Govan Mani was built on, it is their niche and must keep to this. This concept has made Govan Mani a household name.

CHAPTER 4: EVALUATION OF DATA ANALYSIS AND FINDINGS

4.1 Introduction

A questionnaire was designed to gauge the respondents perceptions, preferences, motives and attitudes towards grey products as compared to legitimate products. The researcher employed a descriptive research design method using quantitative methods to analyze the empirical data collected.

The first step involved editing and data entry. This ensured accuracy of the data and its conversion from raw form to reduced and classified forms that were appropriate for analysis. The questionnaire included closed-ended questions that were pre-coded which simplified the data entry process.

The next step was to tabulate the data. This helps to determine the empirical distribution of the variables in question and to calculate the descriptive statistics. Descriptive statistics helps to summarise the information presented in the frequency table.

In order to summarise the quantitative results, tables and figures have been used.

The questionnaire was administered to Business Management students studying at Damelin. This format has been identified for its cost and time effectiveness in securing feedback from the respondent.

4.2 Frequencies

Table 4.1: Gender of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Female	21	42.0	42.0	42.0
Male	29	58.0	58.0	100.0
Total	50	100.0	100.0	

Table 4.1 shows that 29 males responded to the questionnaire which accounted for 58% of the sample. 42% of the respondents were female.

Table 4.2: Age of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
18-25	13	26.0	26.0	26.0
26-35	20	40.0	40.0	66.0
36-45	12	24.0	24.0	90.0
46-55	5	10.0	10.0	100.0
Total	50	100.0	100.0	

Table 4.2 reflects that most of the respondents (40%) belonged to the '26-35' age group category. The '18-25' age group accounted for 26% of the respondents. The '36-45' and the '46-55' age group accounted for 12% and 5% respectively.

Table 4.3: Income levels of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than R4000	10	20.0	20.0	20.0
R4001-R6000	12	24.0	24.0	44.0
R6001-R8000	13	26.0	26.0	70.0
R8001-R10000	7	14.0	14.0	84.0
R10001-R12000	4	8.0	8.0	92.0
R12001 +	4	8.0	8.0	100.0
Total	50	100.0	100.0	

As shown in table 4.3 above, most of the respondents, 26%, earned between R6001 - R8000 per month. 20% of the respondents earned less than R4000.

Those earning between R4001-R6000 accounted for 24%. 14% fell in the R8001-R10000 group. 16% of the respondents earned above R10000.

This further illustrated in figure 4.1.

INCOME

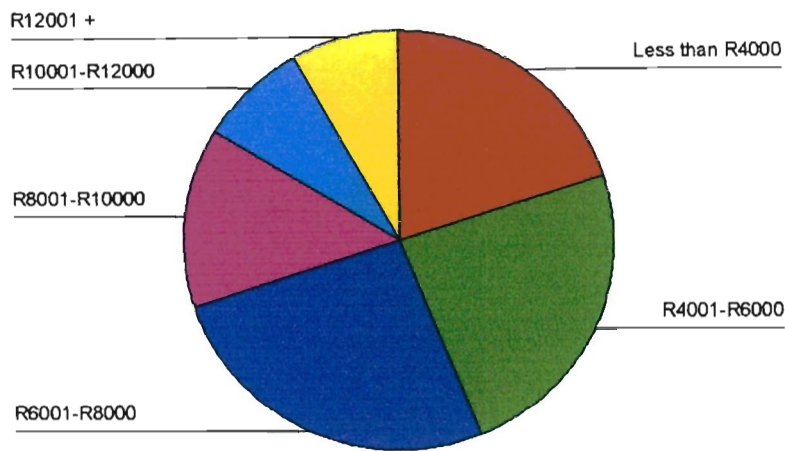


Figure 4.1: Income levels of respondents

Table 4.4: Residential Location

	Frequency	Percent	Valid Percent	Cumulative Percent
Central	10	20.0	20.0	20.0
North Coast	18	36.0	36.0	56.0
South Coast	8	16.0	16.0	72.0
Other	14	28.0	28.0	100.0
Total	50	100.0	100.0	

Table 4.4 illustrates that 36% of the respondents reside on the North Coast, followed by 28% living in other designated areas. Central accommodated 20% and the South Coast 16%.

Table 4.5: Which of the following to you possess?

	Frequency	Percent	Valid Percent	Cumulative Percent
TV	1	2.0	2.0	2.0
TV,VCR	2	24.0	24.0	26.0
TV, Computer	1	2.0	2.0	28.0
TV,VCR,DVD	13	26.0	26.0	54.0
TV,VCR,Computer	7	14.0	14.0	68.0
TV,DVD,Computer	1	2.0	2.0	70.0
TV,DVD,Digital Camera	2	4.0	4.0	74.0
TV,VCR,DVD,Computer	7	14.0	14.0	88.0
TV,VCR,DVD,Digital Camera	1	2.0	2.0	90.0
TV,VCR,Computer,Digital Camera	1	2.0	2.0	92.0
All	4	8.0	8.0	100.0
Total	50	100.0	100.0	

Table 4.5 illustrates that those respondents that owned a TV only accounted for 2% of the respondents. 26% of them owned a TV, VCR and a DVD. A mere 8% of the respondents owned all of the products i.e. a TV, VCR, Computer, Digital Camera and a DVD.

Table 4.6: Purchases in the last 6 months

	Frequency	Percent	Valid Percent	Cumulative Percent
TV	4	8.0	8.2	8.2
VCR	4	8.0	8.2	16.3
DVD	11	22.0	22.4	38.8
Computer	5	10.0	10.2	49.0
Digital Camera	5	10.0	10.2	59.2
None	20	40.0	40.8	100.0
Total	49	98.0	100.0	
Missing system	1	2.0		
	50	100.0		

As shown in table 4.6 above, 40% of the respondents made no purchase in the last 6 months. 22% have purchased a DVD, 10% a digital camera and a computer. 8% have purchased a TV and a VCR. There was also 1 missing case.

Table 4.7: Which Govan Mani store do you shop at?

	Frequency	Percent	Valid Percent	Cumulative Percent
Durban Central	9	18.0	18.0	18.0
Pavillion	16	32.0	32.0	50.0
Gateway	11	22.0	22.0	72.0
Pinetown	5	10.0	10.0	82.0
PMB	2	4.0	4.0	86.0
None	7	14.0	14.0	100.0
Total	50	100.0	100.0	

Table 4.7 illustrates that 32% of the respondents preferred the Pavilion branch. Pinetown and PMB averaged 7% whilst Gateway and Durban Central averaged 20%. 14% do not shop at any of the stores.

This is also presented in Figure 4.2 below:

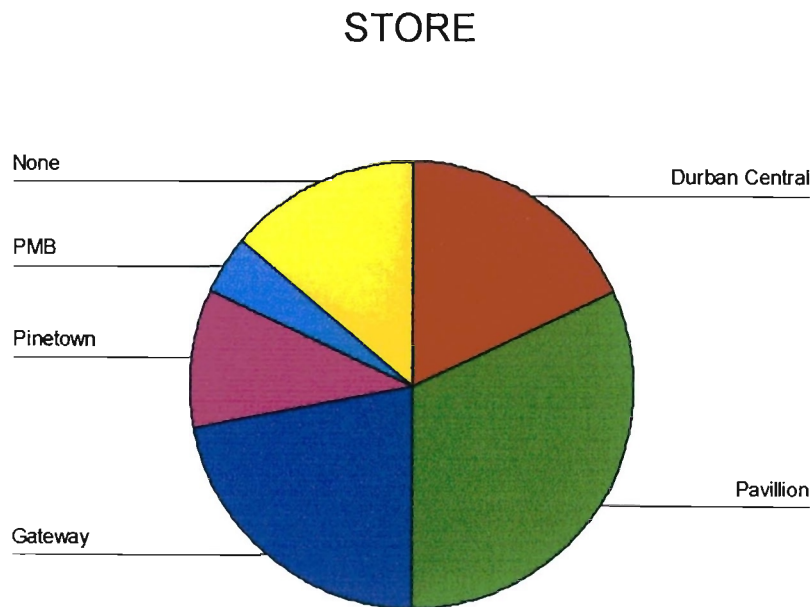


Figure 4.2: Respondents store preference

4.3 Descriptive statistics

Descriptive statistics assist in presenting measures of location (often called central tendency e.g. the mean); measures of spread such as the standard deviation and variance; as well as measures of shape, which are described by the skewness and Kurtosis statistic.

Table 4.8: Descriptive statistics for question numbers 8 to 22

	<u>N</u>	<u>Mean*</u>	<u>Skewness</u>	<u>Std. Error</u>	<u>Kurtosis</u>	<u>Std. Error</u>
<u>Statistic</u>		<u>Statistic</u>	<u>Statistic</u>		<u>Statistic</u>	
Shopping at Govan Mani is due to location	43	2.07	.855	.361	-.122	.709
I shop there because of price	43	2.21	.568	.361	-.304	.709
Service is a another reason	43	2.05	.360	.361	-.666	.709
Credit facilities attracts me to the store	43	3.09	-.354	.361	-.520	.709
I shop there only during a promotion	43	3.07	.024	.361	.690	.709
Govan Mani staff are courteous	44	2.09	.515	.357	-.179	.702
They stock legitimate products	50	1.76	.393	.337	-.941	.662
Govan Mani offers the leading brand names	50	1.52	1.339	.337	2.844	.662
Grey products mean counterfeit	50	3.66	-.669	.337	-.480	.662
They imply the same as the original but with limited warranty	50	2.84	.144	.337	-.509	.662
It means back door products	50	3.74	.156	.337	-1.367	.662
Grey means the actual product is grey	50	4.66	-3.346	.337	15.543	.662
Grey products mean the same as the original	50	3.14	-.153	.337	-1.134	.662
Branded products sold in SA may be grey	50	1.90	.626	.337	-.220	.662
Branded products may not always carry the local warranty	50	2.22	-.091	.337	-1.097	.662
Valid N (listwise)	43					

* 1=strongly agree, 2=agree, 3=neither agree nor disagree, 4=disagree, 5=strongly disagree

The N statistic shows the number of those who responded to a particular category or to a question. The mean statistic refers to the average response of all the respondents who answered a question. Skewness is a measure of a distributions deviation from symmetry.

Central location measures such as the mean are insufficient to describe fully the profile of a variable. Skewness is thus required to give a complete picture. There are three common shapes that can be observed in terms of skewness i.e. symmetrical distributions, positively skewed distributions, and negatively skewed distributions.

Table 4.8 shows the extent of skewness for each variable on the skewness statistic column. Another descriptive statistical measure used is the Kurtosis statistic. It measures the degree of peakedness (or flatness) of a sample distribution. The skewness and kurtosis statistics reflected on the diagram indicate that the sample was close to a normal distribution. Questions 8-13 were not answered by 14% of the respondents, reason being that they do not shop there.

4.4 Frequencies

Table 4.9: Grey means same as original but with limited warranty

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	6	12.0	12.0	12.0
Agree	13	26.0	26.0	38.0
Neither Agree nor Disagree	18	36.0	36.0	74.0
Disagree	9	18.0	18.0	92.0
Strongly Disagree	4	8.0	8.0	100.0
Total	50	100.0	100.0	

38% of the respondents who answered question 18, knew exactly what grey meant. 26% were totally misinformed about the grey market and 36% were not sure.

Table 4.10: Grey means counterfeit

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	4	8.0	8.0	8.0
Agree	5	10.0	10.0	18.0
Neither Agree nor Disagree	11	22.0	22.0	40.0
Disagree	14	28.0	28.0	68.0
Strongly Disagree	16	32.0	32.0	100.0
Total	50	100.0	100.0	

Table 4.10 illustrates that 60% of the respondents knew that a grey product is not a counterfeit product. 18% thought they were fake products and 22% were not sure.

Table 4.11: A branded product sold in SA may be a grey product

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	18	36.0	36.0	36.0
Agree	21	42.0	42.0	78.0
Neither Agree nor Disagree	9	18.0	18.0	96.0
Disagree	2	4.0	4.0	100.0
Total	50	100.0	100.0	

78% of the respondents realize that a branded product sold in SA may be a grey product. 18% were not sure of this fact and 4% were in disagreement.

Table 4.12: Have you ever purchased a grey product?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	37	74.0	74.0	74.0
No	13	26.0	26.0	100.0
Total	50	100.0	100.0	

As shown in table 4.12 above, 74% of the respondents have purchased a grey product and 26% have not. Those that answered no to this question had to skip the next three questions.

Table 4.13: Have you had any problems with this product?

	Frequency	Percent	Valid Percent	Cumulative Percent
Minor	12	24.0	32.4	32.4
Serious	17	34.0	45.9	78.4
None	8	16.0	21.6	100.0
Total	37	74.0	100.0	
Missing System	13	26.0		
	50	100.0		

Table 4.13 illustrates that 58% of the respondents have had problems with a grey product being it minor or serious. 16% did not experience any problems.

The missing case of 26% did not purchase a grey product and thus did not answer this question.

Table 4.14: Was the problem rectified?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	15	30.0	51.7	51.7
No	9	18.0	31.0	82.8
Eventually	5	10.0	17.2	100.0
Total	29	58.0	100.0	
Missing System	21	42.0		
	50	100.0		

Table 4.14 indicates that 30% of the problems were rectified, 18% were not and 10% of them were sorted after a period of time. Those respondents who had not experienced any problems and those who had not purchased a grey product had skipped this question. This totalled 42%.

Table 4.15: Would you purchase a grey product again?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	8	16.0	21.6	21.6
No	13	26.0	35.1	56.8
Not Sure	16	32.0	43.2	100.0
Total	37	74.0	100.0	
Missing System	13	26.0		
	50	100.0		

Table 4.15 illustrates that 26% of the respondents would not purchase a grey product again. 16% said they would and 32% were not sure.

Table 4.16: Would you purchase a grey product if:

	Frequency	Percent	Valid Percent	Cumulative Percent
price was lower and no after sales service	15	30.0	30.0	30.0
price was a margin lower and the service the same	14	28.0	28.0	58.0
not sure if I will buy a grey product	20	40.0	40.0	98.0
Missing system	1	2.0	2.0	100.0
Total	50	100.0	100.0	

As shown in the diagram above, 58% would consider purchasing a grey product depending on the price structure. 40% of the respondents would not purchase a grey product.

Table 4.17: Descriptive statistics for question no 28:

	<u>N</u> <u>Statistic</u>	<u>Mean*</u> <u>Statistic</u>	<u>Skewness</u> <u>Statistic</u>	<u>Std. Error</u>	<u>Kurtosis</u> <u>Statistic</u>	<u>Std. Error</u>
Fast reliable repair	50	5.36	-.904	.337	.849	.662
Service at any location	50	3.98	.095	.337	-1.588	.662
Warranty by manufacturer	50	4.26	.011	.337	-1.187	.662
Reliable technicians	50	4.04	-.138	.337	-1.242	.662
Available Spares	50	5.00	-.455	.337	-.789	.662
Valid N (listwise)	50					

* 1,2,3= unimportant, 4= neutral, 5,6,7= important

76% of the respondents were in favour of fast reliable repairs. 10% of them felt it was not important, and 14 % were neutral.

With regards to warranty by the manufacturer, 42% had preference for this, 38% of the respondents stated it was not that important and 20% were neutral.

4.5 Cross Tabulation

The cross tabulation depicted in Table 4.18 analyses the residential location of respondents against the store they visit.

Table 4.18 **STORE**

		Durban Central	Pavillion	Gateway	Pinetown	PMB	None	Total
Central	Count	4	4	1			1	10
	% of Total	8.0%	8.0%	2.0%			2.0%	20.0%
North Coast	Count	3	4	8			3	18
	% of Total	6.0%	8.0%	16.0%			6.0%	36.0%
South Coast	Count	1	4		1	1	1	8
	% of Total	2.0%	8.0%		2.0%	2.0%	2.0%	16.0%
Other	Count	1	4	2	4	1	2	14
	% of Total	2.0%	8.0%	4.0%	8.0%	2.0%	4.0%	28.0%
	Count	9	16	11	5	2	7	50
	% of Total	18.0%	32.0%	22.0%	10.0%	4.0%	14.0%	100.0%

Since the study was a convenience sample, this cross tabulation was done for information purposes only. Of the 20% respondents who reside in Central Durban, only 8% of them shop at the town store. The rest of them shop either at Pavillion or Gateway. Almost 50% of those living on the North Coast shop at Gateway. 4% of the respondents shop at PMB. The major reason for this could be that this survey was conducted in Durban and not in PMB. Respondents visiting Pinetown are from the South Coast and other areas.

This is depicted in figure 4.3.

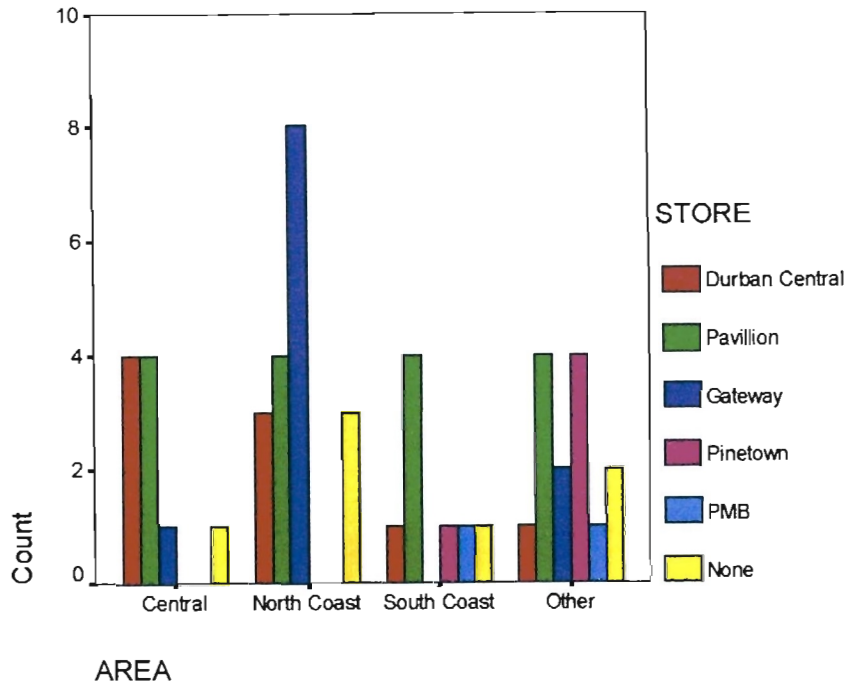


Figure 4.3: Store preference compared to residential location

4.6 Discussion of Results

This chapter presented the data collected from all the responses by describing, analyzing and interpreting it through descriptive statistics. The descriptive statistics showed how the data was distributed in terms of location and spread.

It was established that a close relationship existed between the respondents income and what they possessed. Normally, the higher the income, the more disposable income one has for these luxury items. This was established in this survey as well.

14% of the respondents do not shop at Govan Mani. This could be for a number of reasons unknown to the researcher.

Table 4.8 provided results that enabled the researcher to make credible generalizations about factors that influence respondents to purchase at Govan Mani. It also gained insight as to the perceptions of the respondents towards the grey market.

Majority of the respondents had a positive response to Govan Mani's location. Thus its move to the major shopping centers in the last 5 years has most definitely increased its market share. Service was another positive factor as compared to price. Most respondents

valued service and quality to be more important than price. This was also confirmed by their general opinion about the Govan Mani staff. A very small percentage had a negative perception on this issue.

Overall, the respondents had a positive attitude towards Govan Mani and most were also aware that the company does not market grey products.

With regards to the respondents perceptions on the grey market, just over 35% knew that grey imports were the same as the original but with limited warranty. About 5% thought they were back door products and just under 50% of the respondents were not sure.

Many of the respondents that purchased grey products have considered a re-purchase and some were not sure. Most of them have had problems with these products, be it minor or serious.

Furthermore, the descriptive statistics revealed that a fast reliable repair and warranty by manufacturers were important to the respondents. Some gave a neutral response on service location and reliable technicians. The availability of spares was rated as important by the respondents.

Further revelations were determined through cross tabulations. Here, the respondents residential location was compared to the store they visit. It was established that most of the respondents, living in all areas, preferred the Pavillion store. The Gateway and the other stores were visited by those living in close proximity to these stores and it was thus convenient for them.

4.7 Conclusion

This chapter served to discuss the results of the study by relating them back to the objectives of the study and to discuss the usefulness and appropriateness of the methodology used as outlined in chapter 1.

The grey market industry has had different connotations to the general public. This was established through the varied responses to the questionnaire. The reason for this could be that they are unaware of these products due to lack of advertising that they are grey products. This is a marketing strategy used by grey importers to conceal the true source of the products i.e. they are imported directly rather than purchased through local manufacturers.

Respondents' motives for purchasing grey products were mainly due to price. Grey importers normally under invoice and thus pay less duties or at times no duties at all. This allows them to penetrate the market with the lower prices.

Govan Mani would need to be more aggressive in their advertising campaigns in order to increase awareness of consumers to the grey market industry and that this is not the way to go.

CHAPTER 5: RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

Parallel imports are the subject of considerable debate and controversy in the international trade-policy arena. The global system of intellectual property rights (IPR), as established in the agreement on trade-related aspects of intellectual property rights (TRIPS) in the world trade organization, permits each country to establish its own legal regime. However, advocates of strong global intellectual property rights (IPR) support a global policy of national exhaustion as a natural extension of the right to control distribution. Those who are concerned about the potential for market segmentation to support monopoly pricing and distribution activities prefer a policy of international exhaustion. The question is particularly controversial in the area of pharmaceutical products, as demonstrated by the conflict between the US and SA a few years ago.

Economic analysis finds that parallel trade is motivated largely by four factors: retail price discrimination, vertical price control, free riding on the costs of marketing, and national price regulations.

5.2 Recommendations based on research findings

Examining the implications of the research findings for Govan Mani and on the perceptions of the grey market concludes the study.

Possible areas for further research in the fields of customer satisfaction and/or buying patterns are recommended. The implications for the organization are discussed by recommending ways to increase awareness to the end-user of the existence of the grey market industry. Such recommendations are made with the purpose of decreasing the market share of the grey importers and eventually increasing the companies own. The entire study is reviewed and conclusions are drawn.

5.2.1 Govan Mani's step forward

The company would benefit not only by an enhanced organizational image, but also through improved client retention, good staff morale, enhanced business focus etc. All these issues have a positive impact on the bottom line.

It was found that its Pavillion store was most frequently visited. This was not due to residential location because the results showed that people living in all areas visited this

store. The company should thus investigate reasons for less traffic in its other stores. A number of issues could be looked at. These include

- ▶ Parking
- ▶ Security
- ▶ The stores image
- ▶ Its ambience
- ▶ Esteem needs, e.g. one would rather be seen at the Pavillion than in the city.
- ▶ Product range i.e. does the stores product range differ and if so, by how much.
- ▶ Service standards, is it better in one store than the other.

Addressing these and other factors, Govan Mani would be on its way to the most sought after electronics retailer.

DVD players, from the findings, has been the most recent purchase. Other products have followed suit. The company should thus implement an advertising campaign on its range of TV's and digital cameras as these products are lagging behind in sales compared to DVD's and home theatres.

It was also found that credit facilities offered by the company were unknown to many respondents. Thus the company should consider incorporating this fact into its advertising and also displaying more banners in all its stores. The lower LSM group will definitely regard this as a positive factor in deciding which retailer to patronize.

Although its service division is up to standard, continuous improvement here would enhance the company's image. Service delays can tarnish a company's reputation. Thus quick turnaround and constant communication with the client is crucial.

Customer service at the store is another important issue. This ensures loyalty and word of mouth. Although positive feedback was achieved, a few negative responses were also recorded. The company should avoid this at all costs. Negative impressions of the company should be virtually non-existent. All staff should be continuously reminded that "customer is king".

A competitor analysis revealed the following for Govan Mani. Competitors are focusing on the following:

- Growth through local, national and international expansion
- On-line shopping

- Trade-ins
- Loyalty rewards
- Extended warranties
- Fast, efficient deliveries

With such competitive strategies in place, Govan Mani needs to take a more aggressive stance to increasing its market share.

- ▶ Consider the price and value that a customer is being charged for a product
- ▶ Continue to explore import opportunities
- ▶ Negotiate better deals with suppliers
- ▶ Be aware of any niches that exist and get into such markets as soon as possible
- ▶ Negotiate extended warranties with suppliers at minimal cost
- ▶ Offer free delivery within a certain radius
- ▶ Introduce incentives to buyers

A few years ago, Govan Mani offered a free return ticket to London for those purchasing a certain Pioneer Hi-fi system. This was a brilliant marketing plan which resulted in a huge success.

Firms try to build brand loyalty by creating a corporate brand name that will suggest characteristics to apply to all products. This is what Govan Mani does. It is called corporate branding. A company's promotional activities will not successfully build a brand unless there are certain well-defined values which are recognized by customers. Building a brand is a corporate strategic issue and not a short-term activity.

With less than half the respondents knowing exactly what the grey market is all about, Govan Mani together with suppliers, should create more media coverage on the parallel import industry. The public have the right to know what these products are all about, which companies are distributing them and what the warranties entail.

Govan Mani should pressurize suppliers to take a stance. Suppliers could implement the following:

- Issue public statements that it supplies only to Govan Mani and other legitimate retailers.
- That these companies are sole distributors of their products.
- Make known the fact that it does not supply grey market distributors and clearly

identify these company's by names. In this way the public is made aware of who the grey market dealers are and products sold by them are not from the local supplier.

- Issue warnings that grey products will not be serviced by them nor will they supply spares for these items.
- Offer extended warranties with a special warranty card which no grey importer can offer.

About a third of the respondents replied that they were not sure if they would purchase a grey product again. Thus a gap exists to change the mindset of consumers away from grey towards legitimate products.

From the results, positive feedback was achieved on issues such as reliable repairs, service at any location, warranty by manufacturer and availability of spares. This can be accomplished through local distributors e.g. service at any location is possible where suppliers have national service centers. Thus an invoice from Govan Mani for example, allows a customer to service his product anywhere in the country at no cost. A condition that it is in the warranty period applies for free service. Availability of spares is another important factor. Grey products seldom have readily available spares. It sometimes takes weeks or months before a query is sorted out. This is not the case with the legitimate product.

Thus more aggressive marketing and advertising campaigns need to be launched to increase awareness of the grey market industry.

5.3 Conclusion

This study revealed that the Business Management students had positive attitudes towards Govan Mani. But they had different perceptions towards the grey market industry. Some had no clue about this market. A few of them thought a grey product meant the actual colour of the product was grey.

Thus it is noted that more needs to be done to educate the end-user as to the existence of the parallel import industry.

In Europe, the Business Practices Committee, came to the conclusion that trading in grey goods is in the public interest provided it is made clear to consumers that they are being confronted with grey goods and that appropriate notice is given by grey goods dealers to customers that the goods do not necessarily enjoy the support of the manufacturer and that guarantees and service facilities may not be provided by the manufacturer or its official exclusive distributor. Failure to observe these stipulations could lead to a finding by the court that a grey goods dealer is acting in an unlawful manner which would enable an exclusive distributor to bring an unlawful competition claim against the grey goods dealer, but only in order to restrain him from selling grey goods without the specified notification to consumers; it would not enable him to prevent trading in the goods per se.

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APPENDIX

QUESTIONNAIRE

Introduction

A study is currently being conducted :

- > to establish whether consumers are aware of the difference between grey market imports and the legitimate product
- > to gain perceptions as to why consumers purchase grey products

Please indicate with a “ ” in the appropriate box:

1. Please indicate your gender.

Female 1 Male 2

2. Which age group do you fall in?

18-25 1

26-35 2

36-45 3

46-55 4

Over 55 5

3. What is your approximate gross income?

Less than R4000 1

R4001-R6000 2

R6001-R8000 3

R8001-R10000 4

R10001-R12000 5

R12001 + 6

4. Which area of Durban do you reside in?

Central 1

North Coast 2

South Coast 3

Other 4

5. Which of the following do you possess? (tick all if necessary)

T V 1

VCR 2

DVD 3

Computer 4

Digital Camera 5

None 6

6. Which of the above have you purchased in the last six months?
(tick all if necessary)

T V 1

VCR 2

DVD 3

Computer 4

Digital Camera 5

None 6

7. Which Govan Mani store do you shop at?

- Durban Central 1
- Pavillion 2
- Gateway 3
- Pinetown 4
- PMB 5
- None 6

Please indicate with a “ ” in the appropriate box.

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
	1	2	3	4	5
8. Shopping at Govan Mani is due to location					
9. I shop there because of price					
10. Service is another reason for me being a loyal customer					
11. There credit facilities attracts me into the store					
12. I shop at Govan Mani only during a promotion					
13. The Govan Mani staff are courteous					
14. The company stocks legitimate products (not grey)					
15. Govan Mani offers all the leading brand names					
16. Grey products mean the same as the original					
17. Grey means counterfeit					
18. Grey imports imply the same as the original but with limited warranty					
19. It means back door products					

20. Grey products mean that the actual color is grey					
21. A branded product sold in SA may be a grey product					
22. Branded products sold in SA may not always carry the local manufacturers warranty					

23. Have you ever purchased a grey product? (if no go to question 27)

Yes 1 No 2

24. Have you had any problems with this product? (if none skip Q 25)

Minor 1

Serious 2

None 3

25. Was the problem rectified ?

Yes 1

No 2

Eventually 3

26. Would you purchase a grey market product again?

Yes 1

No 2

Not Sure 3

27. Would you purchase a grey product if:

- 1 The price was much lower and thus there was no after sales service available
- 2 The price was a margin lower and the service the same
- 3 I will never buy a grey product

28. Please indicate how important each service characteristic is :

	Important						Unimportant
Fast reliable repair	7	6	5	4	3	2	1
Service at any location	7	6	5	4	3	2	1
Warranty by manufacturer	7	6	5	4	3	2	1
Reliable Technicians	7	6	5	4	3	2	1
Available spares	7	6	5	4	3	2	1

Thank You for Your Cooperation