

**GROWING A BUSINESS PROFITABLY IN A  
STAGNATING MARKET**

**By**

**KAY LISA CHETTY**

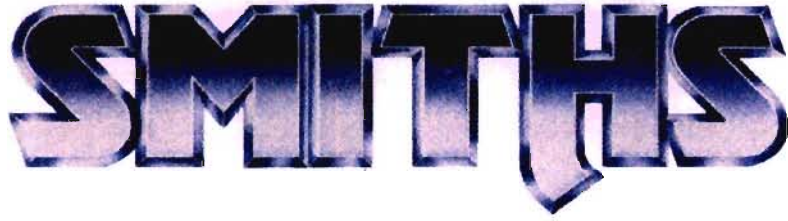
Submitted in partial fulfillment of the requirements  
for the degree of

**MASTER OF BUSINESS ADMINISTRATION**

**At**

**The University of Natal – Durban**

Student number: 201506054  
Supervisor: PROFESSOR ELZA THOMSON  
Date Submitted: June 2003



**To Whom It May Concern:**

Owing to the sensitive nature of some of the information and material contained within this study, duplication or circulation of the study is prohibited for a period of at least five (5) years.


Sincerely

A handwritten signature in black ink, appearing to read 'Kay Chetty'.

Kay Chetty  
Smiths Manufacturing (Pty) Ltd

## DECLARATION

This work has not previously been accepted in substance for any degree and is not concurrently submitted in candidature for any degree.

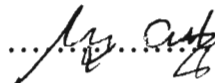
Signed: .....  .....

Date: ..... 30/06/03 .....

---

## STATEMENT 1

This dissertation is being submitted in partial fulfillment of the requirements for the degree of Masters in Business Administration.


Signed: .....  .....

Date: ..... 30/06/03 .....

---

## STATEMENT 2

This dissertation is the result of my own independent work/investigation, except where otherwise stated. Other sources are acknowledged within the text and explicit references are included in the bibliography appended at the end of this study.

Signed: .....  .....

Date: ..... 30/06/03 .....

---

096106

## ACKNOWLEDGEMENTS

My sincere gratitude goes to my colleagues in Smiths Aftermarket who were unwavering in their support and who provided invaluable information, without which it would not have been possible to complete this study. In particular I would like to thank Dickie Delpont and Fregust Ziemkendorf for the interest they showed in this study and the time they set aside to discuss Smiths Aftermarket and review the thesis. A special mention must be given to Larry Gounden who set up the survey appointments and was my companion for the interviews. Recognition is also given to Sharon Moir for her input on the evaluation of Pro-Fit.

Eleni Manganas and Shaun Camphor of Smiths Manufacturing played a large role in the generation of the financial data for this study and I thank them for their enthusiasm, patience and encouragement.

Prof. Elza Thomson my supervisor is thanked for her invaluable advice and guidance in the process of writing this thesis.

There are many friends who helped to provide a support network during the production of this thesis and I would like to thank them all for their support and friendship. Last but not least my thanks go to my husband, Suri, for his patience, understanding and support during the completion of the MBA and this thesis.



## **ABSTRACT**

The aim of this thesis is to identify and suggest strategies for Smiths Aftermarket to enable it to remain a viable business within a shrinking market, which is presented in a case study format. The thesis commences with a discussion of the literature and theoretical concepts relevant to the study, ranging from environmental analyses to the identification, evaluation and implementation of strategies. The theory section concludes with a discussion of the extended marketing mix.

Smiths Aftermarket holds the major market share in both the aftermarket air-conditioning and replacement parts business and has many strengths on which it can draw. The evaluation of Smiths Aftermarket revealed that there are certain gaps which have to be closed; a declining gross margin and profitability, an over-reliance on Toyota as a customer, and a need to improve the service provision to the P&A outlets by Smiths Aftermarket and to the fitment centres via Pro-Fit. The evaluation showed that the aftermarket market is not declining as rapidly as expected.

Based on the market share of Smiths Aftermarket and the growth rate and attractiveness of the aftermarket industry four possible strategies were identified, of which one was suitable and one was possible. The recommendations given at the end of this thesis are the culmination of the evaluation of Smiths Aftermarket, the identification of strategies and the evaluation of those strategies and are made from a short-term and a mid- to long-term perspective. The short-term recommendations are: Smiths Aftermarket re-evaluates whether or not it should purchase its competitor, Crispair; works closely with Pro-Fit to rectify existing problems; and focuses on its marketing mix to make it more coherent and to generate new business for growth. In the longer term Smiths Aftermarket will have to decide if it wants to remain in the aftermarket business or exit the aftermarket industry.

What is clear from the study is that Smiths Aftermarket has to act now to stem the decline in profitability, which will deteriorate further if left unattended.

## TABLE OF CONTENTS

	<b>CHAPTER 1 – INTRODUCTION .....</b>	<b>1</b>
1.1	Introduction .....	1
1.2	Background and Context.....	1
1.3	Problem Statement .....	3
1.4	Research Objectives .....	4
1.5	Limitations of the Study .....	4
1.6	Methodology .....	4
1.7	Significance of the Study .....	6
1.8	Chapter Summary .....	6
1.9	Conclusion .....	7
	<b>CHAPTER 2 – OVERVIEW OF THEORY .....</b>	<b>8</b>
2.1	Introduction .....	8
2.2	Strategy, Planning & Strategic Planning .....	8
2.3	The Business Environment .....	10
2.4	The Macro-Environment .....	10
2.5	Industry Environment .....	12
2.5.1	Competing on the Edge .....	13
2.5.2	Game Theory .....	14
2.5.3	Core Competence .....	14
2.5.4	Porter’s Five Forces . .....	14
2.5.5	Choosing a Theory using Life-cycle Analysis .....	15
2.6	The Competitor Environment .....	17
2.6.1	GAP Analysis .....	19
2.6.2	Benchmarking .....	19
2.7	The Internal Environment .....	20
2.7.1	Resource Based View of a Firm .....	21
2.7.2	Value Chain Analysis .....	22
2.7.3	SWOT Analysis .....	23
2.7.4	Identification of Competencies .....	26

2.8	Review of Company's Strategic Intent .....	27
2.8.1	Review of the Mission Statement .....	27
2.8.2	Vision Statement Of The Company .....	28
2.8.3	Review Of The Company's Current Objectives .....	28
2.9	Generation of Strategies .....	29
2.9.1	Typology of Strategies .....	30
2.9.2	Selection of Grand Strategies .....	31
2.9.3	Generation of Generic/Business-Level Strategies .....	33
2.9.4	Scenario Planning .....	38
2.10	Evaluation of Strategies .....	39
2.10.1	Suitability .....	40
2.10.2	Acceptability .....	42
2.10.3	Feasibility .....	43
2.11	Implementation of Strategies .....	44
2.11.1	Leadership .....	45
2.11.2	Resource Allocation .....	46
2.11.3	Organisational Structure .....	46
2.11.4	Establishing Strategy Supportive Policies .....	47
2.11.5	Instituting Best Practices and Pushing for Continuous Improvement .....	48
2.11.6	Rewards Systems .....	50
2.11.7	Corporate Culture .....	51
2.12	Developing The Marketing Mix To Support Strategies .....	52
2.12.1	Overview of the Marketing Mix .....	52
2.12.2	Branding as a Driver for the Marketing Mix .....	53
2.12.3	Product .....	55
2.12.4	Pricing .....	57
2.12.5	Distribution (Place) .....	59
2.12.6	Promotion .....	60
2.12.7	Physical Evidence, People and Process .....	62
2.13	Model of Chapter .....	64

2.14	Conclusion .....	66
	<b>CHAPTER 3 – CASE STUDY .....</b>	<b>67</b>
3.1	Introduction .....	67
3.2	Smiths Manufacturing (Pty) Ltd .....	67
3.2.1	Smiths Aftermarket and Dunair .....	68
3.2.2	Strategic Planning at Smiths Manufacturing .....	69
3.3	Macro-Environment of the Automotive Aftermarket .....	69
3.3.1	Political Factors .....	72
3.3.2	Economic Factors .....	72
3.3.3	Social Factors .....	73
3.3.4	Technology Factors .....	74
3.3.5	Environmental Factors .....	74
3.3.6	Legal Factors .....	74
3.4	Automotive Aftermarket Air-conditioning and Replacement Parts Environment .....	75
3.4.1	Dominant Economic Features of the Industry .....	75
3.4.2	Porter’s Five Forces – Aftermarket Air-Conditioning and Replacement Parts Industry .....	76
3.5	The Competitor Environment .....	78
3.6	The Internal Environment of Smiths Aftermarket .....	79
3.6.1	Value Chain Analysis for Smiths Aftermarket .....	80
3.6.2	SWOT Analysis for Smiths Aftermarket .....	82
3.7	Review of the Strategic Intent of Smiths Aftermarket .....	83
3.7.1	Current Objectives of Smiths Aftermarket .....	84
3.8	Smiths Aftermarket – Current Strategies .....	85
3.8.1	Generic Strategies .....	85
3.8.2	Strategies to Achieve the Objective of Maximising Contribution .....	85
3.8.3	Strategies to Achieve the Objective of Growth with Profits .....	87
3.9	Presentation of Smiths Aftermarket’ Financials .....	87
3.9.1	Presentation of Financial Ratios for Smiths Aftermarket .....	88

3.10	Current Implementation of Strategies .....	89
3.10.1	Organisational Structure .....	89
3.10.2	Standard Operating Procedures, Continuous Improvements and Rewards .....	90
3.10.3	The Divisional Culture .....	91
3.11	Smiths Aftermarket' Marketing Mix .....	92
3.11.1	Product Strategy .....	92
3.11.2	Pricing .....	94
3.11.3	Distribution .....	96
3.11.4	Promotion .....	97
3.11.5	Physical Evidence, People and Process .....	98
3.12	Conclusion .....	100
<b>4</b>	<b>CHAPTER 4 – EVALUATION OF SMITHS AFTERMARKET .....</b>	<b>102</b>
4.1	Introduction .....	102
4.2	Analysis of Smiths Aftermarket .....	102
4.3	Smiths Aftermarket' Position in Relation to the Macro- Environment .....	103
4.4	Smiths Aftermarket' Position Within South Africa .....	107
4.5	Smiths Aftermarket' Competitive Position .....	109
4.6	Evaluation of Smiths Aftermarket' Internal Environment .....	111
4.6.1	Review of SWOT Analysis of Smiths Aftermarket .....	114
4.7	Evaluation of Financial Ratios .....	115
4.8	Review of the Marketing Mix for Smiths Aftermarket .....	116
4.9	Surveys Conducted to Evaluate Smiths Aftermarket .....	118
4.9.1	Overview of the Survey with the P&A Outlets and Objectives ..	118
4.9.2	Results of the Survey with the P&A Outlets .....	119
4.9.3	The Evaluation of Smiths Aftermarket by the P&A Outlets .....	121
4.9.4	Evaluation of Smiths Aftermarket by the Fitment Centres .....	123
4.9.5	Results of the Survey with the Fitment Centres .....	123

4.9.6	The Evaluation of Smiths Aftermarket (via Pro-Fit) by the Fitment Centres .....	125
4.10	Conclusion .....	128
	<b>CHAPTER 5 – PRESENTATION OF STRATEGIES AND RECOMMENDATIONS .....</b>	<b>131</b>
5.1	Introduction .....	131
5.2	Identification of Strategies .....	131
5.2.1	Identification of Grand Strategies .....	131
5.2.2	Identification of Business-level strategies .....	132
5.2.3	Strategies Identified for Smiths Aftermarket .....	133
5.3	Presentation of the Four Strategies .....	134
5.3.1	Grand Strategy – Horizontal Diversification .....	134
5.3.2	Business-level Strategy – Find a Niche and Hold on to the Niche .....	137
5.3.3	Business-level Strategy – Focus, Differentiation, More of the Same .....	140
5.3.4	Business-level Strategy – Maintain Position and Seek Cash Position .....	143
5.3.5	Evaluating the Relative Suitability of the Strategic Option .....	144
5.4	Assessing the Strategies for Acceptability .....	145
5.4.1	Assessing the Acceptability of More of the Same .....	145
5.4.2	Assessing the Acceptability of Purchasing Crispair .....	146
5.5	Assessing the Strategies for Feasibility .....	147
5.6	Recommendations .....	148
5.7	Recommendations for the Short-term (Years 1 & 2) .....	149
5.7.1	Re-evaluation of the Strategy to Purchase Crispair .....	149
5.7.2	Recommendation of Strategies with Pro-Fit .....	150
5.7.3	Review of Smiths Aftermarket’ Marketing Mix .....	153
5.8	Recommendations for the Mid- to Long-term (Years 5-10) .....	155
5.9	Conclusion .....	156
	<b>BIBLIOGRAPHY .....</b>	<b>157</b>
Appendix I	Survey Conducted With The Ford P&A Outlets .....	168
Appendix II	Survey Conducted With The Fitment Centres .....	175

## LIST OF FIGURES

Figure 2.1	Layers of the Business Environment .....	10
Figure 2.2	The Position of PESTEL Analysis within an Environmental Scan .....	11
Figure 2.3	PESTEL Analysis Factors Relevant to a South African Firm ....	11
Figure 2.4	The Five-Forces Model of Competition .....	16
Figure 2.5	Life-Cycle Model .....	17
Figure 2.6	Heylen’s Model of Bookstores in the Greater Durban Area .....	18
Figure 2.7	What Makes a Resource Valuable? .....	21
Figure 2.8	Value Chain Analysis .....	22
Figure 2.9	Value Model for an Air-Conditioner Manufacturer .....	23
Figure 2.10	SWOT Matrix .....	25
Figure 2.11	A Typology of Strategies .....	29
Figure 2.12	The Grand Strategy Matrix .....	32
Figure 2.13	(a) Porter’s Generic Strategies .....	33
	(b) Generic Strategies and Industry Forces .....	33
Figure 2.14	The Life-Cycle Portfolio Matrix .....	35
Figure 2.15	The BCG Growth-Share Matrix .....	36
Figure 2.16	GE-McKinsey Industry Attractiveness-Business Strength Matrix .....	37
Figure 2.17	The Unilever Brand Key .....	54
Figure 2.18	Theory Model .....	65
Figure 3.1	PESTEL Analysis for the Automotive Aftermarket and P&A Industry .....	71
Figure 3.2	Porter’s Five Forces Analysis .....	77
Figure 3.3	Heylen’s Model – Aftermarket Air-conditioning Manufacturers .....	79
Figure 3.4	Value Chain Analysis for Smiths Aftermarket .....	80
Figure 3.5	Value Model for Smiths Aftermarket’ Products .....	81
Figure 3.6	Financial Ratios for Smiths Aftermarket .....	88

Figure 3.7	Current Structure of Smiths Aftermarket .....	90
Figure 3.8	Product Range of Smiths Aftermarket .....	93
Figure 3.9	Distribution System	
	(a) Aftermarket Air-conditioning Kits .....	97
	(b) Aftermarket Replacement Parts .....	97
Figure 4.1	Impact Analysis for Smiths Aftermarket .....	114
Figure 5.1	Strengths and Weaknesses of Crispair .....	135
Figure 5.2	Suitability Ranking for Smiths Aftermarket' Strategic Options ..	144



## LIST OF GRAPHS

Graph 3.1	Retail Sales .....	72
Graph 3.2	New Vehicle Sales .....	72
Graph 3.3	Growth – Aftermarket Air-conditioning Kits .....	73
Graph 3.4	Replacement Parts .....	74
Graph 4.1	Inflation: Consumer vs Vehicle .....	103
Graph 4.2	Sales of New Vehicles vs Sales of Used Vehicles .....	104
Graph 4.3	Market Share of Vehicle Sectors (Passenger Vehicles Only) .....	105
Graph 4.4	Market Share of Competitors .....	109
Graph 4.5	Market Share – Independent Dealers .....	110
Graph 4.6	(a) Smiths Aftermarket’ Turnover .....	112
	(b) Smiths Aftermarket Gross Margin .....	112
Graph 4.7	(a) Segment Sales by Customer .....	113
	(b) Segment Sales by Motor Plant .....	113
Graph 4.8	Smiths Aftermarket Turnover – Air-Conditioner Kits vs Parts ...	113
Graph 4.9	Importance of Factors for P&A Outlets and Customers .....	119
Graph 4.10	Importance of Factors for Fitment Centres and Customers .....	123

## LIST OF TABLES

Table 2.1	Comparison of Theories for Industry Analysis .....	13
Table 2.2	Competitive Conditions at Different Stages in the Life-Cycle .....	17
Table 2.3	Possible Factors in a SWOT Analysis for a South African Firm .....	24
Table 2.4	Comparison of Criteria .....	40
Table 2.5	Suitability Analysis Questions and Tools .....	41
Table 2.6	Some Examples of Suitability .....	41
Table 2.7	Some Criteria for Understanding the Acceptability of Strategic Options .....	42
Table 2.8	Leaders and their Characteristics .....	45
Table 2.9	Mintzberg's Configuration of Organisations and the way they Operate Combined with the Basic Primary Structures .....	47
Table 2.10	Balanced Scorecard: Summary of Strategic Perspectives .....	50
Table 2.11	Strategic Considerations and Implications of the Product Life- cycle .....	56
Table 2.12	Nine Marketing Mix Strategies on Price / Quality .....	58
Table 2.13	Integrated Pricing Strategies .....	58
Table 2.14	The Three Roles of Distributors .....	60
Table 3.1	Economic Features of the Industry .....	76
Table 3.2	Competitor Analysis for Smiths Aftermarket' Competitors ....	78
Table 3.3	Smith Aftermarket' SWOT .....	82
Table 3.4	Comparison of Prices Amongst Sellers .....	94
Table 4.1	Air-conditioner Fitment Percentages – Locally Produced Vehicles .....	105
Table 5.1	Market Share for Crispair .....	134

## CHAPTER 1

### INTRODUCTION

#### 1.1 INTRODUCTION

Particularly over the last ten years the number of vehicles that come with an air-conditioner fitted as standard has increased dramatically within South Africa. In conjunction with this, improvements in quality also mean that related parts and accessories enjoy a longer life span and replacement is, therefore, not so frequent. Whilst aftermarket air-conditioner manufacturers have been able to benefit in the past from a low fitment percentage of air-conditioners on vehicles, the above two factors indicate that both the aftermarket air-conditioner and related parts and accessories markets will decline in the near future. Faced with a shrinking market this study undertakes to identify, suggest and evaluate strategies for an aftermarket air-conditioner manufacturer to enable the manufacturer to remain profitable and possibly grow the business under these adverse conditions. To facilitate successful implementation and to support strategies suggested a marketing mix is also developed.

#### 1.2 BACKGROUND AND CONTEXT

The growth of the automotive industry in South Africa, which “*grew from seven to sixteen manufacturers/distributors and from 35 to 90 models in the space of three years ... the competitive environment is intense, selection is great, and customers have the best choice they’ve ever had*” (Marketing Mix, 1998: 62), has led to a proliferation of vehicles in the market.

As long ago as the 1980s US automakers recognised that “*an increased emphasis on strategic planning will help position the US auto industry and growth through the decade*” (Management review 1985:4). As competition has intensified and the power of the consumer has increased the South African Motor Plants have recognised that “*a clear strategy is essential, but has to be flexible*” (Marketing Mix, 1998: 63). Numerous

strategies have been employed to attract consumers including; improved quality of parts and, offering more accessories, such as air-conditioners, as standard.

When comparing air-conditioner fitment percentages on vehicles since 1997 as compared to forecasts for 2003 this strategy is evident. As an example, about 60% of Toyota Corollas in 1997 were fitted with an air-conditioner, as compared to nearly 80% on the new model (Smiths Manufacturing Strategic Plans 1997 and 2002). *“The increasing durability of newer models is a limiting factor”* and it is expected that the parts market will decline due to this factor (Freedonia Industry Study, 2001).

*“The total vehicle parc – the number of vehicles operating – in the republic today comprises about 6.8 million vehicles of which 3.9 million (57%) represent passenger cars”* (Internet 1). According to a study completed on the aftermarket air-conditioner market in South Africa, about 60% of vehicles already have an air-conditioner. The same study also reveals that the potential market for aftermarket air-conditioners has declined from 2000 (40,000 units) and will continue to decline in the foreseeable future (23,000 units in 2004). The potential market for related parts and accessories will peak in 2004 (43,000 units) and will decline thereafter (38,000 units in 2010) (Perrie M. J. 2001).

Aftermarket air-conditioner and related replacement parts manufacturers are recognising that the trend of fitting air-conditioners as standard in-factory on vehicles is here to stay. The question is to either adapt or perish. Aftermarket air-conditioners and parts are distributed in numerous ways and there are 650 parts dealers, so competition is intense, with the focus being mainly on price to achieve sales (Internet 2). Another dichotomy for aftermarket air-conditioner and parts manufacturers is that often they produce their own branded parts and also supply the Motor Plants' Parts and Accessories outlets. The difficulty with this situation is that the Motor Plants see the manufacturer's own brand as being in competition with their outlets resulting in an uncomfortable relationship, particularly if the Motor Plant tries to exert control over the situation.

The ability to strategise, plan and implement strategies for the future now will be the key to whether or not an aftermarket air-conditioner and parts manufacturer survives. Much of the implementation is “*characterised by firefights aimed at solving emerging, unforeseen problems*” (Industrial Marketing Management, 1996:74). The fundamentals of marketing in the industry are still the same, but the application is different as marketing has become a much broader concept. “*The marketing task has become far more complex and requires very clear strategic thinking*” (Marketing Mix, 1998: 64).

### **1.3 PROBLEM STATEMENT**

The aftermarket air-conditioning and parts industry has been characterised over the last ten years by:

- Increased competition, with Motor Plants selling branded air-conditioners,
- A decreasing market due to higher air-conditioner fitment percentages at the Motor Plants,
- A decreasing parts market due to better quality of parts giving them a longer life-span reducing frequency of replacement,
- Decreasing profitability of aftermarket manufacturers (*±20% in 1998 and ±15% in 2001*) (KZN Benchmarking Club Newsletter, 2001: 11).

In order to address these issues, it is imperative that an aftermarket air-conditioner and parts manufacturer fully understands the market in which they operate. This would enable a strategic analysis to be done to identify and establish strategic options for the future. It would also be necessary to study the perceptions of other role players in the industry such as the Motor Plants, non-related aftermarket manufactures (for example, tyre producers) and distributors of aftermarket products.

The problem statement, therefore, is:

“How can an aftermarket air-conditioner manufacturer devise strategies and position itself to ensure survival in a declining market, with increasing competition?”

#### **1.4 RESEARCH OBJECTIVES**

The study will focus on one aftermarket air-conditioner and replacement parts manufacturer. The objectives of the study can be defined as follows:

- To identify the manufacturer's circumstances and position within the industry.
- To identify the manufacturer's strategic options for the future.
- To assess the options in terms of whether or not they are acceptable or desirable for the manufacturer.
- To select the suitable options and to identify and develop how the manufacturer should position itself from a marketing perspective and what marketing tools it should employ to support the options chosen.

#### **1.5 LIMITATIONS OF THE STUDY**

The study is confined to one aftermarket air-conditioner manufacturer and it is, therefore, unlikely that the results obtained and strategies identified can be applied to other aftermarket manufacturers in either the same or related industries. Furthermore the company is a South African one with only one manufacturing base in Durban. Equally the results and strategies may not be applicable to companies in the same industry who have more than one manufacturing establishment or who form part of a global consortium.

Questions developed for the purposes of the evaluation of the company under consideration were self-developed and were not validated, so the reliability and validity are determined to be limiting factors. A microcosm of motor dealers and fitment centres were questioned and interviewed, so true sampling did not occur, which is also deemed to be a limiting factor.

#### **1.6 METHODOLOGY**

As the study is of a qualitative, rather than quantitative nature the approach to the thesis is one of a case study of the aftermarket air-conditioner manufacturer concerned. The study has been conducted utilising the most recent literature available on strategic planning theory and related tools and techniques and theory for the development of the

extended marketing mix. In conducting the strategic analysis a review has been done of existing secondary data including research and studies that have been completed on the aftermarket air-conditioning sector in South Africa, which have also given an overview of the industry in South Africa. In addition, internal financial documents and strategic planning documents of the company have been used to evaluate the position of the company and also to identify patterns that could assist in determining future strategies.

Primary data to support the evaluation of the company has been collected through questionnaires given to motor vehicle dealerships and air-conditioner fitment centres. The completion of the questionnaires took the form of a meeting with personnel at the dealerships and fitment centres, during which additional comments on the company were noted. Interviews with different role players in the industry have also been conducted and were unstructured interviews based around the theme of the aftermarket air-conditioning industry in South Africa and its future.

Interpretation of the interviews revealed information about:

- Generally held opinions of the aftermarket in South Africa,
- The current position of South African aftermarket manufacturers,
- The competitive forces within the market,
- External forces affecting the market,
- Strategies that other manufacturers have employed in preparing for the future.

From the evaluation of the aftermarket manufacturer strategic options have been identified using matrices introduced during chapter 2. The identified strategic options have been assessed on three criteria: suitability, acceptability and feasibility. In order to select the strategies interviews have been conducted with key role players at the aftermarket manufacturer. Discussions have taken place as to which are the more desirable ones to implement and it has been decided with the company as to how the strategies will be selected. For example the strategies may be ranked by a panel and selected on that basis. Financial documents and forecasts for the aftermarket

manufacturer have also been used to assess which strategic options are acceptable and feasible.

Following the assessed recommendations have been given regarding which strategies should be pursued for the future. A marketing mix has also been given for the selected strategies. The marketing mix comprises investigation and development of the following aspects: product, place, price, promotion, physical, personnel and process. The expanded marketing mix has been used to take the nature of the business into consideration.

### **1.7 SIGNIFICANCE OF THE STUDY**

The situation of the aftermarket air-conditioner and parts manufacturer is not an uncommon one. Increasing competition both globally and locally and focus on quality and meeting consumers' needs mean that many companies and industries are facing similar difficulties to those of the aftermarket sector. In completing this study, it is hoped that insight can be gained into how strategic options for companies facing similar difficulties can be identified, developed, evaluated and implemented. The approach used in this study could be used as the basis for other companies in similar positions.

### **1.8 CHAPTER SUMMARY**

The chapter outline is as follows:

- Chapter 2 will discuss literature relevant to the study. Theoretical concepts on strategic planning, evaluation of the environments in which a business operates and identification of strategies emanating from the evaluation of the environments are discussed. Strategic tools that can be used for the identification of strategies are also presented followed by a discussion on how strategies can be evaluated using suitability, acceptability and feasibility as criteria. Aspects related to the implementation of strategies are considered and the chapter concludes with a discussion of theory related to branding and the development of an extended marketing mix.



- Chapter 3 is a presentation of the case study of the South Africa aftermarket air-conditioner manufacturer. Theory presented in chapter 2 is applied to the case study in chapter 3 to give an overview of the current situation of the manufacturer.
- Chapter 4 revolves around the evaluation of the company under consideration. Discussion of the information presented in chapter 3 takes place and evaluation of the company is done using the strategic analysis tools presented in chapter 3. The results of the questionnaire conducted with the motor dealers and fitment centres are presented, along with the evaluation of the interviews, which have taken place.
- Chapter 5 commences with the identification of possible strategies for the company using matrices presented in chapter 2 and based on the information presented in chapter 3 on the current situation of the company and incorporating the evaluation in chapter 4. The strategies are assessed for suitability and a ranking exercise is conducted to determine which strategies are most suitable. Suitable strategies are assessed for acceptability and feasibility. The chapter concludes with the recommendations regarding the strategies that the company could pursue, including strategies relating to the marketing mix.

## **1.9 CONCLUSION**

This chapter has outlined the impetus for conducting the study in conjunction with the aims and objectives of the study and what it is anticipated will be achieved. The limitations of the study were then set out. The areas to be considered for strategic planning and strategy identification, evaluation and implementation were identified and methodology was discussed. Factors to be considered for the development of an extended marketing mix were also highlighted. The significance of the study was also illustrated.

The chapter concluded with the outline of the study, including the outline of chapter 2, the presentation of theory.

## CHAPTER 2

### OVERVIEW OF THEORY

#### 2.1 INTRODUCTION

A company can use numerous strategy tools to determine from a strategic perspective the direction it should be pursuing, including the supporting activities necessary to achieve sustainability of the business. This chapter outlines the strategic process that can be followed, presented in a logical and sequential order. Where applicable a critique of the model under discussion may be given and, in some instances, a hybrid model developed to satisfy the purposes of this study. In developing the model for this chapter consideration has been given to aspects which are particularly relevant to the industry in question and may not necessarily be used for strategic purposes in other industries.

The chapter discusses the different models that can be used to evaluate the environments in which a company operates and the criteria used to identify, select and evaluate strategies. Implementation of strategies is discussed and main considerations in the implementation process are highlighted. The chapter concludes with a discussion of marketing tools which would be used to support strategies selected, which will be developed under the guise of an extended marketing mix. The culmination of the chapter is the graphical presentation of the model developed in the course of the chapter.

#### 2.2 STRATEGY, PLANNING & STRATEGIC PLANNING

*“The very essence of organisational survival and profitable sustainability is embodied in a winning approach to strategy development”* (Oosthuizen, 2000:9). *“Good strategy and good strategy execution are the most trustworthy signs of good management”* (Thompson & Strickland, 2001:4). Arnold C. Hax and Nicolas S. Majuf (1996:14) put together one of the most exhaustive lists defining strategy, where it:

1. *“determines and reveals the organisational purpose in terms of long-term objectives, action programmes, and resource allocation priorities;*
2. *selects the businesses the organisation is in, or is to be in;*

3. *attempts to achieve a long-term sustainable advantage in each of its businesses by responding appropriately to the opportunities and threats in the firm's environment, and the strengths and weaknesses of the organisation;*
4. *identifies the distinct managerial tasks at the corporate, business, and functional levels;*
5. *is a coherent, unifying, and integrative pattern of decisions;*
6. *defines the nature of the economic and non-economic contributions it intends to make to its stakeholders;*
7. *is an expression of the strategic intent of the organisation;*
8. *is aimed at developing and nurturing the core competencies of the firm;*
9. *is a means for investing selectively in tangible and intangible resources to develop the capabilities that assure a sustainable competitive advantage”.*

Strategy encompasses all of these but cannot operate independently of planning. Mintzberg (1994:12) defined planning as “*a formalised procedure to produce an articulated result, in the form of an integrated system of decisions*”. Planning is “*a continuous and systematic process where the guiding members of an organisation make decisions about its future, develop the necessary procedures and operations to achieve that future and determine how success is to be measured*” (Goodstein, Nolan and Pfeiffer 1997:10). Planning includes defining objectives or goals, establishing strategies to achieve these objectives and developing a hierarchy of plans to co-ordinate the activities of an organisation. Planning is concerned with the ends (what is to be done) and the means (how it is to be done). Strategy and planning together form the basis of strategic planning.

Without strategic planning an organisation is somewhat akin to a boat without a rudder lacking direction and the means to propel itself forward. Business life cycles are shortening with business environments becoming more turbulent and competitive “*Executives who don't see the new realities – and adapt to them with lightning speed – will be left behind in the race for customers and profits*” (Internet 3). Traditional strategic planning is being challenged in new ways with a report suggesting that “*today's*

*gurus of strategy urge companies to democratise the process..... by handing strategic planning over to teams of line and staff managers from different disciplines” (Internet 4). The report goes on to say that “strategic thinking should be seen as an opportunity to transform a corporation and changes the rules of an industry”.*

### 2.3 THE BUSINESS ENVIRONMENT

A business operates an environment comprised of several layers with each influencing a firm differently. They need to be examined individually during strategic planning as they consist of unique factors, which can impact and, at times, dictate the direction a firm follows and the actions it takes.

**Figure 2.1 – Layers of the Business Environment.**

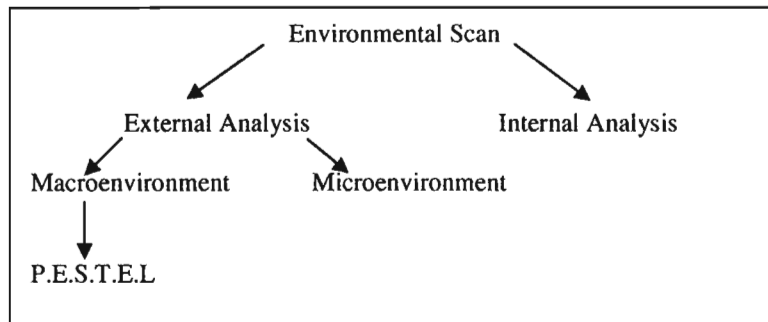


Source: Johnson G. & Scholes K., 2002, Exploring Corporate Strategy 6th Edition, Prentice Hall Europe: 68.

### 2.4 THE MACRO-ENVIRONMENT

Pearce and Robinson (2003:57) refer to the macro-environment as the remote environment consisting of; economic, social, political, technological and ecological factors. Johnson and Scholes (2002: 102) adopt a similar model with ecological factors called environmental factors and legal factors added. By combining the two a PESTEL framework emerges, which fits into an environmental scan (Figure 2.2), whose purpose is “to raise the consciousness of managers about potential developments that could have an important impact on industry conditions and pose new opportunities and threats” (Thompson and Strickland 2000:100).

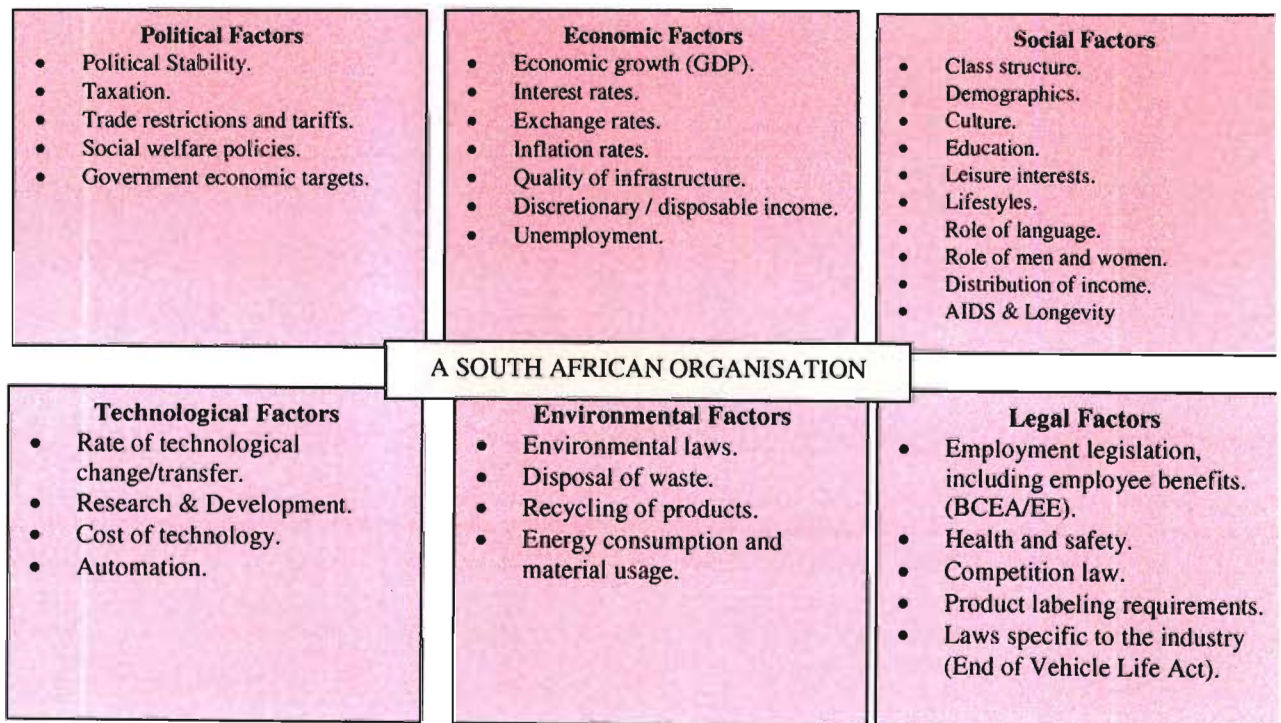
**Figure 2.2 – The Position of PESTEL Analysis within an Environmental Scan**



Source: Adapted from PEST Analysis (online) available at: <http://www.quickmba.com/strategy/pest/>

The PESTEL factors “usually are beyond a firm’s control and sometimes present themselves as threats...however, changes in the external environment also create new opportunities” (Internet 5). Factors examined must be relevant to the country in which the firm operates, as the example in Figure 2.3 shows.

**Figure 2.3 – PESTEL Analysis Factors Relevant to a South African Based Firm**



Political factors include government policies and regulations whilst legal factors (both implicit and explicit) define the parameters within which a firm must operate. An example, the End of Life, Vehicle Act is given, an international law devised for vehicle manufacturers. Component manufacturers are affected as they are prohibited from using certain chemicals in the components they produce. Environmental factors are instrumental in determining how a firm operates as special processes such as waste disposal may need to be set up. Automatic compliance to such legislation often takes place through adherence to quality ratings such as ISO14001.

Economic factors can potentially affect both the disposable income of the end-consumer and hence, their purchasing power and also the cost of capital for a firm. The South African government's stated inflation targets of between 3% and 6% have not yet been achieved and the main controlling mechanism used is interest rates, affecting consumers and firms alike. South Africa has experienced many changes since 1994 and none more so than social ones. Black empowerment programmes, attempts to make education available to all, globalisation and AIDS are all influencing the country's demographics. Many South African firms find themselves in a quandary when it comes to technology. Whilst technology can improve efficiencies and productivity it can also be prohibitively expensive increasing unemployment in an economy already crippled by such problems.

## **2.5 INDUSTRY ENVIRONMENT**

Industry analysis enables a firm to develop strategies to create opportunities in the industry, whilst protecting itself against the threats of the industry. *"The first and most popular use of industry analysis is to predict the average level of long-term profitability of the competitors in a particular industry"* (Farhey & Randall 1994:172). The principal difficulty encountered with industry analysis is that of defining the industry itself. Saloner, Shepard & Podolny (2001: 125) explain that *"for any framework, the starting point for industry analysis is a well-defined industry...In fact, the boundaries of an industry can be difficult to define"*. Is the automotive component manufacturing industry just passenger vehicles or would it include light commercial and heavy goods vehicles?

Numerous options are available to strategists seeking to conduct an industry analysis, and a selection is shown in Table 2.1. The assumptions drive which theory is used, for example, the ‘young’ unpredictable internet industry may use “competing on the edge”, whilst the petroleum with its stable structure might use “five forces”.

**Table 2.1 – Comparison of Theories for Industry Analysis**

	Five Forces	Core Competence	Game Theory	Competing on the Edge
Assumptions	Stable industry structure.	Firm as a bundle of competency.	Industry viewed as dynamic oligopoly.	Industry in rapid, unpredictable change.
Goal	Defensible position	Sustainable advantage	Temporary advantage	Continuous flow of advantages
Performance Driver	Industry structure	Unique firm competencies	Right moves	Ability to change
Strategy	Pick an industry, pick a strategic position, and fit the organisation.	Create a vision, build and exploit competencies to realise vision.	Make the “right” competitive and collaborative moves.	Gain the “edges” time pace, shape semi-coherent strategic direction.
Success	Profits	Long-term dominance.	Short-term wins.	Continual revival.

Source: Laxton D.M., 2002, *The Competitive Advantage Through “New Sciences” on Strategic Thinking*.

### 2.5.1 Competing on the Edge

In “The competitive advantage through “new sciences” on strategic thinking”, Laxton (Internet 6) talks about ‘competing on the edge, strategy as structured chaos’:

*“The Role at senior level changes from strategist to synthesiser ...– role of hiring the right runners and patchers, jogging alongside to cheer, and most important, articulating why everyone is engaged in the frantic task of cup running characterises businesses in fast-moving, unpredictable marketing. These 3 leadership roles are key to sustaining performance on the edge. ... The intuition behind the edge of chaos is that change occurs when strategies and their related organisations are sufficiently rigid so that change can be organised to happen but not so rigid that it cannot occur”.* The impetus behind the theory is that industry analysis is an ongoing, dynamic process, where rapid changes are anticipated and catered for and leadership plays a proactive role.



### **2.5.2 Game Theory**

*“The key defining elements of the game are the players, the actions each can take and when they can take them, what information each has at the time he acts, and the payoffs each receives given the actions that all the players take”* (Saloner, Shepard & Podolny, 2002:407). The parallel drawn is that of the different firms (players) in an industry, the strategies (actions) that they follow and when, what information they have and the results (payoffs) of the strategies. The assumption is that the industry is viewed as a dynamic oligopoly, *“a market in which a few firms produce all or most of the market supply of a particular good or service”* (Schiller 2000:517).

### **2.5.3 Core Competence**

*“The battle to build world-class competencies is invisible to people who aren’t deliberately looking for it... Building core competencies is more ambitious and different than integrating vertically”* (Hamel & Prahalad, 1990:83). This theory identifies the core competencies a firm and its competitors have in an industry. This knowledge can give a firm a leading edge over competitors. Core competencies *“will invariably be unique to the organisation, invisible to competitors and difficult to imitate even then their existence is understood by competitor. ...they endure over time and contribute directly and indirectly to the development of core products, end products and services”* (Tampoe, 1998: 4, 5). Hamel and Prahalad (1990: 83,84) give three tests which can be applied to identify core competencies in a firm: *“a core competence provides potential access to a wide variety of markets; a core competence should make a significant contribution to the perceived customer benefits of the end products; a core competence should be difficult for competitors to imitate”*. The theory sees the firm as a bundle of competency.

### **2.5.4 Porter’s Five Forces**

*“One important component of industry and competitive analysis involves delving into the industry’s competitive process to discover what the main sources of competitive pressure are and how strong each competitive force is. This analytical step is essential because managers cannot devise a successful strategy without in-depth understanding of the industry’s competitive character”* (Thompson & Strickland 2002:79). Porter’s Five



Forces framework is one of the most popular theories for industry analysis. When first developed in the early 1980s industries were generally more static and less dynamic. In recent years the framework has been criticised on various levels:

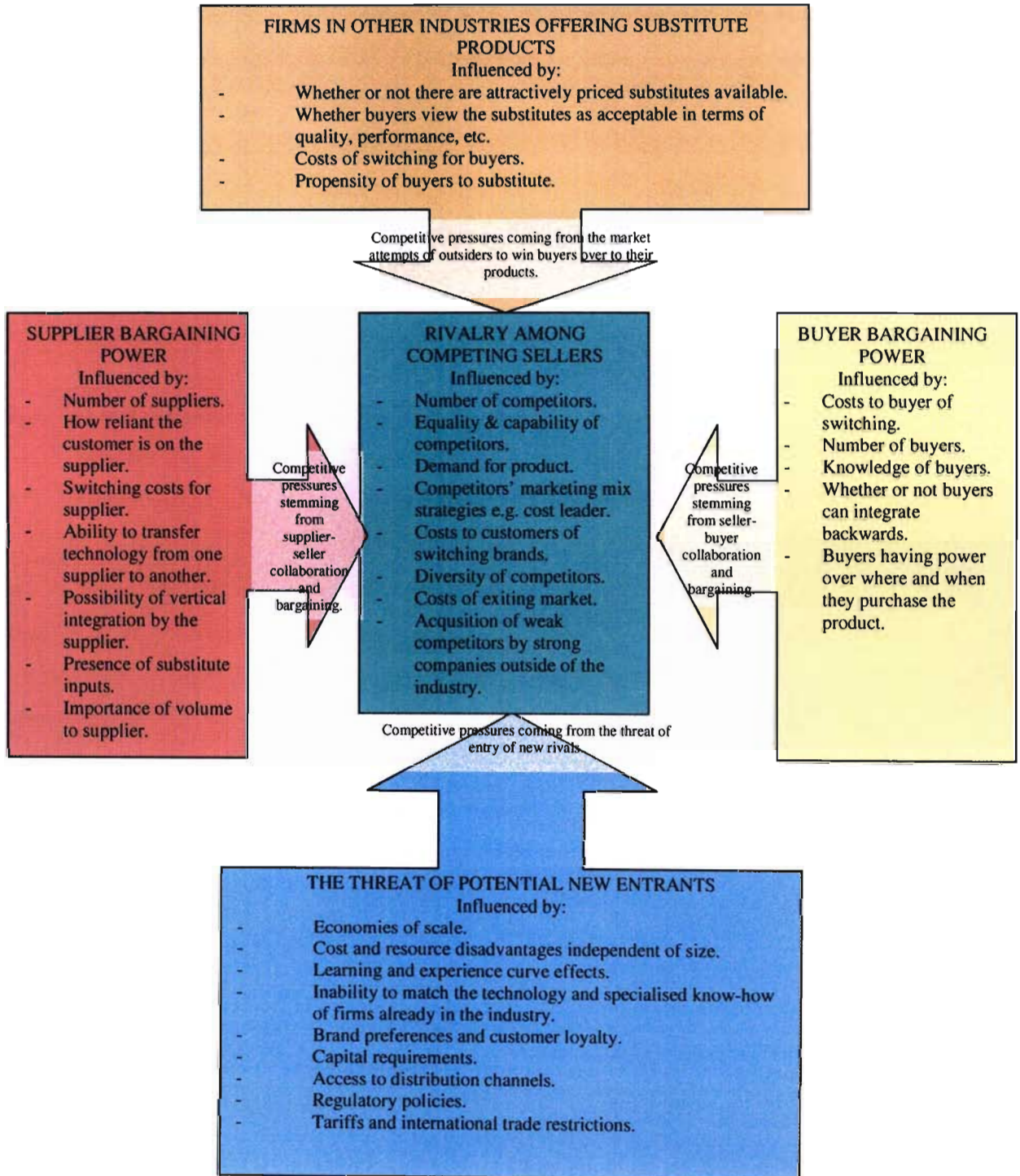
- *“the model presents a static view of the industry,*
- *it presents an inside-out view of an industry (the critique presented by the resource-based school),*
- *in today’s world of global economy and internet, many industry boundaries are blurring to such an extent that it becomes meaningless to talk about industries,*
- *the analysis is focussed on a meso level. It does not take macro- and micro-level factors into account”* (Internet 7).

In “The Competitive Advantage of Nations” (Porter, 1998) Porter revised his stance of avoiding volatile industries and advised that strong competition can be good for a company. Porter accepts the second criticism, whilst the third is very dependent on the stability of the industry in question. The introduction of Porter’s Diamond acknowledged the last criticism, which *“suggests that there are inherent reasons why some nations are more competitive than others, and why some industries within nations are more competitive than others”* (Johnson & Scholes 1999: 108). Bearing these criticisms in mind the framework is still of use to most organisations. It is *“a framework for diagnosing industry structure, built around five competitive forces that erode long-term industry average profitability”* (Internet 8) and is shown in Figure 2.5.

### **2.5.5 Choosing a Theory Using Life-Cycle Analysis**

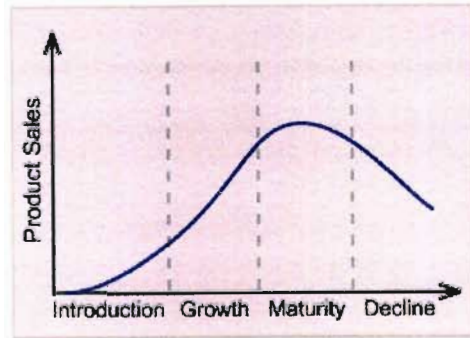
With the exception of core competence the other theories are reliant on the industry’s stage in the lifecycle. Lifecycle analysis can assist a firm to select which theory to use (Figure 2.5). Competitive conditions vary according to the lifecycle stage (Table 2.2).

**Figure 2.4: The Five-Forces Model of Competition**



Source: Adapted from Micheal E Porter "How Competitive Forces Shape Strategy", *Harvard Business Review* 57, no 2 (March-April 1979) pp.137-45. With input from :Thompson & Strickland, *Crafting & Executing Strategy* 12<sup>th</sup> Edition, McGraw-Hill (2001) pp. 80-92; Fahey & Randall, *The Portable MBA in Strategy*, Wiley (1994) p.177; and Pearce & Robinson, *Strategic Management* 8<sup>th</sup> Edition, McGraw-Hill Irwin, 2003, p. 70.

**Figure 2.5 Life-Cycle Model.**



Source: *Product Life Cycle* (Online), Available at: <http://www.quickmba.com/marketing/product/lifecycle/>

**Table 2.2 Competitive Conditions at Different Stages of the Life-Cycle**

Development	Growth	Shakeout	Maturity	Decline
Few competitors.	Entry of competitors. Attempt to achieve trial. Fight for share. Undifferentiated products / services.	May be many. Likely price-cutting for volume. Shakeout of weakest competitors.	Fight to maintain share. Difficulties in gaining / taking share. Emphasis on efficiency / low cost.	Exit of some competitors. Selective distribution.
Suggested theory: Competing on the Edge.	Suggested theory: Competing on the Edge.	Suggested theory: Game Theory	Suggested theory: Five Forces/ Core Competence	Suggested theory: Five Forces/ Core Competence

Source: Laxton D. M. 2002, *The Competitive Advantage Through "New Sciences" on Strategic Thinking*.

By combining the five forces analysis and the life cycle model it is possible to identify the main driving forces of an industry i.e. “*the major underlying causes of changing industry and competitive conditions*” (Thompson & Strickland 2001:93). Driving forces can include the Internet, globalisation, changes in technology, and so on. A firm needs to understand the driving forces to be able to anticipate and meet future challenges.

## 2.6 THE COMPETITOR ENVIRONMENT

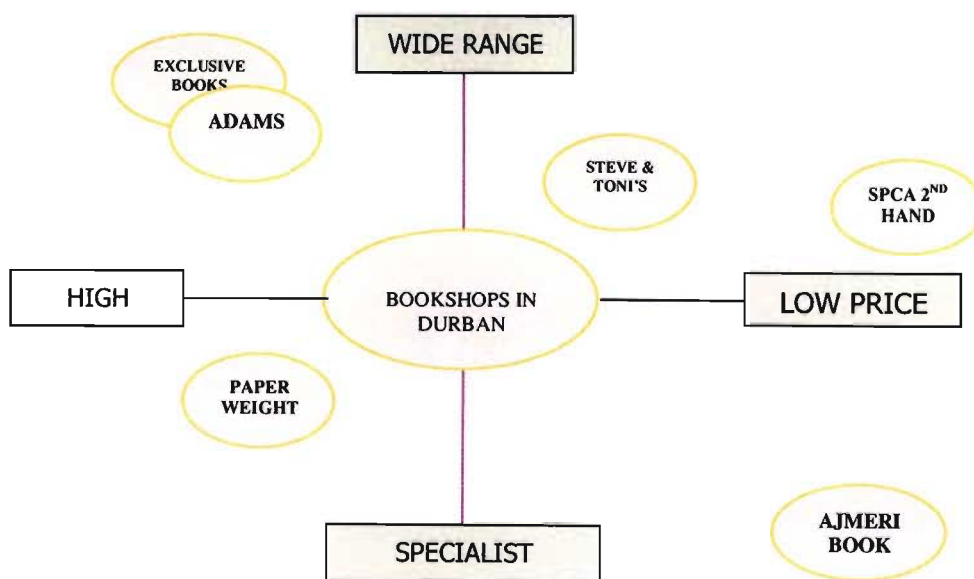
“*The business landscape is littered with leading businesses that lost their competitive edge by failing to keep tabs on their competitors... The ability to strategically anticipate the future requires constant monitoring and evaluating of competitors*” (Duboff & Spaeth: 2003 Internet 9). “*When engaged in a competitor analysis, the firm seeks to understand:*

- *what drives the competitor, as shown by its future objectives;*

- *what the competitor is doing and can do, as is revealed by its current strategy;*
- *what the competitor believes about itself and the industry, as shown by its assumptions; and*
- *what the competitor's capabilities are, as shown by its capabilities".* (Hanson & Dowling 2001: 69).

By closely following competitors a firm can develop a database of information, known as competitor intelligence. It is suggested that the following aspects of competitors are addressed: “names; summary of products; strengths and weaknesses; strategies and objectives and strength of the market” (Internet 10). Gathering of such information and the canvassing and capturing of data must be done in an ethical way, which does not compromise the firm. Customers should also be monitored as a key indicator as to how competitors and products are perceived in the marketplace. Perceptual maps or Heylen’s model can be used to obtain customers’ perception of competitors in relation to a company (Figure 2.6). Firstly one can analyse the competitive position of each company featured and identify where potential opportunities and threats lie. For example, a gap in the market exists for a low price bookshop carrying a wide range of books.

**Figure 2.6 Heylen’s Model of Bookstores in the Greater Durban Area.**



Source: Adapted - Arbee A. & Naidu K., 2001, Marketing Management Book 1: Marketing Philosophy and Strategy 2001/2 Edition, Natal Business School Publishers, South Africa.: 110.

As part of the environmental analyses market segmentation will have been conducted, which is particularly pertinent to the analysis of the competitor environment. A market may be segmented in the following ways: Geographic; demographic, which may include income, age or education; consumer motivations where consumer behaviour and need states are taken into consideration; buyer behaviour; psychographics, such as a consumer's values, attitudes, lifestyles and personality.

### **2.6.1 Gap Analysis**

*“Gap analysis can help the manager better understand the dynamics of the competitive environment. Importantly, it can be used to reveal where an organisation has weaknesses, and where it has strengths”* (Billsberry 1998: 219). There are many different ways of defining gap analysis, at its simplest it can be used to look for ‘gaps’ in a market, and Heylen’s model could assist. Alternatively, it can be used to look at the differences between competitors. The more common use of gap analysis is to recognise that there is a gap and to develop strategies to close it. The type of gap that is normally identified, a performance gap, *“centres around three questions:*

- *Where are we now? (Forecast)*
- *Where do we want to get to? (Objective)*
- *How do we get there? (Gap)”* (Billsberry 1998: 220, 221).

Other gap analyses include product and market ones. The outcome of the gap analysis can guide other strategic planning techniques such as SWOT analysis and portfolio matrices, which are discussed later on in the chapter, where gaps can be taken into consideration and incorporated into such analyses. When a gap has been identified a manager can choose to redefine the objectives, do nothing or change the strategy.

### **2.6.2 Benchmarking**

Benchmarking is used to evaluate and monitor competitors. *“Benchmarking is a very powerful tool to focus and drive change”* (Tomlinson 1998:62). A T Kearney, a management consultancy that has conducted over 100 benchmarking studies defines benchmarking as: *“An objective and comparative evaluation of processes using indicators established through direct research among a representative group of similar*

*or competing organisations, which can lead to the implementation of best practice”* (Tomlinson, 1998:63). Benchmarking can be used to identify a company’s strengths and weaknesses and to facilitate learning from companies in other industries, but which excel in a common area such as logistics.

Benchmarking clubs such as the Durban Automotive Cluster have begun to emerge, which benchmarks members against both local and international companies. Companies can then adopt best practices and glean knowledge about competitors. It is not a panacea and benchmarking criteria need to be well defined. Interpretation of results can be subjective and needs to be treated with caution. It should not be the only tool employed to assess competitors but should rather be combined with competitor intelligence and perceptual models. A firm should then be able to answer the following questions:

- *“On what basis do customers choose between the competing brands of sellers?  
What product attributes are crucial?”*
- *What resources and competitive capabilities does a seller need to have to be competitively successful?*
- *What does it take for sellers to achieve a sustainable competitive advantage?”*

(Thompson & Strickland, 1998: 106).

The responses will enable a firm to identify the key success factors for competitive success in an industry, which are commonly: *“technology, manufacturing, distribution, marketing, and skills related and related to organisational capability”* (Thompson & Strickland 1998:107). A firm can then strive to achieve competencies in these areas.

## **2.7 THE INTERNAL ENVIRONMENT**

Pearce and Robinson (2003:123) identify three “ingredients” that are critical to the success of a strategy. The strategy must be consistent with conditions in the competitive environment. Specifically it must take advantage of existing or projected opportunities and minimise the impact of major threats. The pursuance of market opportunities must not just be based on external opportunities but also on a company’s competitive

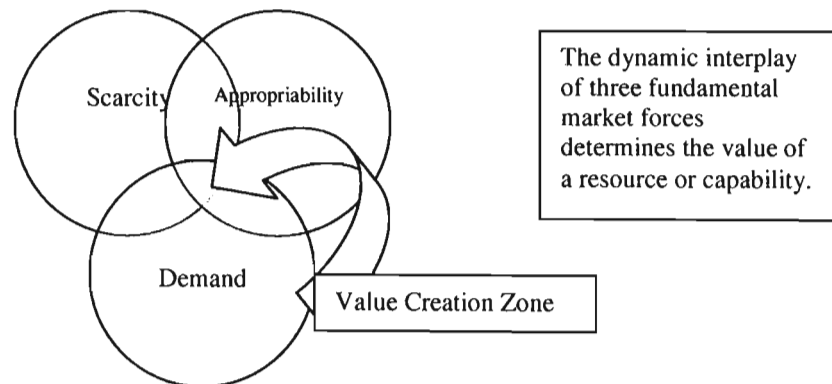


advantages. Finally, the strategy must be carefully executed. External analysis focuses on the first “ingredient” whilst the internal environment focuses on the second.

### 2.7.1 Resource Based View of a Firm (RBV)

In ‘Competing on Resources’, Collis & Montgomery (Harvard Business Review 1995:188-128) explain that the RBV combines the internal analysis of phenomena within companies with the external analysis of the industry and the competitive environment. The RBV sees companies as different collections of physical and intangible assets and capabilities. Physical resources could include a company’s facilities or people and intangible resources could include the reputation of a company’s brand. The resources could also be a function of a company’s capabilities such as their logistics management.

**Figure 2.7 What Makes a Resource Valuable?**



Source: - Collis J. D. & Montgomery C. A. 1995, Competing on Resources: Strategy in the 1990s, Harvard Business Review, July-August 1995: 118-128. (Smit)

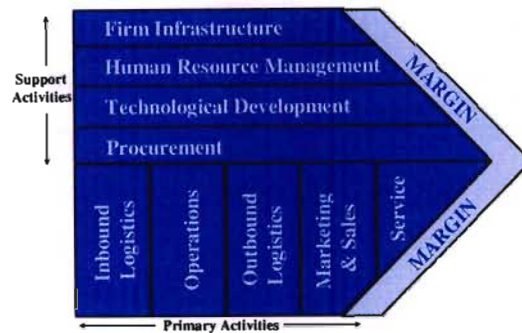
The assumptions of the RBV are that: “*firms are unique bundles of resources and resources are relatively immobile*” (Internet 11). To use the RBV in internal analysis, a firm must first identify and evaluate its resources to find those that provide the basis for future competitive advantage. Some methodologies used to achieve this are:

- “*disaggregate resources,*
- *utilise a functional perspective,*
- *look at organisational processes and combinations of resources and not only at isolated assets or capabilities,*
- *use the value chain approach*” (Pearce & Robinson 2003:131).

## 2.7.2 Value Chain Analysis

Value chain analysis “helps to identify which resources and capabilities can add value.” (Internet 12) The aim of the primary activities is to provide value that ultimately exceeds the cost of the product or service, leading to profitability for a company.

**Figure 2.8 Value Chain Analysis**



Source: Alternative Model of Superior Returns, 2003. (Online), Available at: [www.cba.siu.edu/faculty/michalis/BA598/Slides/ch2.ppt](http://www.cba.siu.edu/faculty/michalis/BA598/Slides/ch2.ppt)

A pre-made sandwich company (Pret a Manger) is featured by Shepherd (1998: 20). The support activity of procurement has “supplier delivery scheduling” listed and in terms of inbound logistics “goods receipt (fresh & frozen and dry goods)”. With the value chain the company identified which resources currently offered value and where improvement is possible, particularly when cost was added. Pret a Manger identified the highest cost as being procurement and so developed more cost effective procurement methods, thereby adding value and increasing profitability.

“Business market management is the process of understanding, creating and delivering value to targeted business markets and customers.” (Anderson & Narus 1999:4). Business to business markets can use the value model. Figure 2.9 gives a basic value model for a manufacturer of air-conditioners, based in Durban. Although simplistic the model is thought-provoking, forcing companies to focus on strengths and weaknesses. The model incorporates the primary activities of the value chain, such as outbound logistics (distribution). The company has a limited geographical location, whilst many customers are based in Gauteng. To overcome this, a strategy of having a just-in-time



(JIT) operation in Gauteng on key components could be implemented, adding customer value and minimising distribution costs.

**Figure 2.9 Value Model for an Air-conditioner Manufacturer.**

VALUE		PRICE
BENEFITS (to motor plant)	COSTS	PRICE REDUCTIONS
Increased sales of vehicles	Distribution costs (only based in Durban)	Value analysis / value engineering – price reductions
Better market coverage	Packaging costs of specialized dunnage	Resourcing of materials
Additional quality for the vehicle and attractiveness	Reworks when necessary	Better supply chain management
EDI – sophisticated IT system.	Imported technology and related costs	Economic batch quantities
Well known respected company in terms of the industry	Tooling costs and related depreciation	
Dependability	Over-reliance on imported materials (price implications)	PRICE SURCHARGES
Can give competitive edge	Protracted negotiations (personnel costs)	Licence agreements and recovery of royalties
Increased safety		Tooling costs
Low volume manufacturer can support a niche market		Automation
Supplier secured for the life of the vehicle		Filling capacity and overhead recovery
Superior quality		Testing costs

Source: Author's own model developed for an automotive air-conditioner manufacturer.

### 2.7.3 SWOT Analysis

A complementary tool to value chain analysis, SWOT analysis is “based on the assumption that an effective strategy derives from a sound “fit” between a firm’s internal resources (strengths and weaknesses) and its external situation (opportunities and threats). A good fit maximises a firm’s strengths and opportunities and minimises its weaknesses and threats” (Pearce & Robinson 2003: 134). If not conducted properly SWOT analysis has potential flaws including:

- “Long lists of observations, which provide little overall insight or clarity about required action.
- No formal mechanisms to ensure that managers challenge their own frames of reference or their organisation’s paradigm.
- Managers focus on strengths and weaknesses in the context of strategies to be implemented, rather than existing strategies.

- *Managers tend to see environmental changes as threats rather than opportunities” (Jacobs, Shepherd & Johnson, 1998: 122).*

Such pitfalls can be avoided through posing the correct questions:

**Strengths**

- What are the major sources of a company’s revenue and profits?
- Is the morale of the employees high?

**Weaknesses**

- What are the company’s least profitable product lines?
- Will the company be able to stand price pressure from competitors?

**Opportunities**

- Are there new technologies that the company can use to innovate or lower costs?
- Can quality of operations, products and inventory management be improved without incurring serious cost?

**Threats**

- Does the company have adequate reserves to withstand sudden changes in the environment?
- Do the products of the company have enough brand equity to withstand price competition?

Extract taken from *SWOT, Understanding and Using SWOT analysis* (2003). (Online), Available at: <http://businessmajors.about.com>

Assessments of various facets of the organisation such as products, reputation, capabilities and resources will be generated. The culmination of the discussions is the emergence of a list summarising the different aspects. (Table 2.3). External analysis will have yielded opportunities and threats.

**Table 2.3 Possible Factors in a SWOT Analysis for a South African firm**

Internal	
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Low-cost position.</li> <li>• Ability to service niche markets through low volume manufacturing.</li> <li>• Cheap labour.</li> <li>• Cheap electricity.</li> <li>• Relationships with international companies and licences obtained.</li> </ul>	<ul style="list-style-type: none"> <li>• Age of equipment / technology.</li> <li>• Lack of capital expenditure.</li> <li>• Quality and Service reputation.</li> <li>• Lack of innovation and R&amp;D.</li> <li>• Education level of employees.</li> <li>• Lack of economies of scale.</li> <li>• Range of products is old and narrow.</li> </ul>
External	
Opportunities	Threats
<ul style="list-style-type: none"> <li>• New products</li> <li>• Globalisation of products promoting export growth.</li> <li>• Distribution of income is becoming more equal and therefore opening up new markets.</li> <li>• Good economic outlook.</li> <li>• Consumer awareness is growing and the average consumer is becoming more educated.</li> </ul>	<ul style="list-style-type: none"> <li>• AIDS and resultant lower life expectancy.</li> <li>• Increased competition due to lowering of protection barriers and exposure to international markets.</li> <li>• Technological threat.</li> <li>• As consumers have more choice their power is growing and they are able to apply more pressure on companies.</li> </ul>

Source: - Saloner, Shepard & Podolny, 2001, *Strategic Management*, John Wiley & Sons Ltd, New York:563.

Crucially important is how this list is used and interpreted. *“It also needs to provoke thinking and answers to several questions about what future resource strengths and capabilities the company will need to respond to emerging industry and competitive conditions and to produce successful bottom-line results”* (Thompson and Strickland 2001:127). Proponents of SWOT analysis recommend a SWOT matrix is developed, where strengths and weaknesses are matched with opportunities and threats.

**Figure 2.10 SWOT Matrix**

	Strengths	Weaknesses
Opportunities	S-O Strategies – pursue opportunities that are a good fit to the company’s strengths.	W-O Strategies – overcome weaknesses to pursue opportunities.
Threats	S-T Strategies – identify ways that the firm can use its strengths to reduce its vulnerability to external threats.	W-T Strategies – establish a defensive plan to prevent the firm’s weaknesses from making it highly susceptible to external threats.

Source: *SWOT Analysis* (Online). Available at: <http://www.quickmba.com/strategy/swot/>

Returning to table 2.3 and applying the SWOT matrix, if a W-O strategy was to be identified, a company could look at investing in new machinery and technology to produce new products. It could start exporting and compete globally helping to overcome the weakness of lack of technology and narrow range of products.

In an impact analysis, opportunities and threats are listed horizontally, whilst strengths and weaknesses are listed vertically in a table. Positive or negative scores are then given to each combination of factors in turn as a way to evaluate:

- *“the environmental changes that are most critical*
- *the internal strengths that will remain as strengths or become weaknesses in the changing environment*
- *the internal element that is most influenced by each external change”* (Jacobs, Shepard & Johnson 1998:126).

Positive scores indicate that the company believes the strength will enable the company to take advantage of opportunities presented or will be able to counteract a change in the

external environment. Conversely, a negative score indicates that a strength might be weakened by a change in the external environment or a weakness will further deteriorate. A zero score indicates that no effect is anticipated. Scores are tallied vertically with a negative score indicating that the company is in a poor position to face the future changes and vice versa. Scores are also tallied horizontally and indicate whether strengths remain strengths or become weaknesses under different external conditions. Although a lengthy process the positive aspects of the analysis outweigh the negative ones.

#### **2.7.4 Identification of Competencies**

Value chain analysis and SWOT analysis can facilitate the identification of the competencies of a company of which there are three types;

- *“Company competencies: internal capabilities that a company performs better than other capabilities*
- *Core competencies: competencies that are central, not peripheral, to a company’s strategy and operations.*
- *Distinctive competencies: competencies that are sources of competitive sustainable advantage”* (Internet 13).

Company competencies may be general competencies a company possesses but are not necessarily unique to that company. Depending on how customers perceive the competence in the long term they can become a core competence. Core competencies tend to be more unique and may give a company a competitive edge over its rivals. *“Most often, a company’s core competence resides in its people and in its intellectual capital, not in its assets on the balance sheet”* (Thompson & Strickland, 2001:122). A core competence may become a distinct competence when it is something that a company does well in relation to its competitors and makes it stand out from the crowd. Often a source of competitive advantage is mistaken for a distinct competence, so companies imagine they have more core competencies than they do indeed possess. As Prahalad & Hamel in *“The Core Competence of the Corporation”* (1990: 84) point out, *“few companies are likely to build world leadership in more than five or six fundamental*

*competencies*". Identification of core competencies gives a clear picture as to the capabilities of the firm and how they could be used.

## **2.8 REVIEW OF COMPANY'S STRATEGIC INTENT**

Once the company has a clear idea of its environments and the strengths and weaknesses it possesses and the opportunities and threats open to it, a company should review its strategic intent.

Prahalad & Hamel (1990: 62-75) define strategic intent as "*an ambitious and compelling ... dream that energises ... that provides the emotional and intellectual energy for the journey ... to the future*". Strategic intent outlines what the company is trying to achieve in the long term and is synonymous with the vision of an organisation. An example of strategic intent is given in Colenso (1998:3) for Apple Computers as being "*a computer in every home*". Although not an outlandish goal today, when Steve Jobs articulated it, it appeared out of touch with reality. As verbalised by Proenza, (Internet 14) "*strategic intent asks you to state what it is that you want to be, and it insists that you do so in powerful and ambitious terms! It is a form of the old question: "What do you want to be when you grow up?"*" Just as a child's answer to this question can change as it grows up and gains more life experience, so can the answer of a company change as its knowledge of the environment in which it operates, grows.

### **2.8.1 Review of the Mission Statement**

The mission statement may answer such questions as "what business are we in?" Many companies have commenced strategic planning believing that they operate in one business only to discover by the time the environmental analyses have been concluded that they operate in a different one. A cosmetics company may believe that it is in cosmetics whilst it may be in the business of giving hope to women.

The mission statement outlines the purpose of the organisation i.e. why it exists, and "*in defining purpose, it is essential to focus on outcomes and results rather than methods*" (Internet 15). Incorporated into the mission statement are the businesses in which the

organisation chooses to pursue its purposes. The values of company are delineated and can include commitments to aspects such as creativity, honesty and so on. *“A mission statement highlighting the boundaries of the company’s current business is a logical vantage point from which to look down the road, decide what the enterprise’s business makeup and customer focus need to be, and chart a strategic path for the company to take”* (Thompson and Strickland 2001: 38).

### **2.8.2 Vision Statement Of The Company**

*“What do we want to become?”* (David 1999:83) is answered by the vision statement. Pearce and Robinson (2003: 34) elaborate on a vision statement as presenting *“the firm’s strategic intent that focuses the energies and resources of the company on achieving a desirable future”*. Therefore, strategic intent and the vision statement are intertwined.

As information becomes outdated and irrelevant so a vision statement can become irrelevant for a company. The review of the vision statement is the first step a company takes towards redefining its objectives and has a direct bearing on which strategies are pursued. In *“A Pragmatic Approach to Vision”* Bob Frisch (1998: 12) states that *“the starting point for formulating your strategy is not your company – or your competitors. ... Economic, social, technological and other powerful forces occurring in the world will determine the shape of your industry and the future of your business. Those are the forces that should drive your vision, and they do not originate inside your company.”* *“A vision statement should be realistic and credible, well articulated and easily understood appropriate, ambitious, and responsive to change”* (Internet 16). By reviewing the mission and vision statements a company can redefine its boundaries, articulate the business it perceives itself to be operating in and where it sees itself in the future.

### **2.8.3 Review Of The Company’s Current Objectives**

*“Setting objectives converts the strategic vision into specific performance targets. Objectives represent a managerial commitment to achieving specific outcomes and results”* Thompson & Strickland (2001:41). Prior to identifying strategies a company

should re-evaluate existing objectives. Long-term objectives are commonly established in seven areas (Pearce and Robinson 2003:155-156):

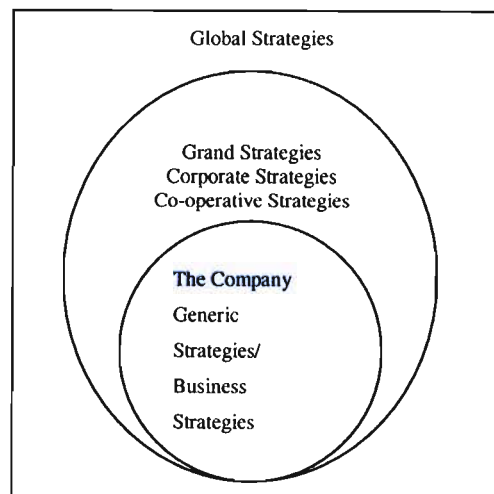
- *“Profitability*
- *Competitor position*
- *Employee Relations*
- *Public responsibility”*
- *Productivity*
- *Employee development*
- *Technological leadership*

Short term objectives may be financial or strategic in nature and should be set high enough to be challenging, but not so high that they are unattainable. One of Macdonald’s strategic objectives *“to achieve 100 percent total customer satisfaction ... every day ... in every restaurant ... for every customer”* (Thompson & Strickland 2001:44) is set quite high but is attainable.

## 2.9 GENERATION OF STRATEGIES

Strategies exist at different levels (see figure 2.11) and, therefore, may be generated using different models.

**Figure 2.11 A Typology of Strategies.**



## 2.9.1 Typology of Strategies

### Global strategies

As the world metaphorically becomes smaller and companies compete across international boundaries global strategies have emerged. Unilever is a leader in global strategies and has focussed on the strategy of global branding, as with Dove an instantly recognisable brand worldwide, which has proved lucrative for Unilever.

### Grand strategies

Otherwise known as 'master strategies' these are perceived to have a critical role in terms of strategic planning and they "*provide basic direction for strategic actions. They are the basis of co-ordinated and sustained efforts directed toward achieving long-term business objectives*" (Pearce & Robinson 2003:161). Objectives and strategies fall within the realm of grand strategies (Internet 17), of which there are 15 (figure 2.12).

### Corporate strategies

These "*concern how a diversified company intends to establish business positions in different industries and the actions and approaches employed to improve the performance of the group of businesses the company has diversified into*" (Thompson & Strickland 2001:50). These strategies consist of diversification or mergers and acquisitions and are decided at the top level of a firm.

### Co-operative strategies

Whereby competitors join forces and collaborate on a selected project to the mutual benefit of both, such as that of BMW and General Motors who "*have agreed to cooperate in developing refuelling devices for vehicles built to run on liquid hydrogen. GM's interest in the systems is for fuel cell vehicles. Meanwhile BMW is a proponent of using hydrogen as an ultra-clean fuel for piston-powered cars*" (Automotive Industry Soundbites: April 2003).



## **Generic strategies**

*“Must be based on a core idea about how the firm can best compete in the marketplace”* (Pearce & Robinson 2003:160). Such strategies are; cost leadership, differentiation, a focus strategy based on lower cost and a focus strategy based on differentiation. They form the basis of business–level strategies an *“integrated and co-ordinated set of actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product markets”* (Internet 18). A business strategy is the *“action plan for managing a single line of business”* (Thomspon & Strickland 2001:54) and generic business strategies may be developed for individual strategic business units in a company.

## **Functional strategy**

These are strategies for businesses within SBUs, which may be split into such areas as different production lines or processes or different types of products. Such strategies refer to the managerial game plan for a particular functional activity, business process, or key department within a business.

### **2.9.2 Selection of Grand Strategies**

The grand strategy selection matrix (figure 2.12) demonstrates the different strategies available to firms based on the competitive position of the firm and the market growth of the industry. Industry analysis and the life-cycle model and table (refer figure 2.5 and table 2.2) would have revealed the life-cycle stage the industry is in and hence, whether or not there is rapid or slow market growth. Competitor analysis would determine if the company is in a strong or weak competitive position. All organisations can then be positioned on the matrix. Each quadrant lists the strategies in order of attractiveness. A summary of the interpretation of the matrix is adapted from David (1999: 192,193).

Firms in quadrant I are in an excellent strategic position and can continue to concentrate on current markets through market development and penetration. If the firm has excessive resources then backward, forward or horizontal integration may be suitable. If the product range is too narrow it may be advisable to diversify to broaden its risk base.

Firms in quadrant II are in a much more vulnerable position as they are unable to take advantage of the growth in the industry. The company needs to radically evaluate its lack of competitiveness and determine what can be done to overcome this. An intensive strategy may be required, but if the firm is lacking in core competencies then horizontal integration may be deemed to be desirable. Divestiture or liquidation are last resorts.

**Figure 2.12 The Grand Strategy Matrix**



Source: Adapted from Roland Christensen, Norman Berg, and Malcom Sulter, Policy formulation and Administration (Homewood, Ill., Richard D. Irwin, 1976), 16-18.

Firms in quadrant III are in the worst position as they are in a slow growing market and have a competitively weak position. Some drastic measures may need to be called for to rejuvenate the company. Cost reductions, through retrenchments may be desirable. Firms in quadrant IV have a strong competitive position in a slow growing industry. With its strengths such companies can consider diversification into areas with higher growth rates. Characteristics of such firms include high cash flow levels and limited internal growth needs and they can successfully pursue all forms of diversification and joint ventures.

The implications of the different grand strategies are far-reaching for a firm and form the long-term view of the firm and the direction in which it is heading.

### 2.9.3 Generation of Generic/Business-Level Strategies

#### Porter's Generic Strategies

Once Porter's Five Forces Model is completed a firm knows its position within a market, its advantage and whether its market is broad or narrow. By taking these aspects into consideration a company can establish which strategy is more desirable (see figure 2.13). Table 2.13(b) shows the relationship between the generic strategies and industry forces.

Figure 2.13

(a) Porter's Generic Strategies

Target Scope	Advantage	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

(b) Generic Strategies and Industry Forces

Industry Force	Generic Strategies		
	Cost Leadership	Differentiation	Focus
<b>Entry Barriers</b>	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
<b>Buyer Power</b>	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
<b>Supplier Power</b>	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
<b>Threat of Substitutes</b>	Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
<b>Rivalry</b>	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.

Source: Porter's Generic Strategies (2003) (Online). Available at: <http://www.quickmba.com/strategy/generic.shtml>

According to Lynch (2000:565) “the low cost leader in an industry has built and maintains plant, equipment, labour costs and working practices that deliver the lowest costs in the industry”. This strategy is useful when consumers are price sensitive. Lynch

(2000:566) goes on to say “*differentiation occurs when the products of an organisation meet the needs of some customers in the market place better than others*”. As the strategy implies it entails focusing on a narrow segment of a market and satisfying the needs of the consumers within that segment, either through a low cost product or one that is differentiated from competitors’ products. “*Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialise in the same target segment*” (David 1999:62).

Each type of strategy carries its own risk as other firms can replicate them. Porter advocated that just one generic strategy is followed at a time due to incompatibility between the different strategies. Consumers of today are more knowledgeable and demanding and may be seeking a combination of attributes in a product such as; quality, style, convenience and price. If differentiation were pursued and not one of cost leadership simultaneously, a company could lose market share to a company that manages to produce a quality product at a competitive price.

### **Arther D. Little (ADL) Life-cycle Matrix**

With concepts similar to Porters this matrix examines the industry/market maturity a firm is in, against the competitive position of the firm (figure 2.14). “*The ADL suggests that competitive position is influenced by the geographical scope of the industry and the specific product, effectively the market sectors in which the strategic business unit operates*” (Internet 19). The matrix presents a combination of generic and grand strategies and is rather simplistic in its approach. As Faulkner cautions (1998:209) “*if every business unit in a particular matrix position adopts the same strategic thrust in a given market, it is difficult to see how competitive advantage will be gained*”. The matrix does not and is not able to indicate how quickly a market matures and as a predictor of the ageing of markets is of little use. Its value for strategy guidance is, therefore, limited for similar reasons.

**Figure 2.14 The Life-Cycle Portfolio Matrix**

		Stages of Industry Maturity			
		Embryonic	Growth	Mature	Ageing
Competitive Position	Dominant	Fast-growth Start-up	Fast growth. Attain cost leadership. Renew Defend position	Defend position. Attain cost leadership. Renew. Fast grow.	Defend position. Focus. Renew. Grow with industry.
	Strong	Start-up. Differentiate. Fast grow.	Fast grow. Catch up. Attain cost leadership. Differentiate.	Attain cost leadership. Renew, focus. Differentiate. Grow in industry.	Find niche. Hold niche. Hang-in. Grow with industry. Harvest.
	Favourable	Start-up. Differentiate. Focus. Fast grow.	Differentiate. Focus. Catch-up. Grow with industry.	Harvest., catch-up. Focus. Hold niche. Renew. Turnaround. Differentiate, focus. Grow with industry.	Retrench. Turnaround.
	Tenable	Start-up. Grow with industry. Focus.	Harvest., catch-up. Hold niche, hang-in. Find niche. Turnaround. Focus. Grow with industry.	Harvest. Turnaround. Find niche. Retrench.	Divert. Retrench.
	Weak	Find niche. Catch-up. Grow with industry.	Turnaround. Retrench.	Withdraw. Divest.	Withdraw.

Source: Faulkner D., 1998, *Portfolio Matrices*, Ambrosini V. with Johnson G. & Scholes K., Prentice Hall, Britain: 209

**SWOT Matrix and Diagram**

“SWOT analysis has been a framework of choice among many managers for a long time because of its simplicity and its portrayal of the essence of sound strategy formulation – matching a firm’s opportunities and threats with its strengths and weaknesses” (Pearce & Robinson, 1997:170). The SWOT matrix takes into consideration both the external and internal analyses of the firm and its environment and is, therefore, not so one-dimensional. Pearce and Robinson (2003:135) state “the SWOT analysis builds on the results of a resource based view of the firm to aid strategic analysis”. Taking the SWOT analysis and resultant matrix one step further a SWOT analysis diagram can be developed (refer figure 2.10 page 25) with its four distinct cells.

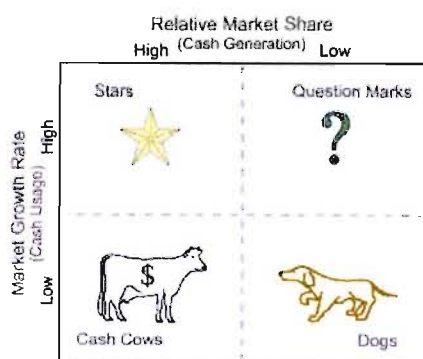
Somewhat akin to the grand strategy matrix the cells have varying levels of positivity. Cell 1 is the most favourable with several external opportunities available and the company has the strengths necessary to take advantage of those opportunities. Cell 2 represents the situation where opportunities are scarce, but the firm has numerous

strengths. A firm in cell 2 could look to channel its strengths into different markets to create new opportunities for itself. Firms in cell 3 are poorly positioned to take advantage of the opportunities through a lack of internal capabilities. Radical strategies may be required to eliminate the internal weaknesses. Cell 4 is the worst situation a firm can be in where there are no opportunities and the firm is in a weak position. Defensive strategies may include refocus of product range if it is too diversified.

### BCG Growth-Share Matrix

The BCG matrix (Figure 2.15) is a useful analytical tool to understand the product/service portfolio of a company on a micro-level. As previously stated it is relatively difficult to actually determine at what point of the life-cycle the industry is in and hence the growth rate. A company evaluation also needs to have a very clear definition of the market it is in for a true market share to be obtained. Other criticisms of the matrix are that the model “*does not allow for declining markets and applies mostly to fast-moving consumer goods (FMCG)*” (Faulkner 1998: 210) and so is not useful for industrial companies or fragmented industries.

**Figure 2.15 BCG Growth-Share Matrix**



Source: BCG Growth-Share Matrix. (Online). Available at: <http://www.quickmba.com/strategy/matrix/bcg/>

### GE Portfolio Model

The GE model (figure 2.16) incorporates aspects of the BCG model. Points of parity are that the vertical axis represents industry attractiveness and the horizontal axis represents the company’s strength in the industry or business position. One difference is that the GE approach considers more than just market growth rate and relative market share in order



to determine market attractiveness and business strength. The industry attractiveness index is made up of such factors as market size, market growth, industry profit margin, amount of competition, seasonality and cyclicity of demand, and industry cost structure. Business strength is an index of factors like relative market share, price, competitiveness, product quality, customer and market knowledge, sales effectiveness and geographic advantages.

Factors influencing market attractiveness and competitive position are identified and are accorded a weight in relation to their perceived scope of influence on the dimensions. Each factor is rated and a value is obtained by multiplying the weighting with the value. The firm is then plotted on the two axes and from this strategies can be generated. The major flaw of the matrix is that it does not have a prescribed way of applying weightings to the dimensions of attractiveness and business strength. Whilst not flawless it addresses some of the concerns expressed about portfolio matrices.

**Figure 2.16 GE-McKinsey Industry Attractiveness - Business Strength Matrix**



Source: GE-McKinsey Industry Attractiveness - Business Strength Matrix. (Online). Available at: [http://www.mgmtguru.com/mgt499/TN9\\_4.htm](http://www.mgmtguru.com/mgt499/TN9_4.htm)

### Criticisms of Portfolio Analysis

Although the different analyses are recognised as prompting managers to think about their businesses in a more strategic way, a variety of criticisms have been noted:

- *“Portfolio analysis is time consuming if carried out properly.*

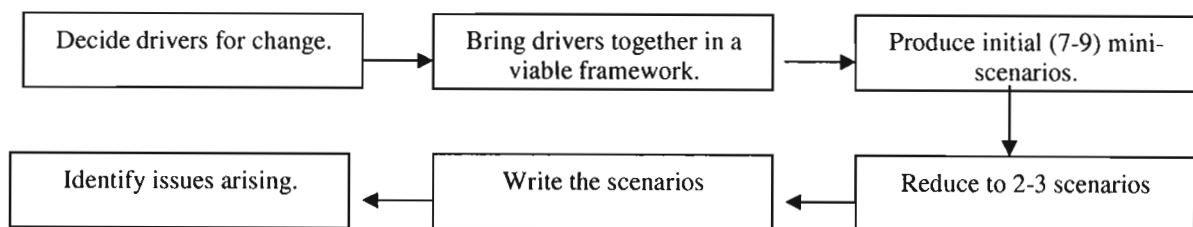
- *It is overly simplistic.*
- *It often offers misleading representations of strategy options.*
- *It makes use of inappropriate and over-generalised measures.*
- *It assumes that market leadership invariably offers benefits.*
- *It ignores the real potential and benefits of market niching.*
- *It ignores important and strategic factors in the competitive environment.*

One way to get a clearer and more useful view is for the strategist to look at how the portfolio might develop in the future” (Internet 20).

#### 2.9.4 Scenario Planning

“Scenario planning is based on the premise that you cannot control or predict the future” (Harvard Business Review, 2000:4). With the globalisation of the world and resultant shorter life cycles due to greater competition, companies have to be more astute at predicting the future. Trend analysis is recognised as adding value in this respect and any company that waits to see if possible trends occur misses the boat of opportunity.

“Scenario planning involves envisioning alternative versions of the future and generating strategic responses should one or more occur” (Internet 21). Fahey and Randall (1994:290) believe that an advantage of scenario planning is “that scenarios first develop pictures of some future and then let managers trace back how that future happened and plan what they must do to operate in that new environment”. Mercer (1998: 103) sets out six steps to scenario planning. Scenario planning can be used to develop various strategies to meet the future.





## 2.10 EVALUATION OF STRATEGIES

Whilst a plethora of strategies may have been generated not all of them would be appropriate or even feasible for a firm to implement and so evaluation of strategies needs to take place. David (1999) gives the characteristics of an effective evaluation system:

- (i) *“Strategy evaluation activities must be economical.*
- (ii) *Strategy evaluation activities should be meaningful.*
- (iii) *Strategy evaluation activities should provide timely information.*
- (iv) *Strategy evaluation should be designed to provide a true picture of what is happening.*
- (v) *The strategy evaluation process should not dominate decisions.*

*Finally, the test of an effective evaluation system is its usefulness, not its complexity”.*

(Adapted from David 1999:292)

Fahey & Randall (1994: 302-315) advocate the use of tests to evaluate strategies.

*“Test 1- How attractive is the market opportunity?*

*Test 2 – How sustainable is the competitive advantage?*

*Test 3 – What are the prospects for successful implementation?*

*Test 4 – Are the risks acceptable?*

*Test 5 – Will the forecast financial results be achieved and increase shareholder value?”*

Conversely Johnson & Scholes (2002:384) consider suitability, acceptability and feasibility. *“Suitability – is a broad criterion concerned with whether a strategy addresses the circumstances in which an organisation is operating... For example, the extent to which new strategies would fit with the future trends and changes in the environment, how the strategy might stretch and exploit the core competencies of an organisation. Acceptability – is concerned with the expected performance outcomes (such as the return or risk) of a strategy and the extent to which these would be in line with expectations. Feasibility – is concerned with whether a strategy could be made to work in practice. Assessing the feasibility of a strategy requires an emphasis on more detailed practicalities of resourcing and strategic capability”.*

In “The Evaluation of Business Strategy”, Richard Rumelt identified the key criteria against which strategic options need to be evaluated as being consistency, consonance, advantage and feasibility. Table 2.4 shows the questions that each approach poses in terms of the strategic options.

**Table 2.4 Comparison of Criteria**

<b>Johnson &amp; Scholes' Criteria</b>	<b>Rumelt's Criteria</b>
<b>Suitability</b> - Does the strategy address the circumstances in which the organisation is operating? - Is the strategy viable? - Does the strategy exploit core competencies?	<b>Consonance</b> - Does the strategy address the external environment?
	<b>Advantage</b> - Does the strategy create/maintain competitive advantage in the selected area of activity?
<b>Acceptability</b> - What are the expected performance outcomes and are they consistent with stakeholders	<b>Consistency</b> - Are goals and policies mutually consistent?
<b>Feasibility</b> - Has the organisation got the resources and capabilities to deliver the strategy?	<b>Feasibility</b> - Can the strategy be attempted within the physical, human and financial resources available?

Source: Evaluating Strategies – A Framework, 2003. (Online) Available at; <http://www.dur.ac.uk/p.j.allen/masess9.doc>

### 2.10.1 Suitability

Questions that elicit responses as to how suitable a strategy is along with the tools, models and techniques, which can be employed are shown in table 2.5. Johnson & Scholes (2002:384) state that during the evaluation stage “*strategies might be regarded as suitable from the point of view of:*

- *Exploiting opportunities in the environment and avoiding threats;*
- *Capitalising on an organisation’s strengths and avoiding or remedying weaknesses;*
- *Addressing expectations”.*

Each strategic option in table 2.6 is evaluated in terms of the company’s opportunities and threats (environment) and the strengths and weaknesses of the company (resources / competencies). The expectations indicate possible benefits to the company of pursuing the strategy. The methods indicate how the strategies can be achieved.

**Table 2.5 Suitability Analysis Questions and Tools**

Questions for Suitability	Tools, Models and Techniques
<ul style="list-style-type: none"> <li>• Does the strategy address the external environment?</li> <li>• Is the strategy viable and achievable given conditions within the environment?</li> <li>• Does the strategy build upon or exploit the strategic capabilities of the organisation?</li> <li>• Does the strategy create/exploit synergy across the organisation?</li> <li>• Does the strategy fit with the current corporate culture of the organisation?</li> <li>• Does the strategy create/maintain competitive advantage?</li> </ul>	<ul style="list-style-type: none"> <li>• SWOT analysis</li> <li>• PEST analysis</li> <li>• Five forces framework</li> <li>• Strategic group analysis</li> <li>• Market segmentation analysis</li> <li>• Resource analysis</li> <li>• Value chain analysis</li> <li>• Core competencies analysis</li> <li>• Activity mapping</li> <li>• Cultural web mapping</li> <li>• Generic strategy identification</li> <li>• Synergy analysis – portfolio; linkages; core competencies; management styles</li> <li>• Sources of competitive advantage appraisal</li> </ul>

Source: Evaluating Strategies – A Framework, 2003. (Online) Available at; <http://www.dur.ac.uk/p.j.allen/masess9.doc>

Ranking options by assessing them against the external environment can highlight which options are more suitable than others. Decision trees, whereby options are evaluated against increasing requirements and evaluating options against different future scenarios may also lead to the determination of the most suitable option to pursue. Options identified as being suitable then need to be assessed for their acceptability.

**Table 2.6 Some Examples Of Suitability**

STRATEGIC OPTION	WHY THIS OPTION MIGHT BE SUITABLE IN TERMS OF:		
	Environment	Resource / Competencies	Expectations
<b>Directions</b> Product development	Exploit knowledge of customer needs.	Exploit R&D	Better returns at medium risk by exploiting current strengths of market knowledge.
Diversification	Current markets saturated or declining.	Exploit core competencies in new areas.	Better returns at higher risk by “sweating” the assets.
<b>Methods</b>			
Internal development	First in Field Partners or acquisitions not ‘available’.	Learning and competence development Spread of cost	Cultural / political ease
Joint development	Speed Industry norm	Complementary competencies Learning from partners	‘Required’ for entry Dilutes risk Fashionable

Source: - Johnson G. & Scholes K., 2002, Exploring Corporate Strategy 6th Edition, Prentice Hall Europe:385.

### 2.10.2 Acceptability

“The acceptability of a strategy involves consideration of the anticipated rewards relative to the goals of the organisation” (Internet 22). Answers to certain questions will indicate whether or not a strategy is acceptable:

- “What are the expected outcomes of the strategy and are they consistent with stakeholder expectations?”
- Does the strategy look attractive in terms of financial returns and the time-scale required for delivery?
- What are the risks involved in following the strategy and how significant are they?”

(Internet 23). Acceptability centres on the criterion of return, risk and stakeholder reactions (see table 2.7). The following is a summary of the three different areas (adapted from Internet 23).

#### Analysing Return

Profitability analysis focuses on the tangible costs and benefits and not the wider context, whilst cost-benefit analysis attempts to put a money value on all the costs and benefits of a strategic option. It forces people to be explicit about the various factors influencing strategic choice. Shareholder value analysis requires an emphasis on value management.

**Table 2.7 Some Criteria For Understanding The Acceptability Of Strategic Options**

CRITERIA	USED TO UNDERSTAND	EXAMPLES	LIMITATIONS
<b>Return</b>			
Profitability	Financial return of investments	Return on capital Payback period Discounted cash flow (DCF)	Apply to discrete projects  Only tangible costs/benefits Difficulties of quantification
Cost-benefit	Wider costs/benefits (including intangibles)	Major infrastructure projects	Quantification
Real options	Sequence of decisions	Real options analysis	Technical detail often difficult
Shareholder value analysis	Impact of new strategies on shareholder value	Mergers/acquisitions.	
<b>Risk</b>			
Financial ratio projections	Robustness of strategy	Break-even analysis Impact on gearing and liquidity	
Sensitivity analysis	Test assumptions / robustness	‘What if?’ analysis	Tests factors separately
<b>Stakeholder reactions</b>			
	Political dimension of strategy	Stakeholder mapping Game theory	Largely qualitative

Source: - Johnson G. & Scholes K., 2002, Exploring Corporate Strategy 6th Edition, Prentice Hall Europe: 390.

### **Analysing Risk**

Key financial ratio projections are evaluated to determine how they would change if a strategy were to be implemented. Ratios may include liquidity, debt and breakeven analysis. Sensitivity analysis “*allows each of the important assumptions underlying a particular strategy to be questioned and challenged*” (Johnson & Scholes, 2002:397).

### **Analysing Stakeholder Reaction**

Stakeholder mapping helps to prioritise the ‘political agenda’ for an organisation, and the likely reaction of stakeholders.

The company, CDNow was in difficulty at the end of the 1990s and needed to make some strategic decisions. Strategic options were put forward and acceptability was evaluated. The current ratio in 1998 was 3,68:1 (R3,68 of assets to cover R1 of debt) and in 1999 had reversed to 1:2,22, i.e. short-term debt exceeded assets with the acceptable minimum requirement being 2:1. Therefore, the business was in a vulnerable position as it was heavily reliant on external funding. If CDNow were considering a strategy of growth it would be unacceptable, particularly as shareholder value has not yet increased and, therefore, stakeholders’ reactions could be assumed to be adverse.

### **2.10.3 Feasibility**

The final part of the evaluation of a strategy centres on assessing the feasibility of a strategy. If a company does not have the necessary resources and competencies the strategy will fail. The analysis of feasibility “*frequently leads to an analysis of the tangible resources of the organisation, finance in particular, but a wider consideration of all resources and capabilities should not be ignored*” (Internet 24). Tools that can be used to analyse feasibility are:

- Funds flow analysis.
- Breakeven analysis.
- Resource deployment analysis.

Funds flow analysis estimates and evaluates what funds would be required to support a selected strategy and the source of those funds, as well as their timing. Breakeven analysis “*can assess the feasibility of meeting targets of return and also of acceptability and risk*” (Internet 25). Resource deployment analysis looks beyond the financial aspects considered in the funds flow analysis and examines the actual resources and competencies that exist in a firm in relation to strategic options.

## **2.11 IMPLEMENTATION OF STRATEGIES**

Once the excitement of the identification, evaluation and final selection of strategies is over, a company faces the most difficult task of all; implementation. All too commonly companies fail at this stage. “*Whereas crafting strategy is largely a market-driven activity, implementing strategy is primarily an operations-driven activity revolving around the management of people and business processes*” (Thompson & Strickland 2001:345). “*In all but the smallest organisation, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility*” David (1999:216). Lynch (2000: 758) outlines the basic implementation process as being:

1. *“Identification of strategic objectives.*
2. *Formulation of specific plans.*
3. *Resource allocation and budgeting.*
4. *Monitoring and control procedures”.*

Johnson and Scholes, Thompson and Strickland, Fahey and Randall, Pearce and Robinson, and David all agree that certain areas need to be considered for the successful implementation of strategies:

- Strategic leadership.
- The right competencies, capabilities and resource strengths and allocation of resources.
- Strategy supportive policies and effective communication and operating systems.
- Continuous improvement.

- Rewards and incentives linked to the achievement of key strategic targets.
- The right organisational structure and culture to fit strategy.

### 2.11.1 Leadership

Johnson and Scholes (2002:549) state that “*leadership is the process of influencing an organisation (or group within an organisation) in its efforts towards achieving an aim or goal*”. Rothschild (2000:79) observes that there are three key factors to successful strategic leadership:

- “*Leader and life cycle phases must be matched.*”
- “*Each strategic differentiator requires a different leader and implementation team.*”
- “*Just as strategies must change, so must leadership.*”

A leader is not necessarily the person at the top of the organisation and there can be leaders at other levels. The bigger the organisation the more top management has to rely on the cooperation of middle-managers to ensure implementation of strategies. “*In company after company communication remains the biggest problem. People say they’re unsure where they’re supposed to be headed, they don’t understand the strategy and they have no idea what the priorities are*” (Internet 26). This indicates that a lack of leadership has a direct bearing on the implementation of a strategy.

**Table 2.8 Leaders and their Characteristics**

Leadership type	Risk-taker (birth / childhood stage)	Caretaker (Adult phase)	Surgeon (Mature stage)	Undertaker (Decline stage)
Characteristics	<ul style="list-style-type: none"> <li>• Is a visionary</li> <li>• Is aggressive</li> <li>• Is highly intuitive</li> <li>• Creates dynamic change</li> <li>• Has “killer” instinct</li> </ul>	<ul style="list-style-type: none"> <li>• Builds on strengths</li> <li>• Creates gradual change</li> <li>• Willing to commit to longer term</li> </ul>	<ul style="list-style-type: none"> <li>• Is selective</li> <li>• Knows what is attractive</li> <li>• Is decisive</li> <li>• Makes tough decisions</li> <li>• Holds nothing “sacred”</li> </ul>	<ul style="list-style-type: none"> <li>• Selects the best</li> <li>• Liquidates</li> <li>• Is compassionate</li> </ul>

Source: Adapted from Rothschild, A Portfolio of Strategic Leaders, featured in Smit, 2000: 80.

Leaders need to have certain characteristics such as: the ability to influence others; self-confidence; integrity and strength amongst other traits. Complementing these traits leaders need to be both managers and leaders, whilst also being good listeners and have

the capacity to tell hard truths when necessary. Kotter states that effective leaders help others to understand the necessity of change and to accept a common vision of the desired outcome. A strong leader will not be enough to ensure implementation and does not work in isolation and the empowerment of employees is also critical.

### **2.11.2 Resource Allocation**

The RBV of the firm illustrated how the resources of a firm are considered during the internal examination of the firm and in the suitability evaluation. Emanating from this is the identification of both resources required and gaps that exist and subsequently what new resources would need to be procured. The strategic business units would then be tasked to ensure that resources exist (whether physical or intangible) to support the strategy. Thompson and Strickland (2001: 350) stress the importance of putting together a strong management team whilst also recruiting and retaining talented employees. Through the skills levy South African companies have the opportunity to train personnel so that core competencies and capabilities are enhanced, strengthening the firm in the long-term and giving a ready supply of personnel resources to meet the future.

### **2.11.3 Organisational Structure**

*“Successful strategy implementation depends in large part on the firm’s primary organisational structure. Structure helps identify the firm’s key activities and the manner in which they will be co-ordinated to achieve the firm’s strategic purpose”* (Pearce & Robinson, 1997:339).

Mintzberg (1979) provided a theory of the links between strategy and structure stating that there are six parts of every organisation, which have to be linked because as a whole they add value to the organisation, with each part having a key co-ordinating mechanism. Pearce and Robinson (1997:341) point out that there are five basic primary structures: *“(1) Functional structure, (2) Geographic organisation, (3) Divisional organisation, (4) Strategic business units and (5) Matrix organisation”*. (See table 2.9).



**Table 2.9 Mintzberg’s Configuration of Organisations and the way they Operate Combined with the Basic Primary Structures.**

Configuration / structure	Environmental analysis	Resource analysis	Key part of organisation	Key co-ordinating mechanism	Example
Entrepreneurial organisation, functional structure.	Simple /dynamic	Small, young, duplication of jobs.	Strategic apex: the boss or owner.	Direct supervision	Small computer service company.
Machine organisation, functional structure	High growth or cyclical	Older, large defined tasks, techno-structure	Techno-structure	Standardisation of work	Computer assembly or car plant
Professional organisation, functional structure	Stable, complex, closed to outsiders	Professional control by managers	Operating core	Standardisation of skills	Management consultancy or hospital
Divisionalised structure, strategic business units, may use matrix structure if project driven	Diverse	Old and large, strong links, possible standard criteria for resource allocation	Middle line	Standardisation of outputs	Fast-moving consumer goods group
Innovative organisation	Complex and dynamic	Often young, complex work, experts involved	Support staff	Mutual adjustment	Advertising agency
Missionary organisation	Simple, static	Ideologically driven co-operative, small groups within total	Ideology	Standardisation of norms	Charity or social work

Source: Adapted from Mintzberg, H, ‘The Structuring of Organisations’ in *The Strategy Process: Concepts and Contexts* 3/E by Mintzberg, H and Quinn, J,B, 1991 pp330-350.

Each structure has strategic advantages and disadvantages, which a firm would need to take into account when evaluating an existing structure or reconfiguring the organisation. *“In building the organisation’s structure, it is essential to start by reconsidering its purpose... In building the most appropriate organisation structure, it is important to keep in sight the need for simple, cost-effective structures”* (Lynch 2000: 825).

#### **2.11.4 Establishing Strategy Supportive Policies**

*“Policies and procedures help align actions and behaviour with strategy throughout the organisation, placing limits on independent action and channelling individual and group efforts along the intended path”* (Thompson & Strickland 2001: 381). Perhaps the most important aspect is that they empower employees. Well-constructed policies and procedures can promote effective strategy execution. Policies and procedures control decisions whilst allowing some latitude for personnel as they:

- (i) *“Promote uniform handling of similar activities.*
- (ii) *Ensure quicker decisions.*
- (iii) *Institutionalise basic aspects of organisation behaviour.*
- (iv) *Reduce uncertainty in repetitive and day-to-day decision making.*
- (v) *Counteract resistance to or rejection of chosen strategies by organisation members.*
- (vi) *Offer predetermined answers to routine problems”.*

Summarised from Pearce and Robinson (1997: 322, 323)

### **2.11.5 Instituting Best Practices and Pushing for Continuous Improvement**

Benchmarking can be used to introduce best practices within a firm, as a firm can compare itself to ‘best in industry’ and even ‘best in world’. A company can modify and improve the best practices identified to suit its situation. *“The benchmarking movement to search out, study, implement, and improve on best practices has stimulated greater management awareness of the importance of business process reengineering, total quality management (TQM), and other continuous improvement techniques”* (Thompson & Strickland: 385). The reduction of protectionism of the economy has exposed South African firms to international products. For many, it has either been “adapt or die.” Quality is a given and no longer an option.

#### **Total Quality Management (TQM)**

TQM is defined as *“a philosophy of managing a set of business practices that emphasises continuous improvement in all phases of operations, 100 percent accuracy in performing activities, involvement and empowerment of employees at all levels, team-based work design, benchmarking, and fully satisfying customer requirements”* (Thompson & Strickland 2001:385). Pearce and Robinson (1997: 393-397) suggest there are essential elements of implementing TQM: *“define quality and customer value; develop a customer orientation and develop customer and supplier partnerships; take a preventive approach and adopt an error-free attitude; encourage participation by all staff and strive for continuous improvement”*.

### **Continuous Improvement to Support TQM and Strategies**

During the 1980s Japanese motor manufacturers developed continuous improvement methods called Kaizens, meaning bright ideas. *“Firms learn in the kaizen method by developing processes and structures that leverage the insights of the workers directly involved in the manufacturing process. Quality circles whose members are production workers are used to discover ways to improve manufacturing reliability”* (Saloner, Shepard & Podolny, 2001: 104). Toyota has kaizens known as ‘green areas’.

The original kaizens have been extended to include monitoring and control of TQM aspects. Quality circles have a balanced scorecard for their area on which information relevant to TQM is displayed. It provides a yardstick of how the team is performing overall and is a measure of control. Team kaizens are shown and in some companies kaizens are presented by teams to the directorate with recognition being given to employees. The focus on continuous improvement through this method has led to achievement of best practices, empowered employees and helped achieve strategies.

### **Balanced Scorecard**

Control mechanisms to monitor the implementation of strategies are essential otherwise it is difficult to ascertain progress of strategies. The balanced scorecard is a widely used method and can be linked to continuous improvement. *“Balanced scorecards combine both qualitative and quantitative measures, acknowledge the expectations of different stakeholders and relate an assessment of performance to choice of strategy”* (Johnson & Scholes 2002:437). The balanced scorecard is comprised of four perspectives measuring differing strategy perspectives (see table 2.10).

*“The balanced scorecard is like the dials in a cockpit: it gives managers complex information at a glance”* (Kaplan and Norton 1992:71), so a manager can spend more time making decisions and it also facilitates a 360° feedback process. Rarely introduced at the commencement of a business, it may be necessary to adapt the balanced scorecard to suit the company. For employees to take ownership of the scorecard it has to be meaningful, relevant and easily comprehensible for employees.

**Table 2.10 Balanced Scorecard: Summary of Strategy Perspectives**

Strategy perspective	Example	Example of scorecard measure.
Financial perspective	Shareholder's views of performance	<ul style="list-style-type: none"> <li>• Return on capital</li> <li>• Economic value added</li> <li>• Sales growth</li> <li>• Cost reduction</li> </ul>
Customer perspective	Customer satisfaction	<ul style="list-style-type: none"> <li>• Customer satisfaction</li> <li>• Customer retention</li> <li>• Acquisition of new customers</li> </ul>
Internal perspective	Assess quality of people and processes	<ul style="list-style-type: none"> <li>• Training and development</li> <li>• Job turnover</li> <li>• Product quality</li> <li>• Stock turnover</li> </ul>
Future perspective	Examine how an organisation learns and grows	<ul style="list-style-type: none"> <li>• Employee satisfaction</li> <li>• Employee retention</li> <li>• Employee profitability</li> </ul>

Source: Lynch R., 2000, *Corporate Strategy 2<sup>nd</sup> Edition*, Prentice Hall, Europe: 765

### 2.11.6 Rewards Systems

*“To get employees’ sustained, energetic commitment, management has to be resourceful in designing and using motivational incentives – both monetary and non-monetary”* (Thompson & Strickland 2001: 395). In South Africa the 13<sup>th</sup> cheque is a prime example of a reward to an employee based on the performance of the company. An intrinsic part of salaries, the majority of employees would not recognise it as a reward, highlighting the difficulty of designing reward systems.

Many companies such as LUK have reward systems where employees are rewarded for achieving turnover targets, whilst others issue stock options to employees, but it can often be difficult to get the balance right. *“If an organisation’s motivational approach and reward structure induces too much stress, internal competitiveness, and job insecurity, the impact on work force morale and strategy execution can be counterproductive”* (Thompson and Strickland 2001:399). Equally important are non-monetary rewards, such as public recognition and praise from management. When the kaizen system was introduced, a percentage of the savings made through the bright idea was given to the originator as a reward. Anecdotal evidence suggests that designers commenced building in faults, which were rectified later so that the reward could be obtained again highlighting the sensitivity with which such systems have to be designed.

The following guidelines can be used when designing incentive compensation systems:

- The performance payoff must be a major, not minor, piece of the total compensation package.
- The incentive plan should extend to all employees.
- The reward system must be administered with scrupulous care and fairness.
- Incentives must be tightly linked to achieving only strategically stated targets.
- The performance targets for individuals must fall within their locus of control.
- The time space between the performance review and receipt of the reward should be short and liberal use should be made of non-monetary rewards.
- Absolutely avoid skirting the system to find ways to reward non-performers.

Adapted from Thompson and Strickland (2001: 402,403)

### **2.11.7 Corporate Culture**

Corporate culture “*refers to a company’s values, beliefs, business principles, traditions, ways of operating, and internal work environment*” (Thompson and Strickland, 2001:410). Du Plessis, Jooste and Strydom (2001: 396) point out that “*corporate culture is intangible, but very real and present... Culture manifests in the actions and words of individuals representing the organisation. Organisational culture may be a catalyst or obstacle in strategy implementation*”. If not harnessed correctly culture can be detrimental in the implementation of strategies. Hagberg and Heifetz (Internet 27) infer that “*senior management, particularly the CEO, often has a view of the organisation’s culture that is based more on hope than a view grounded in objective fact*”.

If a mismatch between culture and strategy is perceived often management imagines that changing the corporate culture is the easiest way to develop synergy between the two. This is a misguided view “*as psychologists have advised for over 100 years, you don’t change behaviour by changing people’s minds. You change their minds by changing their behaviour!*” (Manning 2001: 49). Manning suggests a company should rather focus on what people do. An analysis of the culture is recommended to determine which aspects of the culture are strategy-supportive and vice versa, so a company considering an acquisition strategy for example would evaluate if the culture is risk-averse.

Once the culture is diagnosed it is possible to obtain the buy-in of the employees by making them part of the process. Explaining what outcomes are needed and the new goals that have been set permits them to take ownership of the process of cultural change through change in how people work. Manning (2001: 49) indicates that such an approach gives a company *“two big wins:*

- *You get rapid performance improvement.*
- *You get your intended culture change”.*

*“Once values and ethical standards have been formally set forth, they must be institutionalised and ingrained in the company’s policies, practices, and actual conduct”* (Thompson and Strickland, 2001:423).

Implementation is the most crucial area of strategic planning, yet in literature it is often given scant attention. A company must ensure that the strategic planning process involves key players in a firm and is also well communicated throughout the firm. Everyone then supports common goals and objectives and understands the strategic direction of the firm.

## **2.12 DEVELOPING THE MARKETING MIX TO SUPPORT STRATEGIES**

Between strategy selection and implementation, action plans or functional strategies need to be developed to support the business strategies. These tend to be produced at a divisional or strategic business unit level and therefore, involve managers at lower levels in the firm. Top management must effectively communicate the goals and objectives of the firm and work closely with lower-level managers to develop action plans. Kotler and Armstrong (1993: 39) define the marketing mix as *“the set of controllable marketing variables that the firm blends to produce the response it wants in the target market”.*

### **2.12.1 Overview of the Marketing Mix**

Churchill and Peter (1998:22) define the marketing mix as *“the strategic tools a firm uses to create value for customers and achieve organisational objectives”* which differs slightly from Kotler’s definition where the emphasis is on the value to customers. Traditionally, *“there are four variables about which the marketing management team has to take decisions, namely about the product itself, the place where it is to be sold (the*

*distribution of the product), the marketing communication methods to be used to inform the customer, and the price of the product which should reflect its value to the customer”.* (Van Der Walt et al 1996:9), commonly referred to as the 4Ps (product, place, price and promotion).

The traditional marketing mix has been found to provide an incomplete picture as it ignores the service aspect of a business. The ‘*expanded marketing mix*’ (Zeitaml and Bitner, 2000:18) consists of the original 4Ps and incorporates three more; people, physical evidence and process. Marketers also have to take cognisance of consumer behaviour, so that customer-oriented strategies are formulated. Organisations that are global players will also have to consider developing a global marketing mix. However, “*the composition of the marketing mix is controlled by management, and depends upon:*

- *The resources available.*
- *The developmental stage of the product or service.*
- *The managers’ knowledge of the market and predictions as to the behaviour”.* (Internet 28).

### **2.12.2 Branding as a Driver for the Marketing Mix**

*“More and more firms have come to the realisation that one of their most valuable assets is the brand names associated with their products or services”* (Keller, 1998:2). Aaker (1996) confirms this view and also states that a brand gives a company a competitive advantage whilst also being a strategic asset. Stephen King of WPP Group in London states: “*A product is something that is made in the factory; a brand is something that is bought by a customer. A product can be copied by a competitor; a brand is unique. A product can be quickly outdated; a successful brand is timeless*”(Quoted by Keller 1998:2).

#### **The Brand Key**

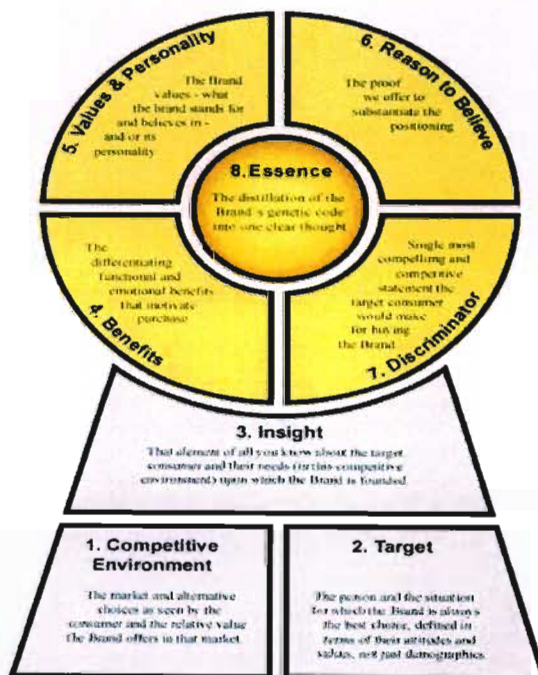
Unilever developed a tool to develop new brands, the brand key (see figure 2.17). The brand key for a product or service influences the subsequent marketing mix. Promotion is influenced by the discriminator, reasons to believe, brand values and personality and

benefits. The product has to meet the consumer insight, whilst supporting the reasons to believe, the discriminator and satisfying the target market. The packaging must reflect the personality and values of the brand with logos or slogans that endorse the discriminator and must be attractive to the target market.

The price has to meet the expectations of the target market with a specific position within the competitive environment. The position of the brand will be in line with the competitive environment, which will determine how and where the product or service is distributed (place). The servicescape represents the physical surroundings of service and will be determined through the brand's values and personality, the perceived benefits of the brand, the target market and the competitive environment. The personnel factor for service delivery will be dependent on the brand's values and personality, the target market and the competitive environment.

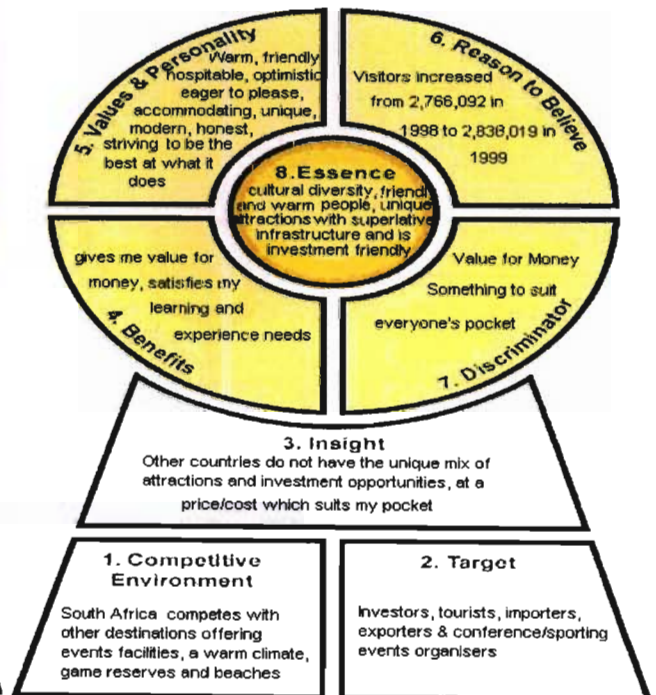
**Figure 2.17 The Unilever Brand Key**

**(a) General**



Source: <http://www.imc.org.za/documents/vision6.stm>

**(b) For South Africa**



Source: Author's own brand key for South Africa, submitted as part of Brand Management assignment.



Keller (2000: 147-153) lists the top ten traits of the world's strongest brands and reinforces the relationship between brands and the marketing mix, where he states that:

- *“The pricing strategy is based on consumers’ perceptions of value.*
- *The brand is properly positioned.*
- *The brand portfolio and hierarchy make sense.*
- *The brand makes use of and co-ordinates a full repertoire of marketing activities to build equity”.*

The conclusion is drawn that a company wishing to develop a marketing mix to implement strategies chosen needs to have a full understanding of its brands.

### **2.12.3 Product**

*“The product decision is among the first decisions that a marketing manager makes in order to develop a global marketing mix”* (Hollensen, 2001:395). Product here refers to both products and services. Cundiff, Still and Govoni (1980: 156) define a product as being *“both what a seller has to sell and what a buyer has to buy. Thus, any enterprise that has something to sell, tangible goods or not, is selling products”.*

*“One way of looking at a product or service is to describe it in terms of the features it displays, the benefits it offers to the consumer, and the advantages it offers to the manufacturer”* (Internet 29). Kotler and Armstrong (1993:221) suggest that there are three levels of product offerings that need to be considered in order to make the product attractive to the target market. The core product represents the fundamental benefits to the consumer whilst the real product demonstrates the properties of the core product through its designs, features and so on. An augmented product has additional features that add value to the product. *“Once a market segment has been targeted and a positioning statement created for it, we have a chance to cycle back to the product itself and see if we can enhance its value to the chosen market... We try to add extra benefits to the core product through branding, packaging, warranty, presale service and so on – such that we increase the value of the augmented product to the customer”* (Crawford and Di Benedetto, 2000: 371).

If one takes a Sony Camcorder as an example the product is as follows (Internet 30):

*“Core product – the ability to take video pictures conveniently*

*Real product – Sony Handycam (brand name) ...*

*Augmented product – receive more than just the camcorder. Give buyers a warranty on parts and workmanship, free lessons on how to use the camcorder” etc.*

Products are either consumer or industrial ones and may be durable or non-durable. Churchill and Peter (1998:230-233) elaborate on these further, with consumer products consisting of; convenience products, shopping products, speciality products and unsought products (ones that consumers are not even aware they have a need for yet). Industrial products consist of; installations, accessory equipment, components, parts and materials, raw materials, supplies and business services. Product strategies may be reviewed based on the product lifecycle (table 2.11).

**Table 2.11 Strategic Considerations and Implications of the Product Lifecycle**

	Introduction	Growth	Maturity	Decline
Overall product strategy	Market establishment: persuade early adopters to try the product.	Market penetration: persuade mass market to prefer the brand.	Defence of brand position: check the inroads of competition.	Preparations for removal: milk the brand dry of all possible benefits (if not seeking to reinvent the brand).
Product	Provide high quality; select a good brand; get patent and/or trademark protection.	Provide high quality; add services to enhance value.	Improve quality; add features to distinguish brand from competitors.	Continue providing high quality to maintain brand's reputation; seek ways to make the product new again.

Source: Extract from McDaniel C. & Darden W. Marketing 1987: 294 and Churchill G. & Peter J. Marketing – Creating Value for Customers, 1998: 238.

Organisations can graphically present their product range through the product mix. *“The product mix of a (...) firm is the total range of various kinds of products which it makes and markets”* (Van der Walt et Al, 1999:174). The product mix consists of product items and product lines, which can be long or short, narrow or wide. The consistency of the product mix is measured by the extent to which the product offerings are related. Companies can decide to trade up by adding a more prestigious product to their product line, or they can trade down by adding a lower-priced product.

Packaging is an integral part of the product. Kotler and Armstrong (1993: 237) define packaging as “*the activities of designing and producing the container or wrapper for a product*”. Packaging can add value as it protects and contains the product and can be a very effective promotional and informational tool. Considerations in packaging include opening of the product, design, labelling and nutritional information given. Stanton and Futrell (1987: 241, 242) suggest packaging strategies: changing the packaging; packaging the product line; providing reusable packaging and multiple packaging such as the cup-a-soup five soups in a pack.

#### **2.12.4 Pricing**

Pricing is the *amount of money charged for a product or service, or the sum of the values that consumers exchanges for the benefits or having or using the product or service*” (Kotler and Armstrong, 1993: 279). Although prices may be determined by the provider, various factors may necessitate review of pricing, resulting in price increases or decreases. Bhowan et Al (2001:34,35) and Cundiff, Still and Govoni (1980:309) outline the following as being factors that affect pricing:

- Elasticity of demand. Prices are very sensitive to demand and if elastic, a change in price will lead to a resultant increase/decrease in demand for the product. Inelastic prices when changed do not lead to a change in demand for the product.
- External factors; economic climate, legislation, nature of the market, and consumer behaviour in relation to pricing.
- Competitors’ prices and likely reactions.
- Stage of the product in the lifecycle.
- Internal cost considerations.
- Product mix.
- Quality of product.

#### **Pricing Strategies**

*“The strategy for setting a product’s price often has to be changed when the product is part of a product mix...The firm looks for a set of prices that maximises the profits on the*

total product mix” (Internet 31). Nine possible price-quality strategies are shown in table 2.12.

**Table 2.12 Nine Marketing Mix Strategies on Price / Quality**

		PRICE		
		High	Medium	Low
PRODUCT QUALITY	High	1. Premium strategy	2. High-value strategy	3. Superb-value strategy
	Medium	4. Overcharging strategy	5. Medium-value strategy	6. Good-value strategy
	Low	7. Rip-off strategy	8. False economy strategy	9. Economy strategy

Source: Kotler P. & Armstrong G. 1993, Marketing, An Introduction 3rd Edition, Prentice Hall, USA: 301.

The strategy is only determined on one attribute and is quite narrow. Table 2.13 shows three other strategies that can be used according to more extensive criteria. Churchill and Peter (1998:341) indicate that skimming is normally used when a new product has been introduced into the market and development costs need to be recovered quickly. Later on the price of the product is gradually reduced. This strategy is commonly used for the introduction of electronic items. Penetration pricing is used for a new product to attract consumers from the target market to purchase it.

**Table 2.13 Integrated Pricing Strategies**

	Skimming strategy	Penetration strategy	Survival strategy
Target Market	Specific Segments	Broad Mass Market	Specific Segments
Production Volume	Low	High	Low
Product	Differentiated	Undifferentiated	Differentiated or Undifferentiated
Distribution	Exclusive	Intensive	Selective
Promotion	High	Medium to High	Limited
Price	High	Low	Low
Elasticity of Demand	Low	High	High

Source: Bhowan K. Hosking C. Msweli-Mbanga P. & Naidu K., 2001, Marketing Management Book 2: Marketing Mix Strategies 2001/2 Edition, Natal Business School Publishers, South Africa: 33.

### Adjusting Prices – Tools

Adjustments may be necessary if the product is subject to seasonal or cyclical demand or if unexpected conditions are experienced and the marketer has to select the appropriate adjustment tools. Churchill and Peter (1998:344-354) suggest that a variety of discounts,

such as quantity discounts or cash discounts can be used. Some supermarkets have every-day low prices instead of having regular discounts. Psychological pricing, including odd-even pricing can also be effective. Global companies may introduce global pricing where the price differs in each country.

In summary there are numerous pricing options available to a provider, but these will be affected by the pricing objectives of the company and also competitor responses. Pricing can also be used to reinforce the positioning of a brand in the minds of consumers.

#### **2.12.5 Distribution (Place)**

*“Creating a good or service that perfectly matches the needs of the target market and charging an attractive price will all be for naught if the good or service is not made available where the consumer wants and expects to buy it”* (McDaniel and Darden 1987: 389). The development of the product will have more or less determined if availability is to be exclusive or intensive. Hollensen (2001: 482, 483) and Churchill and Peter (1998:377) list the determinants of channel decisions as being:

- *“Customer characteristics – size, geographic distribution, shopping habits, outlet preferences and usage patterns.*
- *Nature of the product, including transportation and warehousing costs.*
- *Nature of demand / location.*
- *Competition.*
- *Legal regulations and local business practices (applicable for the global company)*
- *Intermediary characteristics.*
- *Environmental characteristics.*
- *Organisational characteristics”.*

The distribution channel then needs to be designed. *“Consumer product channels tend to be longer than industrial product channels because the number of customers is great, the customers are more geographically dispersed, and they buy in smaller quantities”* (Hollensen, 2001:482). Essentially there are three types of channels, those for; consumer goods, organisational goods and services. They can be sold directly from producer to

consumer or may involve an intermediary including a retailer, agent or broker or a combination. For producers in-house distribution is not usually beneficial, as it is not normally part of a company's core business. Distribution channels reduce the number of transactions as it is made simpler by having only one intermediary to deal with. A distribution channel can help a company to achieve economies of scale and to decrease discrepancies and can also facilitate the flow of goods from producer to consumer. Distribution channels perform different functions; transactional, logistical and facilitating.

For channel members to perform adequately producers may need to support members through training or incentives. Dealing with retailers may be particularly challenging and especially with the South African configuration including spaza shops, hawkers and many independent traders. Marketing programmes often need to be developed to ensure that the relationship between the producer and intermediary is beneficial to both.

**Table 2.14 The Three Roles of Distributors**

Transactional	Logistical	Facilitating
<ul style="list-style-type: none"> <li>• Gather and disseminating information for planning and facilitating distribution.</li> <li>• Developing a promotional mix.</li> <li>• Finding and communicating with channel members and prospective buyers.</li> <li>• Negotiation of price and other terms of offer through mutual interaction with channel members.</li> <li>• Purchasing from suppliers.</li> <li>• Selling of products to consumers and other channel members.</li> </ul>	<ul style="list-style-type: none"> <li>• Physical distribution of goods – movement of products from where they are manufactured to where they are stored.</li> <li>• Carrying and maintaining sufficient inventory to match supply and demand cycles.</li> <li>• Sorting of goods according to product type, size and quantity.</li> </ul>	<ul style="list-style-type: none"> <li>• Financing products or providing credit to enable channel members to purchase the products.</li> <li>• Grading products by classifying them into categories based on quality, colour or size.</li> </ul>

Extract taken from: - Bhowan K. Hosking C. Msweli-Mbanga P. & Naidu K., 2001, Marketing Management Book 2: Marketing Mix Strategies 2001/2 Edition, Natal Business School Publishers, South Africa: 61, 62.

### 2.12.6 Promotion

Promotion is a form of communicating with potential customers for consumer or organisational products. The main aims of promotion are to inform the consumer about the product, persuade them to purchase it and to provide reminders to consumers about

the product. In order to get consumers to purchase the product effective promotions need to fulfil the steps of the AIDA model: Awareness; Interest; Desire; Action. Rogers' (Anderson and Narus 1999:302) Diffusion-Adoption model is slightly different and proposes five stages – awareness, interest, evaluation, trial and adoption.

The nature of the product and related consumer behaviour will also determine how promotion material is put together and presented and what type of medium is used. Requirements will differ for low effort products such as fast moving consumer goods (FMCGs) and high effort products such as durable and big-ticket items (personal insurance or the purchase of a vehicle). Kotler and Armstrong (1987: 384-392) outline the different steps, which are followed to develop effective communication.

- Identify the target audience.
- Determine the response sought (awareness, knowledge, liking, preference, conviction or purchase).
- Choose a message (need to determine message content, message structure and message format).
- Choose the media to be used (will use either personal or non-personal communication channels).
- Select the message source.
- Collect feedback.

### **The Promotional Mix**

*“Rarely will a single communication resource be the most effective means of accomplishing a firm’s promotional objectives. Instead, a blend of various factors must be used to reach the target market. That combination is called the promotional mix”* (McDaniel and Darden 1987: 520). The commonly agreed components of the promotional mix are; advertising, personal selling, sales promotion, publicity and public relations. Advertising comprises one-way mass communication such as television or print media. Personal selling is a two-way communication and is a form of direct selling, and involves interaction between the buyer and seller. As Van der Walt et Al (1999: 326) state *“sales promotion consists of personal and impersonal short-term motivational*

*efforts aimed at final consumer, intermediaries and sales representatives to motivate them to sell the product or service, or to sell more of it*". Publicity is not paid for by an organisation and may include newspaper articles on the company, whilst public relations is defined as *"the deliberate, planned and sustained effort to establish and maintain understanding between an organisation and its public"* (Internet 32).

The selection of the promotional tools will depend on the budget allocated to promotion and the objectives of the company. As Stanton and Futrell (1987:423-425) point out other factors influencing the mix include the nature of the market, the nature of the product and its stage in the lifecycle. The relative importance of each of the promotional mix components varies according to whether the product is a consumer or industrial product. Kotler and Armstrong (1987: 397) suggest that advertising is the most important component for consumer goods, whilst personal selling is the most important for industrial goods.

### **2.12.7 Physical Evidence, People and Process**

The last three P's of the extended marketing mix are presented together as they are inter-linked. *"People are, for example, part of the physical evidence as background, and also responsible for the processes. Required processes have an impact on the type of personnel needed, and on the environment"* (Internet 33).

#### **Process**

In the initial development stages here often seems to be an inability to visualise and describe the service. *"One of the keys to matching service specifications to customer expectations is the ability to describe critical service process characteristics objectively and to depict them so that employees, customers, and managers alike know what the service is, can see their role in its delivery and understand all of the steps and flows involved in the service process"* (Zeithaml and Bitner 2000: 205).

The service blueprint, a process flow diagram, can be used to overcome such difficulties and is a depiction of the processes involved in the service being provided, showing: the



customer actions, the onstage contact employee actions and the backstage contact employee actions. It highlights points of contact called 'moments of truth' between staff and between staff and customers. The blueprint also incorporates any physical evidence that would be involved in the process. Employees can see at a glance what their role is in the business and where internal and external interactions take place.

### **Physical Evidence**

*"Physical evidence is the environment in which the service is delivered and where the firm and the customer interact, and any tangible commodities that facilitate performance or communication of the service"* (Zeithaml and Bitner 2000: 252). Physical evidence consists of the servicescape, the exterior and interior of the facility and other tangible clues such as business cards and brochures. The servicescape may differ per service and may not even be applicable, as in the instance of telephonic insurance sales. The usage of the servicescape may vary where it may be self-service, interpersonal service (both customer and employee) or remote service (employee only). Servicescapes may also vary in their complexity and may be elaborate, such as in a hotel or lean, such as at an ATM.

The servicescape can reinforce a customer's perception of the service and is a key element in the portrayal of the company's image, so the environment, furnishings and colour all need to be considered. A service provider can distinguish itself from its competitors through its servicescape. The layout has to be evaluated to ascertain whether it hinders or facilitates the service and if it serves a functional purpose. As human interaction takes place within it the design should be conducive to enabling social interactions to take place and can delineate the roles of the employees and customers, where boundaries lie for customers and what sort of behaviour is expected.

### **People**

There are two types of participants in service provision, the employee and the customer. Often *"the contact employee is the service – there is nothing else"* (Zeithaml and Bitner 2000: 287). The service blueprint shows the areas of interaction between employees and customers and would have led to the development of policies and procedures. Zeithaml

and Bitner (2000: 293) suggest that to build a “*customer-oriented, service-minded workforce*” which is also motivated and willing and able to deliver such service a company should: “*Hire the right people; Develop people to deliver service quality; Provide the needed support systems; Retain the best people*”. Complementary to these strategies is the development of a service culture within an organisation. This is defined as “*a culture where an appreciation for good service exists, and where giving good service to internal as well as ultimate, external customers is considered a natural way of life and one of the most important norms by everyone*” (Henkoff 1993: 62-70).

The participation of the other role-player, the customer, will depend on the service. Participation in a fast-food restaurant is low, whilst it is considerably greater in a personal training session. Customers can be seen as productive resources and affect the quality of output, service quality and satisfaction through their inputs into the service. Customers can be viewed as ‘partial employees’ of the organisation and customers’ roles and jobs are defined on the blueprint. Customers need to be given the tools to perform their role effectively such as familiarising them with forms to be used and related information required. Customers who feel that they are rewarded for their contribution are more likely to feel satisfied. Rewards may be intrinsic such as time savings, or extrinsic such as monetary savings. The organisation has to ensure that the ‘right’ customers from the target market are attracted and recruited to the service.

Finally an organisation has to manage the customer mix, or the variety of people that may be simultaneously consuming a service. This can be quite difficult but strategies, such as the introduction of a code of conduct (regulating smoking, etc) may also help, whilst careful positioning and segmentation of the organisation can lead to a more homogeneous customer group emerging naturally.

### **2.13 MODEL FOR CHAPTER 2**

The model developed during this chapter is shown overleaf in figure 2.18 and outlines the process which will be followed in the case study and which will be taken into consideration in the evaluation of Smiths Aftermarket in order to make recommendations.

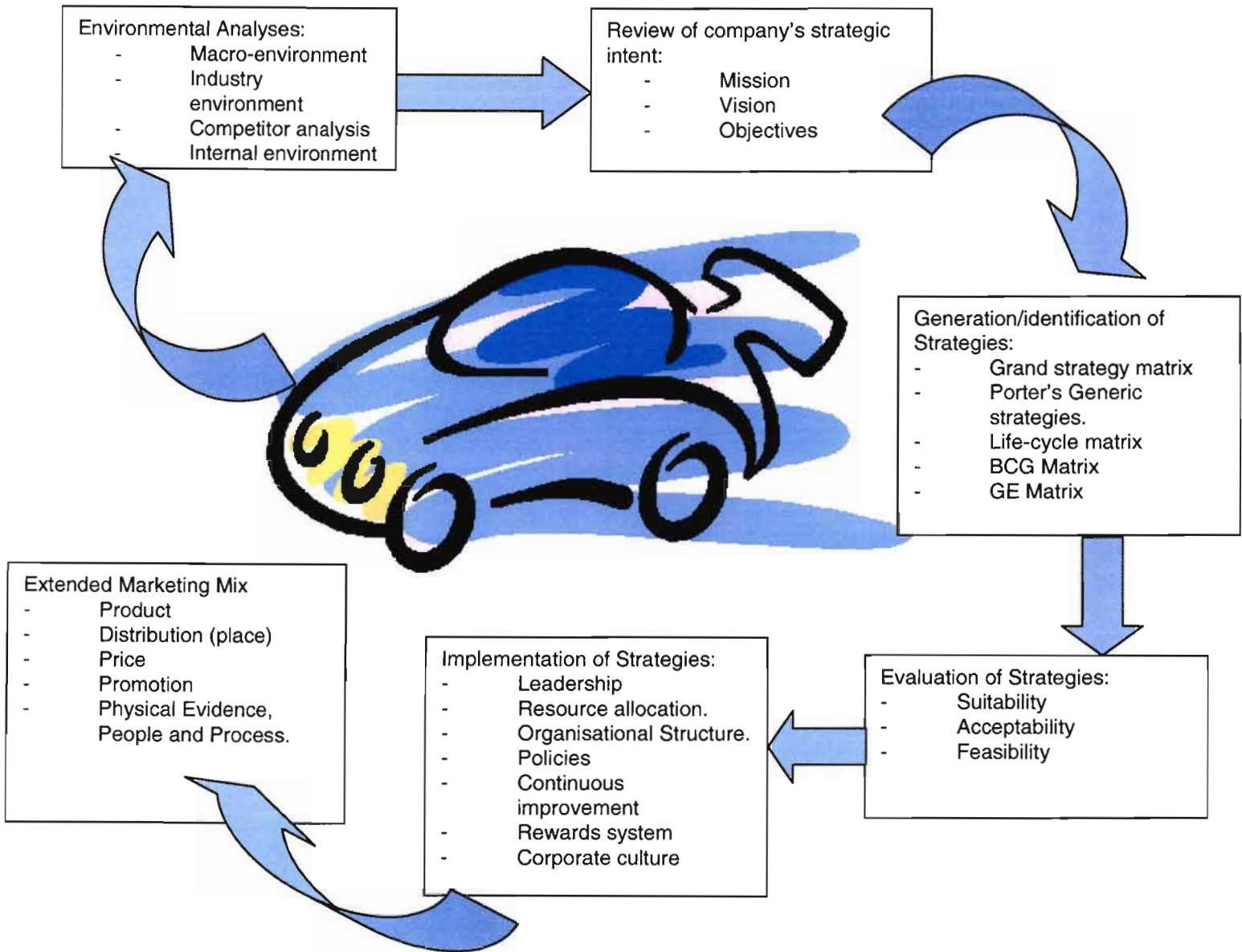


Figure 2.18 Theory Model

## 2.14 CONCLUSION

This chapter has presented the theories relating to strategic planning, which although not exhaustive give a general overview of the tools and techniques available during the strategic planning process. Where appropriate criticisms of theories have been presented and alternatives to the theories under consideration have been given.

Clear steps are followed during the strategic planning process. The process commences with an evaluation of the different environments in which a company operates, including; the macro-environment, the industry environment, the competitor environment and internal environment. Such these analyses a company can identify the opportunities and threats that exist, along with its internal strengths and weaknesses. Once comprehension of these is reached a company can review its strategic intent and determine whether what it is trying to achieve in the long term is feasible or desirable.

Strategies from global strategies and grand strategies to generic/business level strategies, are then identified using differing portfolio matrices. Strategies generated are evaluated for their suitability, acceptability and feasibility as implementation may not be possible. Strategies that have met all of the requirements can then be implemented. Implementation is influenced by various factors, such as leadership and organisational structure. A company has to take cognisance of these and make the necessary changes to facilitate successful implementation, which is often the most difficult part of the process.

In between the generation and implementation of strategies the marketing mix would be developed to guide the functional strategies to be employed to meet generic/business level and grand strategies. With many businesses incorporating a service aspect to them nowadays the traditional marketing mix of the 4Ps has been found to be wanting, leading to the development of the extended marketing mix.

In chapter 3 the current situation of the automotive aftermarket air-conditioner manufacturer (Smiths Aftermarket) is presented applying tools from this chapter.

## **CHAPTER 3**

### **CASE STUDY**

#### **3.1 INTRODUCTION**

The case study of the aftermarket division of Smiths Manufacturing, known as Smiths Aftermarket and its aftermarket brand, Dunair, is presented during this chapter. Strategic planning theory introduced in chapter 2 is applied to the case study and is presented to illustrate the current situation of the division. The case study commences with an overview of the division and its background.

Analyses of the external environments in which the company operates are presented, followed by presentation of the internal analysis of the division. The current strategic intent of the company is given and thereafter strategies that the division is pursuing are outlined. Financial aspects centred on the current status of the division such as financial ratios are discussed. Elements including organisational structure and leadership related to the implementation of strategies are also presented. The chapter concludes with the present marketing mix of the division.

Information presented during this chapter is a result of interviews with key players in the industry, secondary data and reports on the aftermarket in general, discussions with divisional personnel and documentation on the division itself.

#### **3.2 SMITHS MANUFACTURING (Pty) LTD**

Smiths Manufacturing (Pty) Ltd is an independent South African automotive component manufacturer specialising in the manufacture and assembly of automotive heating and cooling components. Based in Durban, Smiths was founded in 1966 by Smiths Industries Limited of England and was purchased by Metair Investments Ltd in 1985, a group specializing in the manufacture of automotive components. Smiths supplies the South African subsidiaries of the leading international vehicle manufacturers based in South Africa with original equipment components. The term aftermarket is a generic term used

for any part or accessory which is replaced or fitted to a vehicle after it has been produced at the motor plant.

### **3.2.1 Smiths Aftermarket and Dunair**

The aftermarket division of the company is known as Smiths Aftermarket, which sells products under the brand name of Dunair. For the purposes of this paper the terms Smiths Aftermarket and Dunair are used interchangeably. The division supplies parts in two ways:

- Replacement parts and aftermarket air-conditioner kits to the motor plant parts and accessories (P&A) divisions, who in turn supply their P&A outlets (also known as franchise dealers).
- Supply of replacement parts and aftermarket air-conditioner kits (Dunair) to general repair and fitment centres through a sole distributor (Pro-Fit).

Motor plant product approval or recommendation has been awarded for almost every Smiths aftermarket air-conditioning kit. Smiths aftermarket has replacement parts and air-conditioner kits for Ford, Land Rover, Mazda, Nissan, and Toyota vehicles, and products for VW and Delta vehicles are being developed. Smiths Aftermarket' manufacturing facility is based within Smiths Manufacturing's premises in Durban. Smiths Aftermarket products are manufactured and assembled to similar quality standards as original equipment components i.e. products that are assembled on the vehicle whilst still at the factory.

Dunair was originally established in 1978 as an automotive air-conditioning company. A brand name familiar to many in South Africa, Dunair air-conditioners and replacement parts are supplied to independent air-conditioning fitment centres in South Africa and neighbouring countries. Dunair was purchased by Smiths in 1996 and was incorporated into the existing Smiths structure and became part of Smiths Aftermarket, but the brand name Dunair was retained. Smiths Aftermarket has autonomy from Smiths Manufacturing in terms of design, manufacturing and marketing its own range of Dunair products.

### **3.2.2 Strategic Planning at Smiths Manufacturing**

Smiths Manufacturing has a well-defined strategic planning process, which has evolved over the last six years. Initial strategic planning takes place at executive level and primarily includes a PEST and Porter's analysis, along with a SWOT analysis. The company has a defined vision and mission and objectives which are then reviewed following the environmental analyses. Grand strategies are developed at this level and communicated to the divisions by the directors.

Once the objectives and grand strategies have been set the directors commence strategic planning at divisional level for which there is no prescribed process. Smiths Aftermarket tends to follow a similar strategic planning process whereby the industry environment and competitors are considered and a hybrid SWOT analysis is conducted. Objectives for the year based around the top level objectives of Smiths Manufacturing are discussed and determined and a tactical plan is then developed for the management team. At this level the divisional director and his management team conduct the strategic planning.

Each manager is tasked with developing a tactical plan for his area of responsibility such as marketing, engineering and manufacturing. The tactical plan comprises the functional level strategies for the division, including related marketing mix activities and is implemented by the management team. Managers are loosely adhering to the tactical plans and are not necessarily maximising their usefulness. Quarterly reviews of progress against the tactical plans occur at executive level, where the aftermarket director gives feedback on actual against planned progress.

### **3.3 MACRO-ENVIRONMENT OF THE AUTOMOTIVE AFTERMARKET**

*"The worldwide aftermarket is facing momentous challenges which are being brought about by changing relationships with suppliers, low margins, attempts by manufacturers to muscle in on the act, technological advances and changing behaviour by motorists"* (Automobil, 2003: 32). At macro-environment level the automotive aftermarket industry is broad, ranging from products such as oil filters through to cosmetic items like CD players and radios. *"Over an increasingly productive lifecycle, today's vehicles travel*

*further and for longer than their ancestors*” (Proctor T. July/August 2000: 53). In 1998 it was estimated that “23% of the world’s vehicle parc was over 12 years old” (ibid), which means that opportunities for the replacement of parts increase. The size of the aftermarket market for any country is dependent on the volumes of vehicles in the vehicle parc and also the average age of the vehicles within that parc and it is important that an aftermarket manufacturer analyses the vehicle sales in its country. The total vehicle parc in South Africa “comprises about 6.8 million vehicles of which 3.9 million (57%) represent passenger cars” (Internet 34).

Globally there is currently excess capacity within the vehicle manufacturers and sales of new vehicles have stagnated to a certain extent. “New vehicle sales growth in the 1980s, and a regular rhythm of replacement demand since then in mature markets (and future growth in less developed markets) is and will remain a major driver in the growth of the aftermarket” (Proctor T., 2000: 54). This will counteract the slower sales in the short to medium term.

The discussion so far has only focussed on replacement parts, whilst the other aspect of Smiths Aftermarket’ business is that of air-conditioner kits, which are fitted to a vehicle after it has been purchased and left the factory. “Air-conditioning is rapidly becoming another ‘must-have’ in all cars. A recent study of 400 German car owners revealed that a climate control system was among the most important features for vehicle comfort. Air conditioning has long been viewed as essential in Japan and North America, and penetration levels are increasing in Europe where they are expected to reach 75-80% of all passenger cars by the year 2005” (Internet 35). As air conditioning has gained in prominence so the number of vehicles that come fitted with an air-conditioner has increased, negatively affecting the aftermarket for air-conditioners. This is discussed in more depth in chapter 4. By conducting the PESTEL analysis introduced it is possible to identify these factors in relation to the automotive aftermarket industry (figure 3.1).



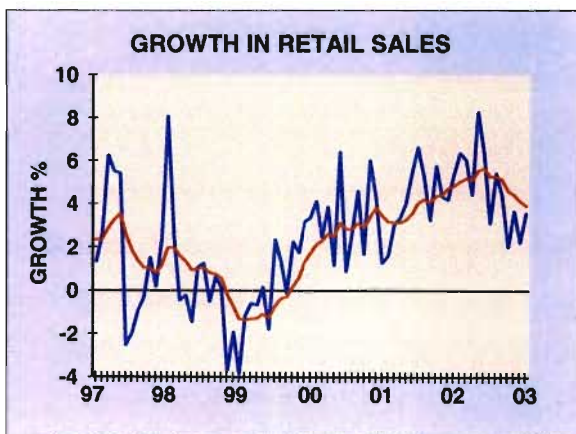
**Figure 3.1 PESTEL Analysis for the Automotive Aftermarket and P&A Industry**

<p style="text-align: center;"><b>Political Factors</b></p> <ol style="list-style-type: none"> <li>1. Aim of reducing taxes for lower income groups to increase disposable income to equalise distribution of income and generate spending. Results have yet to be felt.</li> <li>2. Inflation target of between 3-6 %. The high interest rate tactic, along with the high inflation (9.2% predicted for 2003) has negated tax relief gains stagnating spending in the economy.</li> <li>3. The government is looking at introducing compulsory annual roadworthiness inspections. This would increase the market for replacement parts.</li> </ol>	<p>A u t o m o t i v e  A f t e r m a r k e t  a n d  P &amp; A  I n d u s t r y</p>
<p style="text-align: center;"><b>Economic Factors</b></p> <ol style="list-style-type: none"> <li>1. Low economic growth (GDP predicted to be 3.3% in 2003) is negatively affecting vehicle sales.</li> <li>2. Interest rates and inflation rate remain high eroding disposable income and purchasing power.</li> <li>3. Exchange rates – Rand is currently strong. The weak Rand was used as a reason to increase prices but savings through the strong Rand have yet to be passed on. Price increases on vehicles in 2002 averaged 18%, mostly due to weakening of the Rand.</li> <li>4. Unemployment remains high and although improving, consumers are not yet empowered to purchase big ticket items.</li> <li>5. Cost of vehicles vs cost of housing. The gap between the purchase of a new vehicle and the price of housing can be relatively small, pushing consumers to choose used vehicles or no vehicles over a new vehicle.</li> </ol>	
<p style="text-align: center;"><b>Social Factors</b></p> <ol style="list-style-type: none"> <li>1. Income is slowly but surely becoming more equally distributed, but effects of this have yet to be felt in the economy.</li> <li>2. The role of previously disadvantaged groups, including women is changing, along with their earning capacity.</li> <li>3. People are more exposed to global cultures through greater travel. They are more conscious of quality of overseas products and are more educated and informed. The result is that consumers are more demanding.</li> <li>4. With changes in lifestyle and technology people are no longer keen to do DIY vehicle repairs. Motor plants are persuading consumers to take extended warranties and are emphasising the consequences of fitting non-motor plant parts in the event of parts failure. This affects independent P&amp;A outlets and dealers.</li> <li>5. AIDS is changing family structures and priorities of families in terms of expenditure.</li> </ol>	
<p style="text-align: center;"><b>Technological Factors</b></p> <ol style="list-style-type: none"> <li>1. Little to no research and development takes place in South Africa.</li> <li>2. South African companies normally need technical agreements, attracting royalties, to produce components.</li> <li>3. New technology is prohibitively expensive in terms of capital expenditure.</li> <li>4. Imported vehicles produced in high volumes elsewhere normally come fitted with most accessories.</li> <li>5. Technological advances have led to longer interval periods between services and the replacement of parts.</li> </ol>	
<p style="text-align: center;"><b>Environmental Factors</b></p> <ol style="list-style-type: none"> <li>1. Environmental laws.</li> <li>2. Disposal of waste.</li> <li>3. Recycling of products.</li> <li>4. Energy consumption and material usage.</li> </ol>	
<p style="text-align: center;"><b>Legal Factors</b></p> <ol style="list-style-type: none"> <li>1. End of Vehicle Life Act.</li> <li>2. Health and safety.</li> <li>3. The Competitions Commission in Europe has just ruled that non Motor Plant aftermarket parts can be fitted to a vehicle and it will not affect the warranty of that vehicle.</li> </ol>	

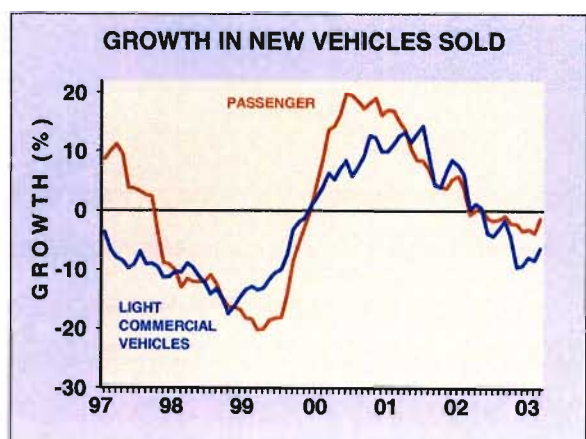
### 3.3.1 Political Factors

“The political arena has a huge influence upon the regulation of businesses, and the spending power of consumers and other business” (Hanson D. & Dowling P., 2001: 50). Tax relief, reduced transfer duty on low value property acquisitions and reduced ad valorem duty payable by motor plants on cars (particularly smaller ones), have not achieved the desired results of stimulating spending (see graphs 3.1 and 3.2), due to the high interest rates and inflation rate. The latter tactic is aimed at enabling motor plants to reduce the price of smaller vehicles to make them more affordable. The existing vehicle parc is small and ageing, which, whilst positive for some parts suppliers such as batteries others, such as air-conditioner suppliers, rely on a bigger vehicle parc and sales of new vehicles for their business.

Graph 3.1 Retail Sales



Graph 3.2 New Vehicle Sales



Source: Jammine A. Dr, 2003, *Outlook for the South African Economy for NAACAM*, Econometrix (Pty) Ltd, April 2003: 8, 9.

### 3.3.2 Economic Factors

GDP is expected to be 3.3% in 2003, a figure revised downwards from 3.5% growth and is still low (Econometrix: 2003). Private consumption is closely related to GDP with growth in durable goods predicted to be 3.1% in 2003 (Ibid). When the Rand was weak, local suppliers increased prices of imported sub-components in line with foreign exchange movements. Savings incurred through a stronger currency have not been passed on in all instances to the component manufacturers, rendering their finished goods expensive.

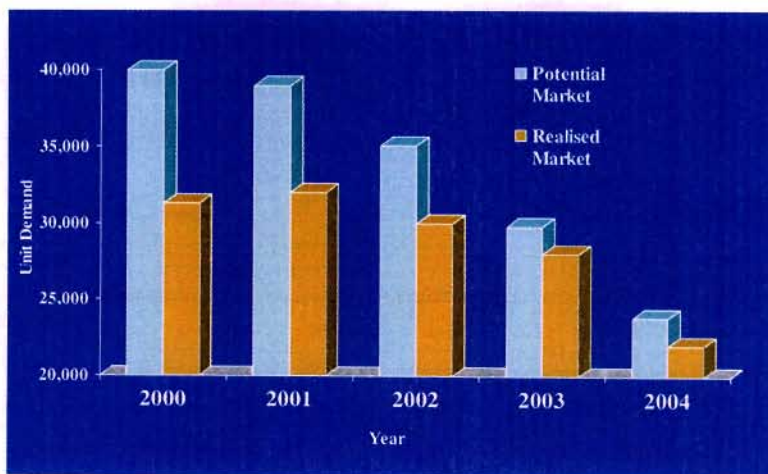


### 3.3.3 Social Factors

The vehicle industry has recognised this emerging role of previously disadvantaged people, including women, and vehicles targeted at them continue to be produced. Entry level vehicles such as the Citi Golf, Toyota Tazz and Fiat Uno continue to be sold in South Africa to supply affordable vehicles and to service this market. The Citi Golf is only sold in South Africa and Brazil and was kept due to market demand and demographics. It was phased out in the other countries. As consumers have become more educated and demanding as a result of international exposure motor plants have responded by increasing the parts and accessories being offered on a vehicle as standard to include CD players, electric windows, air bags and air-conditioners. This is having a negative impact on the aftermarket air-conditioning market (graph 3.3).

The motor plants place emphasis on keeping warranties intact so consumers tend to have their vehicles serviced at the motor plants' dealerships for a longer period of time particularly with warranties being extended. Whereas consumers would have previously gone to independent dealers for spares they are more inclined to try and keep a vehicle within warranty and so will go to a motor plant's P&A outlets. This is negatively affecting business at independent dealers as they are excluded from this area of business.

**Graph 3.3 Growth – Aftermarket Air-conditioning Kits.**

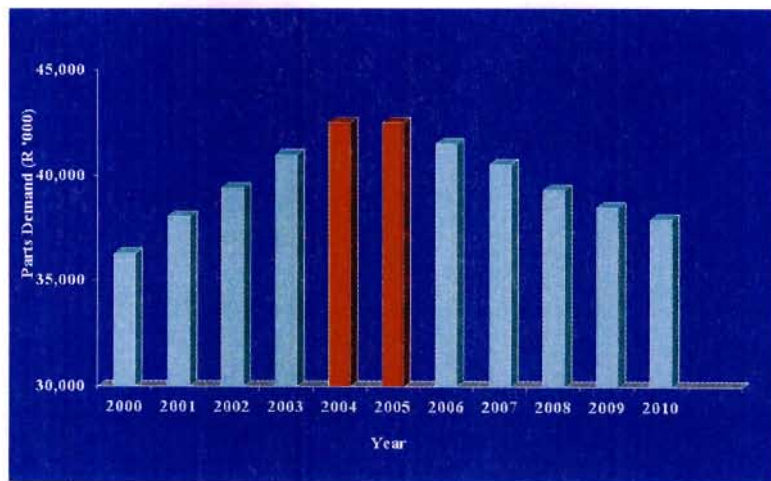


Source: Perrie M. J., 2001. *Auto-airconditioning. Market Evaluation*, Project # 1871 February 2001: 29

### 3.3.4 Technology Factors

Technology in South Africa has generally been procured from other countries, incurring licensing and royalty fees. Advances in technology have led to longer interval periods between services on vehicles with 15 000 km intervals now the norm. Parts are more durable and of a better quality than before and so replacement of parts is not so frequent as they are lasting longer. The parts market has managed to continue to grow despite this and is shown in graph 3.4. It is anticipated that this trend will soon reverse and that there will be negative growth after 2005.

**Graph 3.4 Growth – Replacement Parts**



Source: Perrie M. J., 2001. *Auto-airconditioning, Market Evaluation*, Project # 1871 February 2001: 32

### 3.3.5 Environmental Factors

Motor plants will not give their approval to products if a company does not meet quality standards, including environmental quality standards, so adherence is automatic. Companies are now busy working towards meeting the requirements of the End of Life, Vehicle Act, developing recyclable parts and eliminating certain chemicals.

### 3.3.6 Legal Factors

The Competitions Commission in Europe has recently ruled that non Original Equipment (OE) parts and accessories can be fitted to a vehicle and the vehicle warranty will not be

affected, unless the replaced part causes a problem. This is a radical move in an industry where motor plants have enjoyed *carte blanche* and motorists have been forced to fit motor plant parts to retain warranties. The European aftermarket industry and independent suppliers can potentially benefit from this development depending on their current market share and level of sophistication of the supplier.

### **3.4 AUTOMOTIVE AFTERMARKET AIR-CONDITIONING AND REPLACEMENT PARTS ENVIRONMENT**

Chapter 2 (table 2.2) presented a variety of theories for industry analysis where the determining factor is the lifecycle stage of the industry and competitive conditions. The aftermarket division currently has three competitors; Crispair, Connoisseur (the aftermarket division of Behr Climate Control Systems) and Arcotemp. This is reducing to two competitors as Connoisseur and Arcotemp are collaborating and will be distributing products under the joint name of Panacomp. In 1989 there were seven competitors but competitive conditions have shaken out weaker companies. Emphasis at present is on producing components efficiently and at low costs. Taking these into consideration the industry is currently in the maturity stage of its lifecycle, for which either core competence or five forces analysis can be used (see table 2.1).

#### **3.4.1 Dominant Economic Features of the Industry**

*“Because industries differ significantly in their basic character and structure, industry and competitive analysis begins with an overview of the industry’s dominant economic features”* (Thompson and Strickland 2001: 77). The first step is to define the industry which is: air-conditioning kits and replacements parts produced for both passenger and light commercial vehicles (LCVs), which are fitted to the vehicle retrospectively after production at the motor plant.

**Table 3.1 Economic Features of the Industry**

Market Size	29,800 air-conditioning kits worth R128 million, 40,970 replacement parts worth R36.2 million.
Scope of Competition	National. Producers rarely sell outside of South Africa.
Market Growth Rate	Air-conditioning kits -12.75%, Parts 4.05% growth.
Stage in Lifecycle	Mature
Customers	Fitment centres: 650 parts dealers (new and aftermarket). Motor Plants P&A outlets: 1100 (attached to new car dealerships).
Degree of vertical integration	Mixed. None of the aftermarket manufacturers have outlets selling directly to the end consumer. Aftermarket manufacturers, with the exception of Smiths Aftermarket distribute directly to fitment centres and P&A outlets. Smiths distributes to the fitment centres through Pro-Fit and distributes directly and via Pro-Fit to the Motor Plants P&A divisions who service their P&A outlets.
Ease of Entry/Exit	High entry barriers exist due to technology constraints and need for international licences to supply Motor Plant P&A. Reasonably high capital requirements to construct a new plant (R10 million). Also have to have ability to build a customer base nationally, which is costly.
Technology/Innovation	Production technology is standard with variations per product model. Changes are slow and normally driven by international companies. There is more flexibility in the aftermarket sector to adapt technology to meet local requirements.
Product characteristics	Products are relatively standardised, but are tailored according to the vehicle variant for which it is produced. Buyers perceive there to be little difference between products but factors such as price and availability may influence their purchasing decision.
Scale economies	The new vehicle market and existing vehicle parc are small in comparison to world norms making it difficult to achieve economies of scale on products.
Learning and experience effects	Very important in this industry as sales can only be achieved once certain quality standards are met and it can be a lengthy process to get into the marketplace.
Capacity utilisation.	Difficult to determine in the industry.
Industry profitability	Sub-par to average. Where consumers see little differentiation between products this has resulted in keen pricing and cost cutting where possible so margins have been eroded.

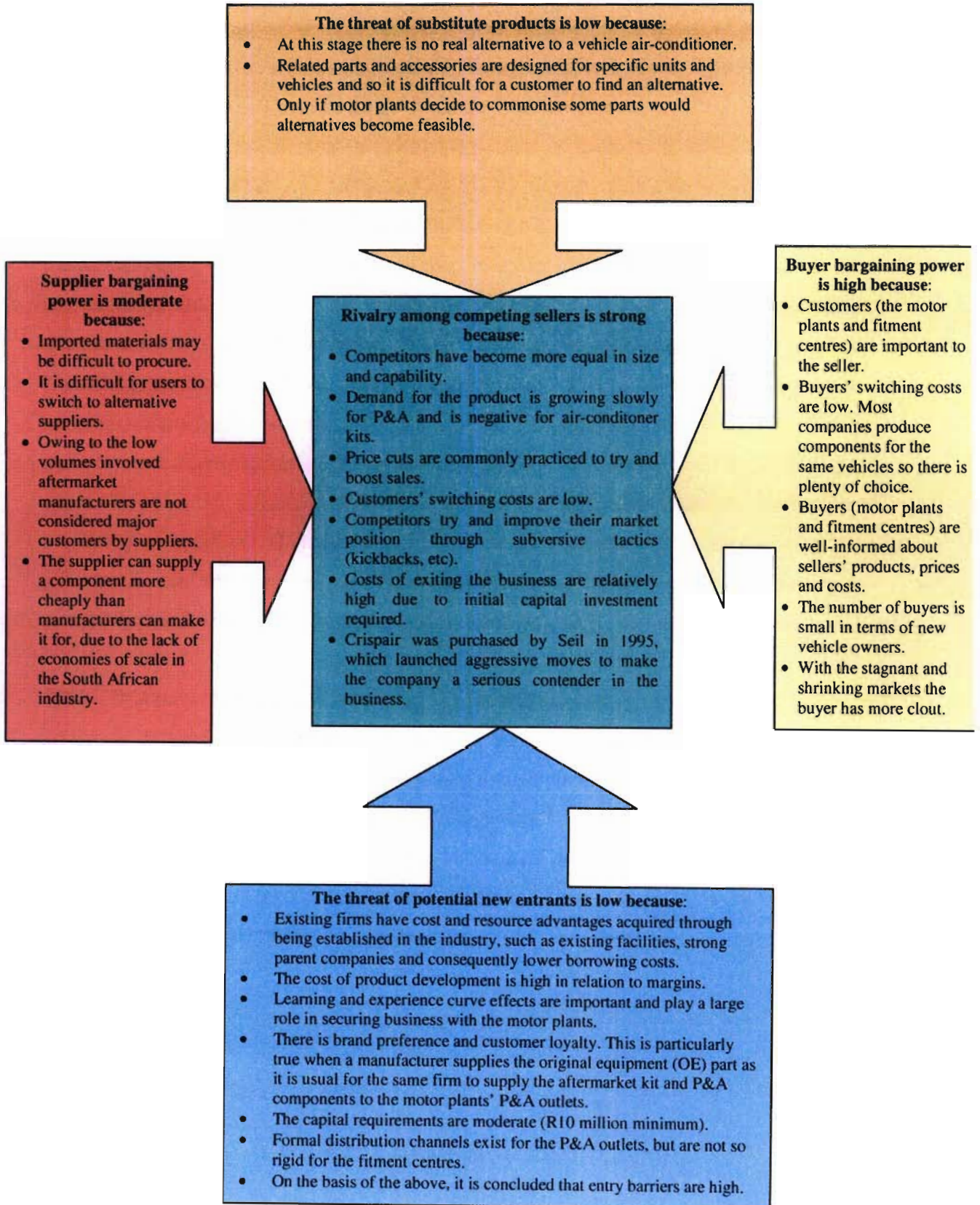
Source for statistics: Perrie M. J., 2001. *Auto-airconditioning, Market Evaluation*, Project # 1871February 2001

### 3.4.2 Porter's Five Forces - Aftermarket Air-conditioning and Parts Industry

Figure 3.2 details the different factors that are considered for each of the five forces. On the positive side the threat of new entrants is low and there is little to no threat from substitute products in the foreseeable future. Conversely suppliers to the industry have reasonable to high bargaining power, based on the importation of sub-components such as compressors. Consumers also have high buying power through wide choice in the market and low switching costs. Owing to market conditions detailed on page 77 rivalry among competing sellers is high.



**Figure 3.2 Porter's Five Forces Analysis**



### 3.5 THE COMPETITOR ENVIRONMENT

The intensity of rivalry between competitors in the industry indicates that it is of paramount importance that an aftermarket manufacturer has a clear understanding of its competitors. Monitoring of competitors by Smiths' aftermarket has been done through market studies, and competitor analysis conducted during annual strategic planning. The study conducted in 2001 forms the basis of the subsequent competitor analysis.

**Table 3.2 Competitor Analysis for Smiths Aftermarket' Competitors**

Company	Dunair (Smiths)	Connoisseur	Crispair	Arcotemp
Market share (air-conditioner kits and replacement parts)	52% a/c 31% parts	16% a/c 8% parts	22% a/c 11% parts	10% a/c 3% parts
Market share of fitment centre business (excludes sales to motor plants P&A outlets).	24.8%	12.2%	42.9%	20.2%
Ownership	100% owned by Smiths	100% owned by Behr SA	100% owned by Seil UK	Owner managed – independent
Motor Plant approval / recommendation	Toyota, Ford, Nissan, VW	Delta, Isuzu	Claim to be recommended by VW, Ford and Nissan.	Claim to be approved by Ford, Nissan, and Daihatsu.
Product range in terms of vehicle makes.	Toyota, Ford, Land Rover, Mazda, Nissan, BMW, VW, Delta	Delta, Isuzu	Delta, Ford, Fiat, Honda, Daewoo, Hyundai, Toyota, Mitsubishi, VW	Daihatsu, Daewoo, Honda, Isuzu, Kia, Mitsubishi, Ford, Mazda, Nissan
Target Market	Motor plants and fitment centres.	Motor plants and fitment centres.	Motor plants and fitment centres only.	Arcotemp, fitment centres only.
Strategies / objectives	Competitive price and maximise margins. Supply high volume vehicle sales.	Gradual withdrawal from retro-fit market. Too price sensitive and OE demand filling capacity.	Focussing on entry level vehicles and low end of LCV market. Penetration price.	Focussing on Ford entry level vehicles and Corsa and Hyundai. Penetration price.

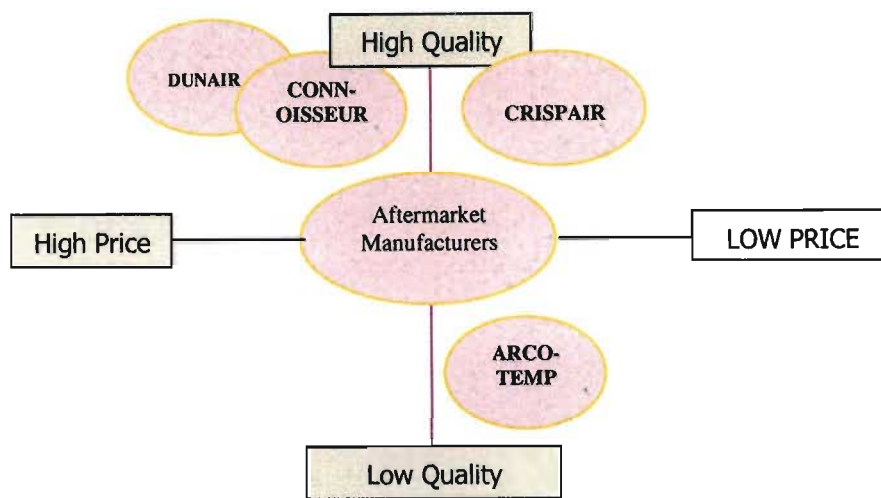
Source for statistics: Perrie M. J., 2001. *Auto-airconditioning, Market Evaluation*, Project # 1871 February 2001

Recently Arcotemp and Connoisseur have joined forces and are going to trade under the name of Panacomp, targeting fitment centres specifically. Arcotemp will benefit through the established distribution network that Connoisseur has and Connoisseur will benefit from the wider product range offered by Arcotemp and its existing customers. Arcotemp is perceived to trade at the lower end of the scale offering low cost units with quality which is poor in comparison to the other competitors, with fitment centres only fitting their units if no others are available. Dunair's slogan 'superior car airconditioning' reinforces the high quality of the Dunair products. Crispair has developed a good



reputation for good availability of kits, a crucial success factor. Crispair is currently for sale and the current owners are actively seeking a buyer. If a snapshot were taken on the current competitor environment based on price and quality, Heylen’s model would be as in figure 3.3.

**Figure 3.3 Heylen’s Model - Aftermarket Airconditioning Manufacturers**



Smiths Manufacturing is part of the Durban Automotive Cluster, a benchmarking club set up for automotive component suppliers. Although benchmarking studies are undertaken, one focussing on aftermarket divisions has yet to be conducted, but it is likely to occur in the future. Smiths Aftermarket is still able to benefit from benchmarking reports highlighting generic aspects such as logistics, inventory control, parts per million (PPMs) and so on. Best practice figures highlighted in the studies can guide Smiths Aftermarket and provide it with goals to achieve.

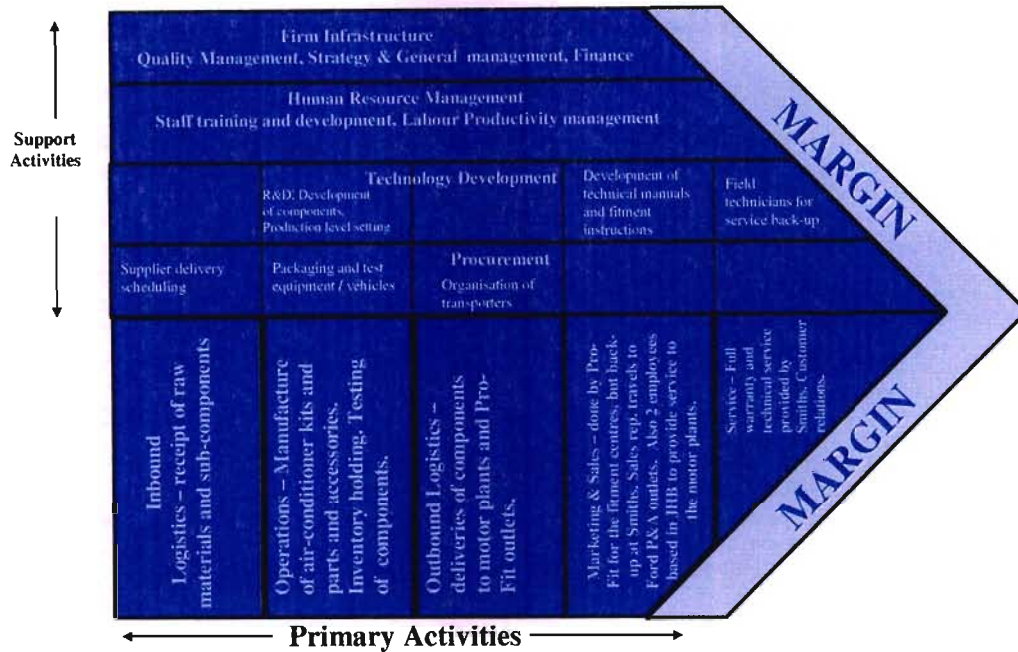
### 3.6 THE INTERNAL ENVIRONMENT OF SMITHS AFTERMARKET

Internal analysis focuses on identifying the strengths and weaknesses of a company and how those can be used to take advantage of existing opportunities, whilst minimising threats. Core competencies identified for Smiths Manufacturing during strategic planning are; manufacturing and assembly. These competencies are extended to Smiths Aftermarket. The resource based view discusses tangible and intangible resources, which

for Smiths Aftermarket are its production facilities manned by an experienced team and its quality, which the brand name Dunair has come to represent.

### 3.6.1 Value Chain Analysis For Smiths Aftermarket

Figure 3.4 Value Chain Analysis For Smiths Aftermarket



Smiths Aftermarket has an advantage over other aftermarket manufacturers as it benefits from Smiths Manufacturing’s purchasing power. It is able to negotiate better prices on sub-components and can leverage the purchasing power Smiths Manufacturing possesses. Extra value is offered in its operations through the testing facilities it has access to as it shares Smiths Manufacturing’s facilities. Fitment manuals are developed for all kits and are available on the Smiths Aftermarket website, giving fitment centres and P&A outlets up-to-date instructions. Further value is offered through the employee who provides support to the P&A outlets. Back-up service is provided by field technicians based both in Durban and Johannesburg who assist with technical difficulties being experienced.

A common buzzword today is that of ‘value-adding’ activities and products and these days consumers expect more for their money. This is true of the P&A outlets, fitment

centres and the end-consumer in relation to aftermarket air-conditioners and replacement parts. Figure 3.5 gives the breakdown of the value model for Smiths Aftermarket.

**Figure 3.5 Value Model For Smiths Aftermarket' Products**

VALUE		PRICE
BENEFITS (to motor plant P&A outlet and fitment centre)	COSTS	PRICE REDUCTIONS
Low volume manufacturer can support a niche market, whilst providing a wide product range.	Distribution costs (related to motor plants only).	Value analysis / value engineering – price reductions
Flexibility for consumer when purchasing vehicle if they only want aircon as accessory. OE models with aircon usually more expensive than adding aircon to lower spec. model.	Packaging costs of branded boxes.	Resourcing of materials
Established company with learning curve experience and technical expertise.	Reworks when necessary.	Better supply chain management.
Brand name of Dunair , which is applicable to fitment centres.	Imported technology and related costs	Economic batch quantities.
Increased safety through adherence to quality ratings.	Tooling costs and related depreciation	In-house R&D.
Dependability	Over-reliance on imported materials (price implications linked to Forex movement)	PRICE SURCHARGES
Consumer is receiving OE product standard at aftermarket level.	Related costs of Pro-Fit – middleman for distribution to fitment centres.	Licence agreements and recovery of royalties (via Smiths Manufacturing).
Superior quality of product.		Tooling costs
Supplier secured for the life of the vehicle		Filling capacity and overhead recovery
Can give a vehicle competitive edge.		Testing costs
Motor plant approval /recommendations and warranty.		Ad valorem tax on aircons.

The value model outlines the benefits to Smiths Aftermarket' consumers and the costs that are incurred. Benefits currently outweigh costs. Price reductions are possible, but there are supplementary costs, such as the recovery of royalties and ad valorem tax on air-conditioners, which are currently treated as a luxury items.

In South Africa approximately 90,000 vehicles are sold annually without an air-conditioner and are mainly entry level vehicles, such as Citi Golf and Tazz and light commercial vehicles. At initial purchase about 40% of owners fit an aftermarket air-conditioner and when a vehicle changes hands for the first time about 5% of customers fit an air-conditioner. It is concluded that the market's potential is 41,000 units per annum.

(Figures supplied by M J Perrie, 2001). The declining market means that value offered will become a stronger differentiating factor in the future. Smiths Aftermarket believes that these figures are now quite outdated. A recalculation of the figures will be done as part of the evaluation in chapter 4 to determine if the market is actually declining.

### 3.6.2 SWOT Analysis For Smiths Aftermarket

The SWOT analysis in table 3.3 is based upon SWOT analyses conducted during strategic planning in the last 5 years, which are applicable to the current situation.

**Table 3.3 Smiths Aftermarket' SWOT**

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Smiths' aftermarket has preferred trading with Toyota.</li> <li>• Dunair name.</li> <li>• Knowledgeable technical staff and technical backup.</li> <li>• Wide range of products.</li> <li>• Motor Plant approval.</li> <li>• Manufacturing flexibility.</li> <li>• Facilities and technology.</li> <li>• Relationship with motor plants.</li> <li>• Access to financial resources.</li> <li>• Warranty administration system.</li> </ul>	<ul style="list-style-type: none"> <li>• Slow product introductions.</li> <li>• Poor availability of products – long manufacturing lead times.</li> <li>• High product cost.</li> <li>• Incorrect parts in kits.</li> <li>• Relationship with fitment centres has deteriorated with introduction of Pro-Fit as a distributor.</li> <li>• Unreliable supply line (in-plant preference given to OE business).</li> <li>• Lack of market intelligence.</li> <li>• Errors on product introductions</li> <li>• Numerous engineering changes</li> <li>• Pricing</li> <li>• Over-reliance on Toyota business (85/15 ratio)</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Development of VW and Delta business.</li> <li>• Potential business on heavy duty vehicles.</li> <li>• Export of products.</li> <li>• Replacement parts for competitors' and OE products.</li> <li>• Increasing fleet business and government contracts.</li> <li>• Motor plants are beginning to insist that their P&amp;A outlets fit only the motor plant's aftermarket brand of parts (e.g. Aircare for Toyota).</li> </ul>	<ul style="list-style-type: none"> <li>• Collaboration between Behr and Arcotemp to distribute products under the National Panasonic brand.</li> <li>• Motor plants under pressure from P&amp;A outlets to approve alternative suppliers to Smiths.</li> <li>• Lower cost imports from the East.</li> <li>• Improvements by competitors on quality and product range.</li> <li>• Potential sale of, or investment in Crispair by external parties.</li> <li>• Declining and stagnant markets.</li> </ul>

Smiths' aftermarket has had a contract with Pro-Fit since 2000, when Pro-Fit took over the responsibility of distributing Dunair products to fitment centres around the country. Pro-Fit has four outlets; Johannesburg, Durban, Cape Town and Port Elizabeth. The relationship with Pro-Fit and its performance is evaluated in more detail in chapter 4, but the general consensus at Smiths Aftermarket is that Pro-Fit is fulfilling its contractual

obligations in terms of distribution, but is not fulfilling the marketing aspects expected of them. Whilst Smiths Aftermarket has numerous strengths, questions are raised regarding whether or not the division has maximised on those strengths. Threats from competitors will continue to grow in view of the shrinking market. Opportunities are mainly centred around gaining business on new vehicles and vehicle marques, developing international markets and working with the motor plants to further develop their aftermarket brands.

### **3.7 REVIEW OF THE STRATEGIC INTENT OF SMITHS' AFTERMARKET**

Smiths' Aftermarket has a clearly defined mission statement, business concept and vision for future business.

#### ***“MISSION STATEMENT***

- *To supply our customer with a reliable, cost effective and easy to install car airconditioning system; support by an effective parts back-up distribution network.*
- *To furnish up-to-date technical and marketing information to all our customers and provide ongoing training to ensure high quality and customer satisfaction.*
- *To make available an after-sales service in support of our products to ensure the required quality and customer satisfaction at all times.*
- *To create an environment for all our people to grow to their maximum potential and to assist them in their development through education and training.*
- *To foster a uniform approach to Smiths Manufacturing mission and to encourage people to maximise their creativity within well defined controls, without stifling initiative.*

#### ***DUNAIR'S BUSINESS CONCEPT***

*In a Product Driven mode, Dunair will improve its competitive advantage by cultivating excellence in product development/producer and service.*

*“Superior Car Airconditioning”*

## **VISION FOR FUTURE BUSINESS**

*Dunair will in future adopt a Product/Service concept-driven Strategy with the emphasis on Product and Process development in order to service our customers, market segments and user groups.*

*A Product/Service-driven business survives on the quality of its products and services.*

*“The Best Product Wins”*

(Smiths Aftermarket strategic plan: 2002).

Strategic intent as a concept will be introduced during 2003. Although the word ‘vision’ is used above, it does not correlate with the usual Big Hairy Audacious Goal (BHAG), which typifies the vision of a company and does not answer the question “*What do we want to become?*” (David 1999:83).

### **3.7.1 Current Objectives of Smiths Aftermarket**

As a division of Smiths Manufacturing, the aftermarket division sets its objectives in line with the objectives of the company overall, which are shown below.

- Return on assets (target >25%).
- Growth with profits.
- Closer relationships with licensors.
- Competitive without protection.
- Supply chain development management.
- Implementation of Smiths’ employment equity policy / programme.
- Maintenance of an effective SHEQ policy / programme.
- Staff stability / building and retention of skills.
- Development / implementation of Smiths’ AIDS policy / programme.

In support of these objectives the aftermarket division’s objectives are.

- *“Maximise contribution*
- *Growth with profits, increase market share. Target increase market share to 50% in non-franchise sector.”*

(Dunair Strategic Plan Barometer, 2003).

### **3.8 SMITHS AFTERMARKET – CURRENT STRATEGIES**

Grand strategies affecting the aftermarket division determined by the divisional director and general manager, are concurred by the directorate of Smiths Manufacturing.

#### **3.8.1 Generic Strategies**

Generic and business level strategies are developed at divisional level by the management team of the aftermarket division. They develop the functional strategies for each of their areas, which are then implemented. For many years Smiths Aftermarket has followed a strategy of differentiation within the market. Previously, Dunair's products were unique for the quality offered in comparison to competitors' products and a premium price was charged in accordance with this strategy. Competitors are now improving their quality and the emphasis for Dunair is a differentiation strategy based on quality and the superior product offered to consumers, where the design of aftermarket kits is either the same as or similar to OE design.

The strategy followed with the P&A outlets of the motor plants has been slightly different, leaning towards a focussed strategy, where exclusivity with each motor plant has been pursued. Each motor plant has a brand name for their P&A components: Ford is Motorcraft; Toyota is Aircare; and Nissan is Nissair. Smiths Aftermarket' products are packaged in specially manufactured boxes with the appropriate brand name. Functional level strategies to meet the divisional objectives are developed and are detailed in the tactical plans discussed earlier.

#### **3.8.2 Strategies to Achieve the Objective of Maximising Contribution**

##### **Distribution**

In 1999 an analysis was conducted of the division's financials, examining each aspect of the business to determine where unnecessary costs lay. Distribution to the P&A outlets and fitment centres was done via four Dunair distribution centres based in Durban, Johannesburg, Cape Town and Port Elizabeth. The financial analysis revealed that these dealerships were adding large costs to the division due to payment of employees, rental and other overheads. The distribution strategy was reviewed.

Toyota P&A outlets accounted for 70% of the division's sales in 1999 and Toyota enjoyed a discount on the normal dealer price to "*cover marketing costs, provide various incentives to the franchise dealers and to allow Toyota a small profit*" (Delpont A.J. & Ziemkendorf F., 1999). The discount is accorded based on the fact that Toyota is distributing the product from its P&A division to its P&A outlets. Toyota had an existing spares and accessory distribution network and it was proposed that Toyota use these channels to distribute Smiths Aftermarket' products to the Toyota P&A outlets. Toyota agreed to this on the proviso that the discount was increased, which was accepted by Smiths. The proposal was implemented and the same strategy has been adopted with Nissan and Ford. Smiths Aftermarket bears the cost of transport to the motor plant's central P&A warehouse, except for Ford, where Smiths Aftermarket delivers to Ford's P&A outlets, either directly or via Pro-Fit.

If the motor plants accepted the proposal to do their own distribution it was always envisaged that the four existing Dunair distribution centres would close. The difficulty was finding a suitable alternative to distribute products to fitment centres. Pro-Fit, a company specialising in the distribution of car audio equipment and installation of vehicle security devices was approached as they had an existing distribution structure. Pro-Fit was offered a discount on the dealer price of kits and spares to do the distribution for Smiths Aftermarket. They took over the Dunair dealership premises in Capetown and Port Elizabeth and already had outlets in Durban and Johannesburg. This strategy was implemented on January 01, 2000. The discounts given were used to determine a base price and have now been absorbed into the pricing.

These two distribution strategies meant that employment costs decreased by 61.27% between 1999 and 2002 and other expenses also decreased by 69.27% (figures provided by Smiths Manufacturing). The current situation is that Toyota and Nissan are on this system whilst products for Ford P&A outlets are either distributed directly to them or via Pro-Fit in other areas of the country.



### **Maximise Margins on Products**

The other strategy employed to maximise contributions has been to focus on the cost of products and to conduct value analysis and value engineering (VA/VE) exercises.

### **3.8.3 Strategies to Achieve Growth with Profits/Increase Market Share**

Strategies to meet this objective include analysing competitors to see where opportunities lie and to target motor plants with which the division does not currently have business, such as VW and Delta. The development of products for new vehicle models is another strategy being pursued and there is a focus on the revival of business with Ford. To support this strategy a divisional employee has been seconded to act as a sales rep. focussing on the Ford business and he travels to each Ford dealership in KZN on a regular basis.

The division has identified an under-serviced niche in the market, the truck market and is developing a selected range of truck air-conditioners. In order to grow turnover of parts the division has explored non-automotive applications for components and has commenced supplying DC motors for electric gates. This strategy is in its infancy and will be developed further over time.

## **3.9 PRESENTATION OF SMITHS AFTERMARKET' FINANCIALS**

For the purposes of confidentiality the actual income statements are not shown, but the following are comments on the income statements for Smiths Aftermarket as at the end of December 2002 and May 2003. During 2002 the division managed to exceed budget by 29%, although turnover decreased from 2001 to 2002 by 13.1%. The overall cost of sales as a percentage of turnover increased from the budget of 80% to 81%. The majority of this increase was found in the area of material costs, which is accounted for by exchange rate movement in the Rand and related price increases. Labour as a proportion of the cost of sales was constant whilst overheads constituted 13.4% actual compared to 16.5% budgeted. When viewed against the increased turnover this indicates that the division was more efficient.

The division worked hard at reducing administration overheads, which were 73% of budget. Marketing expenses increased overall due to higher royalties being paid on the higher turnover. Gross margin for 2002 was below budget whilst the adjusted gross margin (which takes the manufacturing contribution into consideration) is above budget, due to lower contribution costs. The income statement as at the end of May 2003 showed that the performance of the division has increased. Material costs are proportionately lower through the strengthening of the Rand offsetting increases in overheads. The gross margin has improved and the division has already achieved its budgeted contribution to company for 2003.

**3.9.1 Presentation of Financial Ratios for Smiths Aftermarket**

Ratios relating to capital structure analysis and capital market analysis are not relevant in this instance as Smiths Aftermarket is part of Smiths Manufacturing. The current ratio shows that Smiths Aftermarket has 1.89 times as many assets as liabilities and would be able to meet its current obligations, although the standard current ratio for a healthy business is two, i.e. the business has twice as many assets as liabilities. The quick ratio of 1.10 indicates that the division has a relatively high level of liquidity and is financially healthy. The net working capital ratio also indicates that Smiths Aftermarket does not have too much of its funds tied up in inventory.

**Figure 3.6 Financial Ratios for Smiths Aftermarket**

<b>Liquidity Analysis Ratios</b>	
Current Ratio	1.89
Quick Ratio	1.10
Net Working Capital Ratio	0.46
<b>Profitability Analysis Ratios</b>	
Return on Assets (ROA)	37.2%
<b>Activity Analysis Ratios</b>	
Assets Turnover Ratio	3.02
Accounts Receivable Turnover Ratio	7.59
Inventory Turnover Ratio	4.54

The ROA of Smiths Aftermarket of 37.2% is above the targeted ROA of Smiths Manufacturing and is a measure of how effectively the division has been at putting its assets to work. The division has managed to earn a reasonably high profit on the total capital used to make that profit. The high accounts receivable turnover ratio indicates that customers are paying the division relatively quickly and shows the length of time between sales and cash collection, impacting on the cash flow of the division. The inventory turnover ratio indicates that the inventory the division holds is turned over at least three times in a year. Although a positive ratio, it is not particularly high, but is difficult to ascertain as an industry norm is not known.

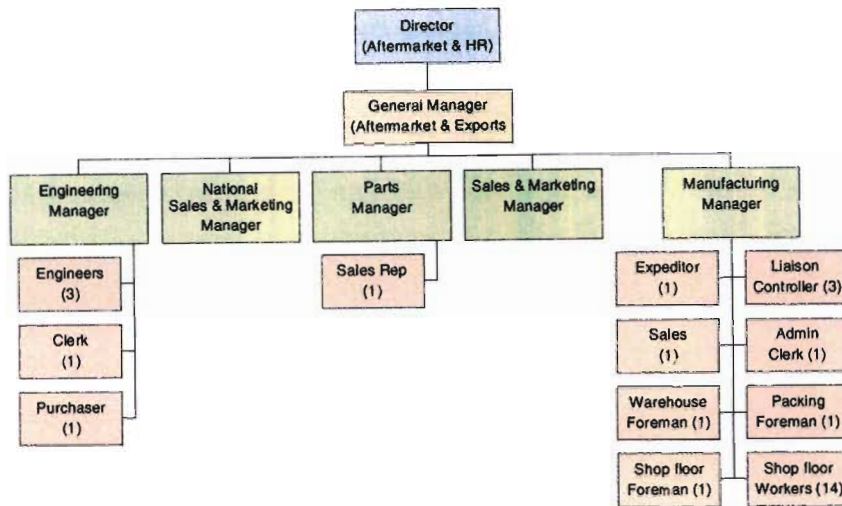
### **3.10 CURRENT IMPLEMENTATION OF STRATEGIES**

Smiths Aftermarket is headed by a director, who is also the director of Human Resources (HR) and, therefore, has a dual responsibility. The style of leadership adopted is that of being a 'caretaker', which is in keeping with lifecycle stage of the division. The director ensures that empowerment of employees takes place and advocates giving people more responsibility to encourage personal growth. Weekly meetings are held with managers in the division at which a variety of issues are discussed including; marketing, engineering and manufacturing. Monthly management meetings are also held and include the two Johannesburg (JHB) based employees and the agenda includes forecasting, a review of the month's financials and strategic issues.

#### **3.10.1 Organisational Structure**

Figure 3.7 shows the current structure of the division. Both the director and general manager have dual portfolios. A recent development is the formalisation of the reporting of the two JHB based employees to the general manager, where they previously reported directly to the director. The director has ultimate accountability for the division. The general manager is also the general manager of exports and it is likely that the structure will change by the end of the year to incorporate the aftermarket and export structures together.

**Figure 3.7 Current Structure of Smiths Aftermarket**



### 3.10.2 Standard Operating Procedures, Continuous Improvement and Rewards

Smiths Manufacturing has extensive standard operating procedures (SOPs) governing all areas of the business, including aftermarket. Adherence to SOPs is compulsory and gives employees clear indications of how they complete their work. The introduction of SOPs has promoted uniformity of processes and assisted to improve quality in general.

In 1998 Mission Directed Work Teams (MDWTs) were introduced company-wide. Smiths Aftermarket has three MDWTs each with a mini-business board, a graphical form of a balanced scorecard. The MDW philosophy is to drive continuous improvement within a firm. Modules implemented include; goal alignment, where measurements against quality, speed, cost and morale are monitored; team coaching to promote skills development, and 5S, a housekeeping module. Smiths Aftermarket has embraced the MDWT philosophy wholeheartedly, particularly at shop-floor level. Employees are keen participants in the company-wide competition for the best MDWT board. Continuous improvement is driven by the bright ideas or kaizen system whereby teams present their ideas at a monthly meeting and all presenters are given vouchers, including the Best Bright Idea. The aftermarket division has presented many ideas leading to savings in their division of R100 K, a proportionately high figure given the size of the division.

Non-monetary rewards include personal recognition by the directorate and presenters of bright ideas also feature in the company newsletter. Personal achievements of employees are recorded each week in the weekly news, relayed to all employees. Smiths Aftermarket' manufacturing manager is a frequent contributor to the weekly news and ensures that employees' achievements are recognised and celebrated.

### **3.10.3 The Divisional Culture**

Thompson and Strickland (2001: 415) state that there are three factors, which contribute to the development of strong cultures:

- “1. A founder or strong leader who established values, principles, and practices that are consistent and sensible in light of customer needs, competitive conditions, and strategic requirements;*
- 2. a sincere, long-standing company commitment to operating the business according to these established traditions, thereby creating an internal environment that supports decision making and strategies based on cultural norms; and*
- 3. a genuine concern for the well-being of the organisation's three biggest constituencies – customers, employees and shareholders. Continuity of leadership, small group size, stable group membership, geographic concentration, and considerable organisational success all contribute to the emergence and sustainability of a strong culture”.*

The aftermarket division possesses these three factors and the culture manifests itself in the way that the division conducts itself and the treatment of its employees.

*“In reality, what management pays attention to and rewards is often the strongest indicator of the organisation's culture”* (Internet 36). The aftermarket division has a strong culture, which is slightly different from that of the company at large. The emphasis in the division is on teamwork and the division works as a cohesive unit to achieve and exceed company targets set for the division. As enunciated by the HR manager (Paul Vermaak) of Smiths *“the division has a caring family-oriented culture, which is achievable with a small unit”*. The division has a feeling of camaraderie and a good team

spirit embodied in divisional social functions held and the celebration of personal events, such as birthdays. An enthusiastic division, there is great loyalty on the part of the divisional employees and the division enjoys one of the lowest absenteeism rates (1.63% in 2002) and also a very low turnover of staff (0% for 2002), with many employees achieving long-service awards of over 25 years' service (figures from Smiths Manufacturing). As the manufacturing manager (Anand Naidoo) states "*they just don't want to leave the aftermarket division*".

### **3.11 Smiths Aftermarket' Marketing Mix**

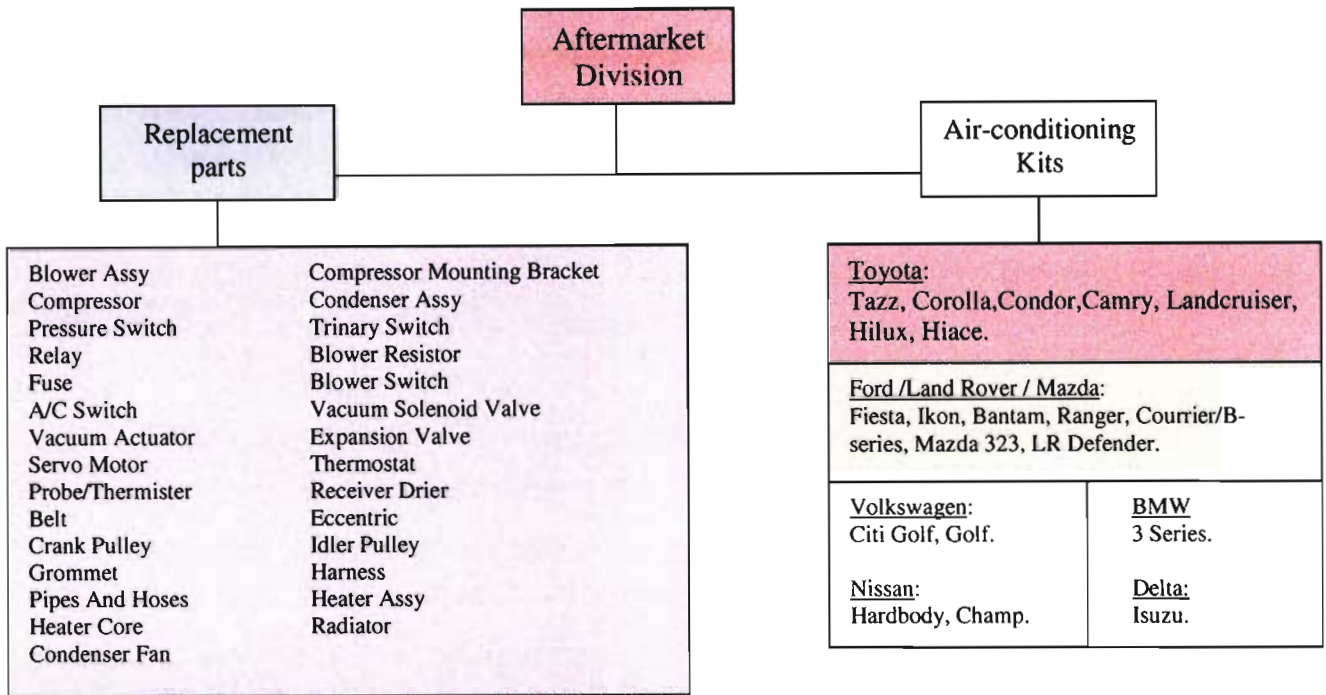
The company previously engaged in branding activities to support the Dunair brand, including television advertising and advertisements in publications. When the distribution changed at the beginning of 2000, Pro-Fit undertook to implement activities to support the brand. Since 2000 Pro-Fit has done little to no branding for Dunair. This is illustrated by the lack of expenditure by Pro-Fit on branding.

#### **3.11.1 Product Strategy**

Chapter 2, table 2.11 gave an indication of the type of product strategy available at the different stages in the lifecycle. At maturity the product strategy is one of defence, where competition needs to be carefully monitored. The aim is to improve the quality and add features to distinguish the brand from its competitors i.e. differentiation.

The replacement parts listed in figure 3.8 are available for the vehicles listed under air-conditioner kits. Each vehicle listed has numerous variants normally classified in terms of engine size. If the Toyota Corolla is taken as an example, kits are produced for the following variants: 140, 160, 1300, and 1800. Within the product items there are many sub-items. The product mix is not very wide with just the two product lines, although the product lines themselves are quite long. At first glance the product range looks relatively simple and narrow, but with all the model variants added it is actually quite complex, although the product mix is very consistent. The product mix concept also illustrates the product strategy of focusing on Toyota and Ford vehicles.

**Figure 3.8 Product Range of Smiths Aftermarket**



Source: Dunair Parts List – May 2003

According to Trevor Gebhardt, National Sales Manager for Smiths Aftermarket, products are sold on “*quality and service, not price*”. He was referring to the air-conditioning kits sold through the P&A outlets of the motor plants. Fregust Ziemkendorf, General Manager of Smiths Aftermarket expanded on this stating that “*motor plant approval is a crucial strategy to follow, as products with motor plant approval attract a higher price than those without.*” The current product strategy of differentiation through higher quality and seeking motor plant approval echoes these sentiments.

Packaging of the parts and air-conditioning kits varies according to who the product will be distributed to. Dunair parts and air-conditioning kits distributed through Pro-Fit to P&A outlets and fitment centres are packaged in Dunair branded boxes. Air-conditioning kits destined for the motor plant P&A outlets are packaged in specialised packaging: Toyota is Aircare, Ford is Motorcraft and Nissan is Nissair. The packaging is enabling the motor plants to reinforce their aftermarket brands in consumers’ minds.



### 3.11.2 Pricing

Prior to 1998 Smiths aftermarket enjoyed a unique niche in the market, offering a superior quality product. In line with this a premium pricing strategy was followed. As competitors improved their products and this advantage was eroded, Smiths Aftermarket adopted a competitive pricing strategy. The outcome was price war between competitors in which no-one won. Margins were so badly affected that Smiths Aftermarket itself was negatively affected. Dickie Delpont director of HR was then asked to focus on Smiths Aftermarket to improve the situation. In a recent discussion with him he stated that *“aftermarket does not have a pricing strategy at present”*.

The fitment centres that purchase from Pro-Fit are very price sensitive, as is the end-consumer. This tends to drive prices down, increasing competition and influences the choice of aftermarket air-conditioner kit a consumer selects. The same is true of replacement parts. Consumers who go directly to fitment centres for air-conditioners and replacement parts either have older vehicles that are out of warranty periods, are unable to pay the higher motor plant prices or are less knowledgeable about warranties and the potential ramifications of fitting non-motor plant parts.

Whilst Smiths Aftermarket does not have a pricing strategy it is important to understand how it fits into the market in relation to its competitors. Table 3.4 gives the suggested retail prices for a variety of kits for the different aftermarket companies, taken from recent price lists.

**Table 3.4 Comparison of Prices Amongst Sellers (Excl VAT)**

Vehicle	Smiths Aftermarket	Crispair	Connoisseur	Arcotemp
Delta Isuzu KB 200	R6 420.80	R5 904.50	R6 970.00	R4 899.00
Toyota Tazz 1300	R6 480.92	R5 958.00	R5 937.00	R4 945.00
Nissan Hardbody 2.4	R5 796.77	R5 851.00	R5 768.00	R4 895.00
Ford Bantam 1300	R5 827.93	R5 690.50	R6 286.00	R4 745.00
Ford Fiesta 1.4	R6 156.49	R5 958.00	R5 820.00	R5 098.00
VW Citi Golf 1300	R5 423.00	R5 968.70	R6 045.00 (Panacomp unit)	N/A



Arcotemp follows a penetration pricing strategy aimed at stealing market share from the other producers, but quality problems negate the attractive prices. Crispair tends to offer a medium-value price and offers good availability of products. In some instances Smiths charges a premium price and in others a medium-value price, clearly illustrating the lack of cohesion on pricing. Connoisseur also seems to follow this same pattern with some units having a premium price and others having medium-value price.

Smiths Aftermarket is the only aftermarket producer to have developed branded aftermarket kits for the motor plants, giving it a competitive edge. Motor plants have begun to insist that their branded parts and accessories are fitted to vehicles and have implemented incentive programmes to encourage P&A outlets to adhere to this policy. Success has been limited to date but compliance is likely to increase, benefiting Smiths Aftermarket. Aftermarket air-conditioner kits for the motor plants are made to either the same or similar standards as the OE products. This tends to incur more cost for the manufacturer of the kits, which have to be recovered resulting in higher prices having to be charged to the P&A divisions of the Motor Plants. In turn the P&A divisions add a surcharge to the kit inflating the price they charge to the P&A outlet.

### **Adjusting Prices**

Numerous strategies are available to Smiths Aftermarket to adjust prices. It is common for discounts to be given to distributors. The trade discount is given in return for the distributor conducting promotions on behalf of Smiths, ensuring that service levels are maintained and so on. As mentioned previously, Pro-Fit, Toyota, Ford and Nissan have preferential pricing with Smiths aftermarket based on the distribution strategy. Demand for air-conditioners tends to be seasonal and so decisions are taken regarding having specials on air-conditioner kits, particularly in winter. This is common practice amongst all the competitors to generate out-of-season sales.

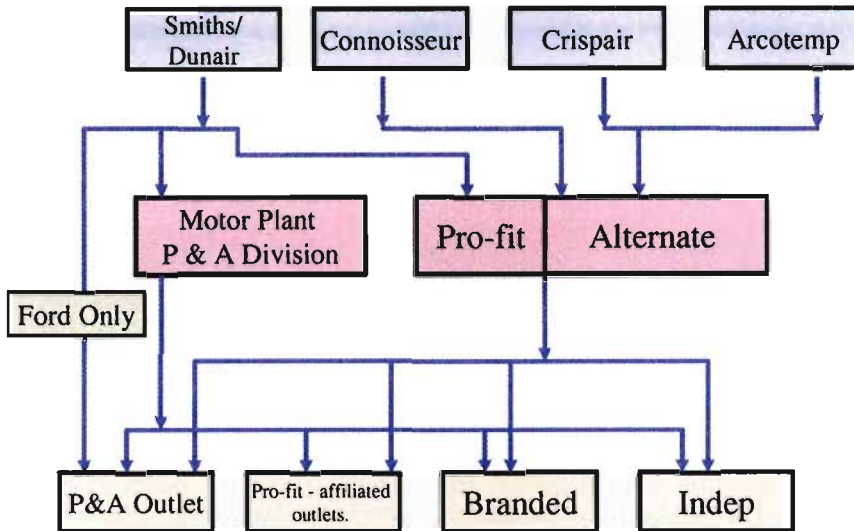
### **3.11.3 Distribution (Place)**

Distribution plays a major role in the aftermarket industry and availability of aftermarket air-conditioning kits and parts is considered a critical factor in the consumer selection process. Distribution of the motor plant branded products through the P&A outlets is relatively exclusive, whilst distribution of Dunair products through Pro-Fit is extensive. The ideology behind these distribution strategies is to satisfy the needs of consumers who want motor plant products and those who prefer an alternative route. In theory Pro-Fit holds stock of Dunair products in its four outlets and distributes products to fitment centres, independent dealers and dealers affiliated to Pro-Fit in South Africa and also P&A outlets. Additionally motor plants' divisions receive products in a central warehouse and then distribute to P&A outlets throughout South Africa, except Ford where deliveries are direct from Smiths. From a geographic stance the distribution channels cover the market well.

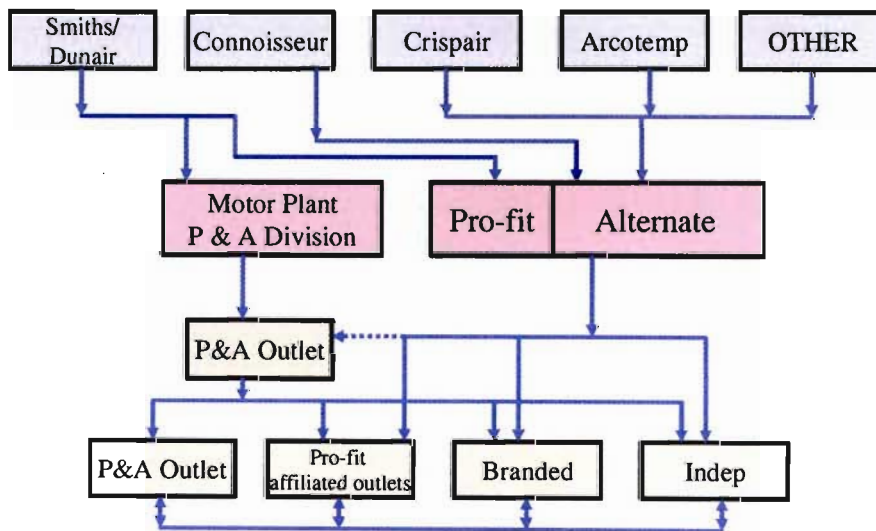
Distribution of air-conditioning kits and parts differs and the different distribution channels are shown in figure 3.9 (a) and (b). At face value the channel from Smiths aftermarket to the P&A outlets appears short with no intermediaries, except for the motor plant's P&A division. This is not a true reflection as the product may go to the motor plants' P&A marketing division, then the P&A outlet's sales area and is then passed on to the P&A outlet's service area and then may even go on to a fitment centre for fitting of the part. Only then does the end-consumer receive the product in his vehicle. Conversely the channel via Pro-Fit is shorter as the product is sent from Smiths aftermarket to Pro-Fit who distributes it directly to the fitment centre which supplies the product to the end-consumer. The functions of the motor plant combine both transactional and logistical ones. Conversely, the role of Pro-Fit is more transactional in nature.

**Figure 3.9 Distribution System**

**(a) Aftermarket Air-conditioning Kits**



**(b) Aftermarket Replacement Parts**



Source: Adapted from Perrie M. J., 2001. *Auto-airconditioning. Market Evaluation*, Project # 1871 February 2001: 13, 19.

**3.11.4 Promotion**

Prior to the change in distribution strategy Smiths Aftermarket carried out its own promotion. In 1989 Smiths Aftermarket implemented a high profile promotional

campaign for the Dunair brand with a promotional mix comprising television and printed media advertising costing about R180 000. Budget was set aside each year and promotion activities were devised such as advertising in industry publications, promotions aimed at distribution channel members and also aimed at the general public. This was before the motor plants decided to develop their brands for aftermarket products, complicating matters. The motor plants view Dunair as being in competition with their branded aftermarket products, creating a dilemma for Dunair.

When Pro-Fit took over the distribution of Dunair products a portion of the discount awarded to Pro-Fit was to be spent on the promotion of Dunair products. Little to no promotional activity has taken place since then. Previously Dunair would collaborate with fitment centres on the purchase of a Dunair sign to put on the exterior of their business. Pro-Fit has yet to mutually fund one sign. The only promotion that has taken place is an annual golf day that Pro-Fit holds for fitment centres. The motor plants are responsible for the promotion of the aftermarket products that are sold under their aftermarket brand name. The majority of them use their overall advertising to leverage their reputation with consumers. Promotional material solely for aftermarket products is rare. Smiths Aftermarket does not currently have a clear promotional strategy and is relying on Pro-Fit and the motor plants to carry out promotional activities.

Whilst Smiths Aftermarket is relying on the motor plants and Pro-Fit to do the promotion it is also recognised that cooperative promotion needs to take place, with the division funding a portion. Actual expenditure on promotion increased by 48% between 1999 and 2002 and budgeted expenditure for promotional activities in 2003 has increased by a further 76% (figures from Smiths Manufacturing). It must be noted that actual expenditure is often below budgeted expenditure, an indication that little promotional activity is taking place.

### **3.11.5 Physical Evidence, People and Process**

The extended marketing mix is normally applied when dealing with a service. Although not a pure service, Smiths aftermarket does have some service aspects to it, such as the

technical backup provided by field technicians. As end-consumers do not interact with Smiths aftermarket the servicescape is not applicable in this case.

Availability is a differentiating factor when consumers are deciding which product to purchase in the fitment centre and related to this is the availability of stock to satisfy demand. The role of process in this instance is to ensure that products are ordered properly, within a reasonable lead-time and that the correct products are delivered to the correct place. Both Pro-Fit and the motor plants need to be informed about the ordering system in the division and given tools to enable them to correctly complete orders. Often incorrect parts are ordered and so spares catalogues with pictures of the parts have been developed to assist the person ordering the part. The intermediaries need to be educated about how to communicate effectively with Smiths aftermarket to ensure that products are manufactured timeously and are delivered to the correct locations.

People play an important role in this business as they act as intermediaries between Smiths aftermarket and the motor plants or Pro-Fit. Field technicians at Smiths aftermarket are engineers with experience of the market in which they operate. When necessary, they fly to destinations around South Africa to resolve difficulties that are encountered. This is considered part of the service provision by Smith aftermarket. The JHB based staff ensure that this strategic region is satisfactorily covered from a service perspective. The flip side of the people coin are motor plant, Pro-Fit and fitment centre employees, which are more challenging to manage from a service perspective. The strategy of having a dedicated salesman in the region has alleviated people problems as the P&A outlets and fitment centres have someone with whom they can talk face-to-face and the salesman ensures that action is taken quickly and follows up with the fitment centre or P&A outlet. Relations with such employees are already improving.

### 3.12 CONCLUSION

The case study of Smiths aftermarket has been presented in line with the theory introduced during chapter 2. Smiths Manufacturing, the company which Smiths Aftermarket is a division of, was briefly discussed along with an explanation of how the aftermarket division fits into the company, the overall strategic planning process at company level and how it is conducted on a divisional level. The primary activities of Smiths aftermarket are the manufacture of aftermarket air-conditioner kits and replacement parts for P&A outlets of the motor plants and fitment centres.

The macro-environment analysis identified that there are various trends currently affecting the industry, such as stagnant growth in global sales of vehicles. A PESTEL analysis was conducted for the South African market and unique factors such as changes in demographic aspects were highlighted followed by the analysis of the actual aftermarket sector under consideration; aftermarket air-conditioning and replacement parts. The dominant economic features of the sector were outlined and the industry is seen to be in a mature phase with subpar to average profitability.

Porter's Five Forces analysis determined that the sector is highly competitive with suppliers having reasonable bargaining power and consumers having high bargaining power. Barriers to entry were deemed to be high and were considered a deterrent for new entrants into the market. Smiths Aftermarket holds the lion's share of the market for aftermarket air-conditioner kits and holds the highest market share as a company in the replacement parts sector. There are three competitors but Arcotemp and Connoisseur are currently joining forces and so the number of competitors will reduce to two.

The internal environment of Smiths aftermarket was then examined and a value chain analysis was conducted, which highlighted the areas in which the company adds value to its customers. This analysis was extended with a value model showing the exact benefits and costs that exist for purchasers of Smiths aftermarket products.



The current strategic intent of Smiths' aftermarket, its objectives and its current strategies were presented. The distribution strategy has been the main focus of the division's strategic direction and has played a key role in reducing costs for the division, assisting to make it more efficient. Other strategies, such as the development of products for the truck market are in the process of being developed and are not wholly implemented as yet. The income statements and financial ratios for Smiths Aftermarket showed that it is in a relatively healthy position.

Smiths Aftermarket has a strong leadership, whilst the divisional structure is reasonably top heavy. Smiths Manufacturing has well set out procedures, which also govern the activities of Smiths Aftermarket. Smiths Aftermarket has actively taken part in the continuous improvement programme and the culture of the division is a very family orientated one.

The chapter concluded with an overview of the current extended market mix for the division. Smiths Aftermarket' product range is quite extensive and strategies of differentiation and focus are pursued. There is no clear price strategy although price adjustments and season specials may occur. Distribution is either through Pro-Fit to the motor plant P&A outlets and fitment centres, or Smiths Aftermarket may deliver to a central P&A warehouse at the motor plant. Although budget is allocated for promotional activities it is not always spent due to a lack of promotion by the motor plants and Pro-Fit and there is no clear promotion strategy at this stage. Processes are very important to ensure the smooth ordering of products and ensuring that the correct information is given to the fitment centres. Smiths Aftermarket personnel act as intermediaries in the relationship with the motor plants and Pro-Fit.

Information presented during this chapter will be used in chapter 4 to help evaluate the strategic options available to Smiths Aftermarket going forward. The environmental analyses will be used to evaluate the suitability of strategies, whilst the financial data will be employed to evaluate the acceptability and feasibility of strategic options.

## **CHAPTER 4**

### **EVALUATION OF SMITHS AFTERMARKET**

#### **4.1 INTRODUCTION**

Information presented in chapter three is evaluated in the first section of this chapter, forming part of the evaluation of Smiths Aftermarket. The second section focuses on the presentation of the findings of the two surveys administered for this study; firstly with the Ford P&A outlets in Kwa-Zulu Natal, and secondly with fitment centres. As Pro-Fit is the distributor of Smiths Aftermarket products to the fitment centres, the second survey also served the purpose of obtaining feedback on the performance of Pro-Fit, which is considered a crucial aspect of service provision by Smiths Aftermarket to its consumers.

A summary of the results from the two surveys is given and an overall evaluation of Smiths Aftermarket, combining the information presented in the case study and findings are discussed. The chapter concludes with the gap analysis for Smiths Aftermarket showing where it is currently and where it wants to be.

#### **4.2 ANALYSIS OF SMITHS AFTERMARKET**

Over the last six years, Smiths Manufacturing has enjoyed tremendous growth in both turnover and profitability and can be considered a very stable company. As a division of Smiths Manufacturing, Smiths Aftermarket benefits from having a strong parent company. Dunair has existed since 1978 and as a brand name is well known by many South Africans, benefiting Smiths Aftermarket. Both Smiths Manufacturing and Smiths Aftermarket have well defined strategic planning processes guiding the strategies which have been pursued. With the declining aftermarket Smiths Aftermarket has to reconsider its position and evaluate which strategies it should focus on to meet the challenges of the future.

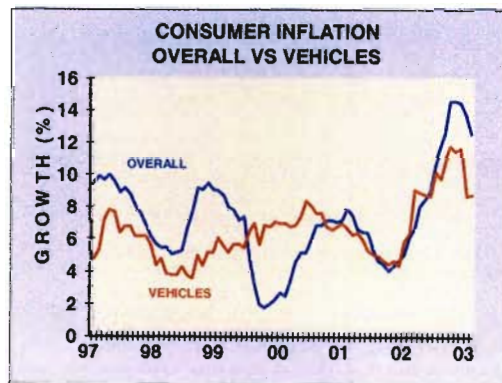


### 4.3 SMITHS AFTERMARKET' POSITION IN RELATION TO THE MACRO-ENVIRONMENT

The PESTEL analysis presented in chapter 3 gave an overview of the main factors affecting the automotive aftermarket industry in general. Within these factors the following are deemed to have the greatest impact for Smiths Aftermarket:

- The inflation targeting by government and related high interest rates.
- Low economic growth.
- Cost of vehicles.
- Equalisation of income distribution.
- Changing role of previously disadvantaged groups.
- Changes in lifestyle.
- Increasing fitment of accessories as standard on new vehicles.

**Graph 4.1 Inflation: Consumer vs Vehicle**



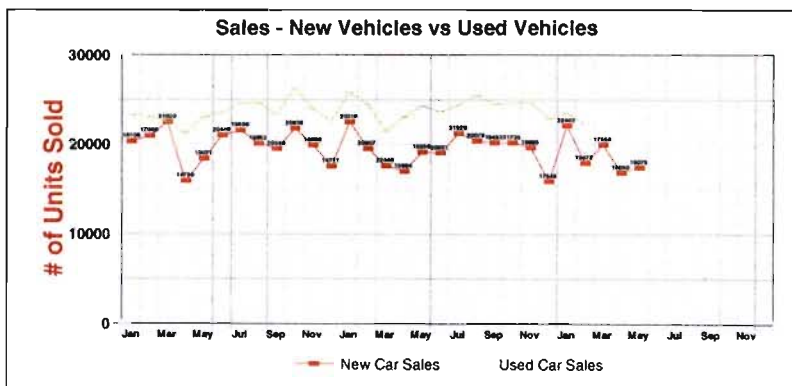
Source: Jammie A. Dr, 2003, *Outlook for the South African Economy for NAACAM*, Econometrix (Pty) Ltd, April 2003: 27

The high interest rates that South Africa has had for the last 18 months have led to a slowdown in spending in the economy and in the sales of new vehicles. Graphs 3.1 and 3.2 on page 72 showed the negative effect that high interest rates have had on retail sales and new vehicle sales, as well as the negative impact of vehicle price increases (graph 4.1).

The effects of the environmental factors are three-fold:

- The size of the aftermarket market is dependent on the volumes of vehicles in the vehicle parc. With South Africa’s vehicle parc remaining small the aftermarket industry also suffers.
- Consumers will seek to purchase used vehicles rather than new vehicles and these sales remain higher than the sales of new vehicles (graph 4.2).
- Lastly if consumers decide that they would prefer a new vehicle, they tend to buy-downwards, i.e. they purchase an entry-level or small/medium vehicle accounting for 58% of the market (Smiths Manufacturing: 2003). Graph 4.3 shows the market share of vehicle sectors and the decrease in market share is as a result of the increase in imported vehicles being sold, which tend to have a higher air-conditioner fitment percentage.

**Graph 4.2 Sales of New Vehicles vs Sales of Used Vehicles**

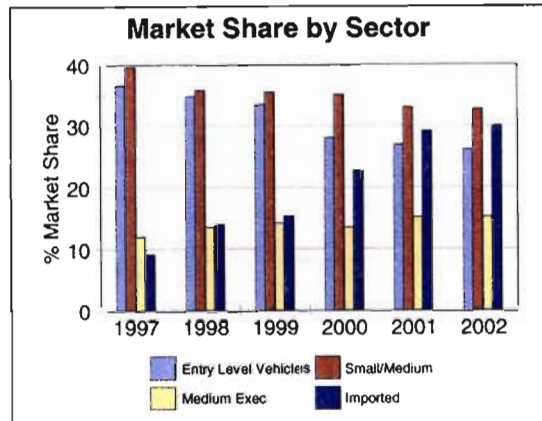


Source: Figures supplied by NAAMSA, Vehicle Sales January 2001 – May 2003 and Statistics SA.

As the distribution of income gradually becomes more equal the purchasing power of South Africans will also increase and although in its infancy, this trend will gain momentum in the future. The increase in purchasing power will eventually lead to more vehicle sales and potentially a greater aftermarket market. With the changes in lifestyle and exposure to international products South Africans are also becoming more demanding consumers. A direct result is the increase of air-conditioners, which are being fitted to vehicles as standard. The majority of imported vehicles such as the Renault,

Peugeot and Citroen range of vehicles have air-conditioners fitted as standard on all options. Air-conditioner fitment percentages (the percentage of vehicles on which an air-conditioner is fitted as standard) on locally produced vehicles are shown in table 4.1.

**Graph 4.3 Market Share of Vehicle Sectors (Passenger Vehicles Only)**



Source: Smiths Data based on NAAMSA vehicle sales figures: 1997 - 2002

**Table 4.1 Air-conditioner Fitment Percentages – Locally Produced Vehicles**

Vehicle	2001 (%)	2002 (%)	2003 (Jan – April) (%)
<b>Passenger Vehicles</b>			
Opel Corsa	62.64	63.49	68.95
Fiat Palio / Siena	37.31	39.22	43.45
Ford Fiesta	34.28	54.16	27.26
Ford Ikon	97.72	93.28	76.40
Mazda 323	10.35	10.30	11.99
Nissan Almera	88.78	87.91	83.45
Toyota Tazz	5.53	4.07	2.08
Toyota Corolla	71.80	83.63	84.96
Toyota Condor	29.11	66.06	69.65
VW Polo			
<b>LCVs</b>			
Mitsubishi Colt	91.91	90.90	89.28
Isuzu KB	56.08	47.53	49.24
Opel Corsa Utility	34.20	8.82	13.20
Ford Ranger	28.38	32.62	32.13
Nissan Hardbody	60.36	65.91	60.46
Toyota Hilux	45.56	43.37	39.66

Data Source: Figures collated and calculated from NAAMSA passenger vehicle and LCV sales, January –April 2001-2003

Smiths Aftermarket has air-conditioner kits for all vehicles except the Fiat Palio, Opel Corsa and VW Polo and is well placed to service this market. Forecasted turnover for 2003 shows a large increase on 2002, (graph 4.7 (a)) indicating that Smiths Aftermarket is strengthening its position in a mature market.

Motor plants are offering more variants with air-conditioners fitted as standard, but it is interesting to note that in some cases, such as the Ford Ikon and Nissan Almera, consumers are still opting to buy vehicles without air-conditioners. Rather than the market declining straightaway as predicted, the slowdown may be more prolonged than expected, benefiting Smiths Aftermarket. Prices shown in Car Magazine show that it is still cheaper to purchase a vehicle and fit an aftermarket air-conditioner than purchase a vehicle that has an air-conditioner as standard. For example a Tazz without an air-conditioner costs a maximum of R99 575 (Car Magazine, 2003: 222), with the retail price of a Smiths Aftermarket Tazz air-conditioner kit being R6 480.92 costing a total of R106 055.92. The Tazz with air-conditioner costs R117 055, well above the cost of purchasing a vehicle and retro-fitting an air-conditioner. The same is true of many other vehicles. Vehicle pricing is likely to continue to favour fitting an aftermarket air-conditioner as consumers are unlikely to be able to afford the higher prices for the foreseeable future.

Demand by South Africans for entry-level vehicles without air-conditioners is likely to endure for some years. Locally produced entry-level passenger vehicles include; Toyota Tazz, Ford Fiesta, VW Citi Golf, Opel Corsa, Mazda 323 and Fiat Uno and the air-conditioner fitment percentage on these vehicles is either 0% or very low as shown in table 4.1. Smiths Aftermarket has air-conditioner kits for all of these except for the Corsa, which has an imported air-conditioner and the Uno, which will cease production shortly. Although sales of entry-level vehicles will continue to be strong in the immediate future, focussing solely on servicing this market as a strategy is not sustainable in the long term, particularly if air-conditioners were to eventually become a factory fitted item on entry-level vehicles. Table 4.1 also illustrates that the greatest area of opportunity for aftermarket air-conditioning is with light commercial vehicles (LCVs). Crispair (a

competitor) has focussed on the entry level sector of the market, whilst Smiths Aftermarket has chosen to service more sectors of the market, benefiting the company. For some years, Smiths Manufacturing has successfully pursued a multi-licence strategy and has developed strong relationships with international licensors. The filter effect for Smiths Aftermarket has been access to the technology and sub-components necessary to produce high quality aftermarket kits, giving Smiths Aftermarket a competitive edge over competitors such as Crispair and Arcotemp. Smiths Aftermarket also prides itself on the development work that is done in-house, resulting in the production of in-house developed aftermarket air-conditioner units.

Smiths Manufacturing has been awarded international quality ratings such as QS9000 and ISO14001. Smiths Aftermarket falls under Smiths Manufacturing's umbrella for these ratings and, therefore, impact from environmental and legal factors are minimised. Adherence and achievement of quality ratings can be prohibitively expensive for smaller companies who do not have the benefit of a strong parent company. This also provides a competitive edge for Smiths Aftermarket and has facilitated the production of aftermarket kits for the motor plants, who insist on a company having these quality ratings.

#### **4.4 SMITHS AFTERMARKET' POSITION WITHIN SOUTH AFRICA**

The aftermarket sector under consideration is characterised by high entry barriers, with a minimum of R10 million required to set up an aftermarket operation. Setting up distribution and the building up of a customer base is a costly and long-term exercise due to the fragmented customer base of 650 parts dealers and 1100 motor plant P&A outlets. Sales within the market can only be achieved once certain quality standards are met and obtaining motor plant approval or recommendation is a lengthy and costly process. Price and availability are perceived to be the key differentiating factors in a market in which buyers have difficulty distinguishing between products.

Smiths Aftermarket is well established in the aftermarket air-conditioning and replacement parts sector. Although suppliers to the industry have reasonably high bargaining power, Smiths Aftermarket is able to negate this power to a certain degree

through its position as a division of Smiths Manufacturing. Smiths Aftermarket can leverage Smiths Manufacturing's purchasing power to negotiate better prices and terms and conditions. There are many common components on Smiths Aftermarket' and Smiths Manufacturing's products and so economic batch quantities are not problematic for Smiths Aftermarket.

Buyers in the market have high bargaining power as their switching costs are low between the products and competition is fierce. This is particularly true of business at the air-conditioner fitment centres where building loyalty amongst buyers is fraught with difficulties, with some aftermarket producers resorting to large discounts to secure business. The motor plants have begun to realise that the aftermarket sector can be a very lucrative one, accounting for nearly one third of all expenditure on a vehicle during its service life (Proctor T., 2000:54). Toyota's Book of Life campaign, emphasising the need to have a vehicle serviced at its P&A outlets to ensure warranties are kept intact is in keeping with this.

Smiths Aftermarket is the only aftermarket company to be producing branded air-conditioner kits; Aircare (Toyota), Motorcraft (Ford) and Nissair (Nissan), placing it in a position of strength. The directive from these motor plants to their P&A divisions is that they will use only these brands. Adherence by the P&A outlets has been slow as the motor plants mark up the prices that they charge the P&A outlets for the parts. Through enforcement of the directive a gradual change is taking place within the P&A outlets, although it will be some time before they fit only the branded parts. Smiths Aftermarket enjoys a unique position as the buying power of the customer is reduced in this instance.

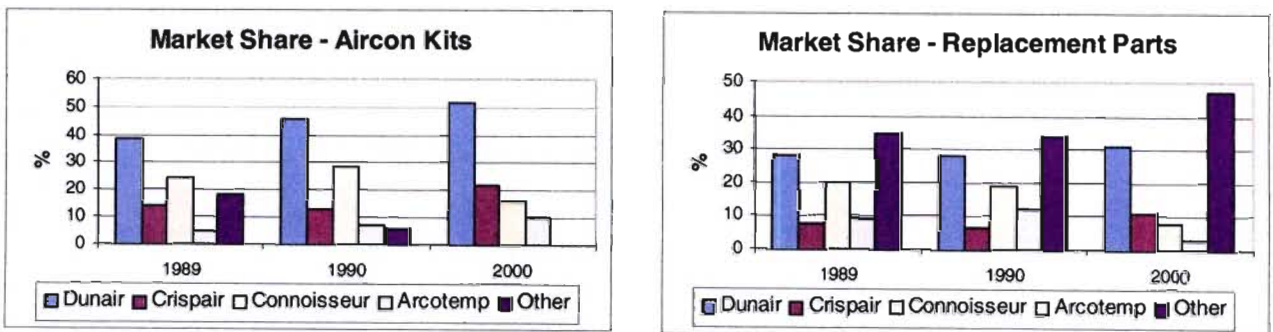
Smiths Manufacturing has long-standing relationships with the motor plants and the benefits of its experience have enabled Smiths Aftermarket to secure the motor plant branded aftermarket business. Smiths Manufacturing has OE contracts to supply air-conditioners to all the motor plants manufacturing vehicles locally, except for Daimler Chrysler, placing Smiths Aftermarket in an advantageous position to supply the aftermarket kits. Smiths Aftermarket also has access to funds to finance new

developments and products when necessary. The conclusion is drawn that Smiths Aftermarket does not feel that a threat exists from potential new entrants.

#### 4.5 SMITHS AFTERMARKET' COMPETITIVE POSITION

Table 3.2 (page 78) gave an overview of the current competitors in the aftermarket. Graph 4.4 shows the changes in market share amongst the competitors from 1989 to 2001 and gives a clearer understanding of the actual position of Smiths Aftermarket. The market share of Smiths Aftermarket (Dunair) has increased marginally for both air-conditioning kits and replacement parts. The position of Connoisseur has weakened in line with their strategy of a gradual withdrawal from the aftermarket as they are focussing on the OE market. Overall Crispair has increased its market share as well whilst Arcotemp has increased their market share on kits, but lost market share on parts. 'Other' companies and not the main air-conditioner competitors hold the majority of market share for replacement parts (47%). As a single entity, Smiths Aftermarket holds the largest market share for both air-conditioner kits and replacement parts and has held this position for many years. The market shares are deceptive when examining aftermarket products that are distributed to P&A outlets and those that are distributed via the fitment centres or independent dealers (see graph 4.5).

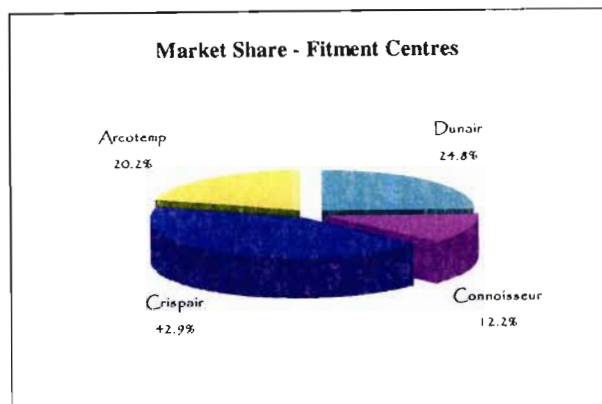
**Graph 4.4 Market Share of Competitors**



Data Source: Perrie M. J., 1990, 2001. *Auto-airconditioning. Market Evaluation.*



**Graph 4.5 Market Share – Independent Dealers**



Source: Perrie M. J., 2001. *Auto-airconditioning. Market Evaluation*. Project #1871 February 2001: 10.

Although Smiths Aftermarket (Dunair) has the largest market share overall, Crispair has the largest market share in terms of business conducted with independent dealers and fitment centres. This indicates that the greater share of Smiths Aftermarket's business is through the P&A outlets of the motor plants. The same study also indicated that the majority of aftermarket air-conditioning kits (52%) were distributed through alternative sources to the P&A outlets (48%). It can be surmised that Smiths Aftermarket is in a weaker position with the fitment centres, but in a stronger position with the motor plants and will need to take this into consideration when identifying strategies for the future.

Motor plant approval/recommendation is often given verbally rather than in writing. As a point of differentiation between competitors it has now become important to obtain the approval in writing. Smiths Aftermarket does not have written approval from VW for example, and recently a fitment centre was approached to fit 6 vehicles with air-conditioners for Tracker. The stipulation was that the units had to have motor plant approval in writing. As Smiths Aftermarket could not produce this evidence and Crispair could, the fitment centre could only quote on the Crispair units, even though the fitment centre owner acknowledges that the Smiths Aftermarket unit is a superior product.

Each competitor, with the exception of Connoisseur, offers a wide range of products. By joining forces, Connoisseur and Arcotemp hope to offer a comprehensive product range



to consumers. The overlaps in products offered intensify competition in the market but Smiths Aftermarket products are the same as or similar to OE level products, which is more attractive for the end-consumer. The only other competitor in a position to use this as a point of differentiation is Connoisseur. The collaboration between Connoisseur and Arcotemp could, in theory, strengthen their position and increase their market share. Even if market share were maintained, as a joint force they would only capture 26% of the air-conditioning kit market and 11% of the spares market. Crispair is currently the main rival of Smiths Aftermarket and this is more in relation to business with fitment centres rather than with motor plants. Crispair has been for sale for about four years now and from this it is assumed that little to no investment into the facilities has taken place as this would not make sense for the current owners. Crispair pursues business aggressively and is more than willing to engage in competitive pricing tactics to secure business. Unless the current owners decide to invest in the company, or a purchaser is found, it will become harder for Crispair to maintain market share as new technology will be required to meet the demands of new vehicles.

#### **4.6 EVALUATION OF SMITHS AFTERMARKET' INTERNAL ENVIRONMENT**

Both the value chain analysis and value model illustrate how Smiths Aftermarket adds value for its customers. The main areas where Smiths Aftermarket benefits its customers in comparison to other aftermarket producers are noted below.

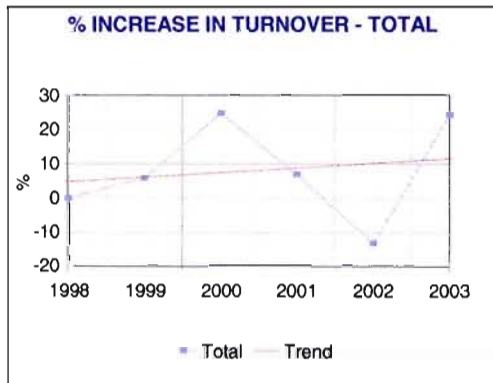
- Purchasing power through Smiths Manufacturing.
- Access to testing facilities to ensure that products are manufactured to the same quality as OE products.
- Extensive distribution system through Pro-Fit.
- Technical support provided through field technicians.
- Personnel both in JHB and Durban dedicated to providing service to the P&A outlets and fitment centres.
- Full warranty and technical service.
- Flexibility in manufacture.

- Dunair brand name assures quality for the fitment centres, through adherence to international quality ratings.

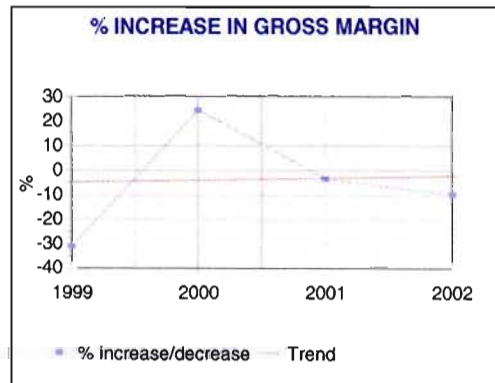
Graphs 4.6 (a) and (b) give a clearer indication as to the actual position of Smiths Aftermarket with 1998 used as the base year. Turnover for Smiths Aftermarket was decreasing in line with the shrinking market but forecasted turnover is expected to increase over turnover for 2002. Of more concern is the graph showing gross margin increases and decreases, which is on a downward trend and illustrates that although market share is being maintained there is a lot of pressure on the margins. Implementation of cost-down programmes by the motor plants and pressure to keep price increases at or around inflation are adversely affecting margins.

#### Graph 4.6

(a) Smiths Aftermarket Turnover



(b) Smiths Aftermarket Gross Margin

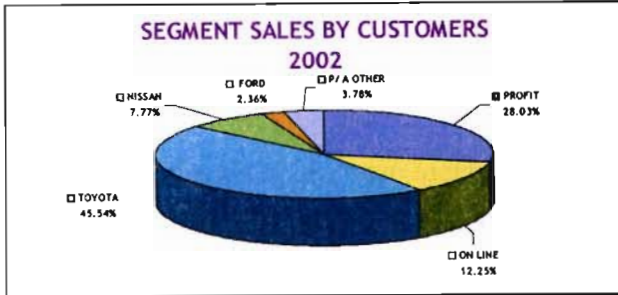


Source: Figures supplied by Smiths Manufacturing.

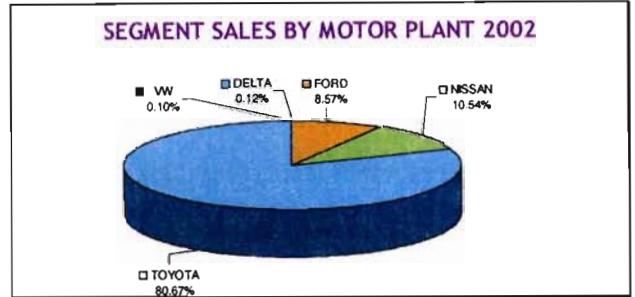
Smiths Aftermarket is also over-reliant on Toyota as a customer, which is a dangerous position to be in. Graph 4.7 (a) gives the breakdown of sales of kits by customers, including sales to the fitment centres via Pro-Fit. Graph 4.7 (b) focuses on the sales of kits by motor plants. In both instances the over-reliance on Toyota is evident, which could be deemed to be detrimental for Smiths Aftermarket.

**Graph 4.7**

**(a) Segment Sales by Customer**



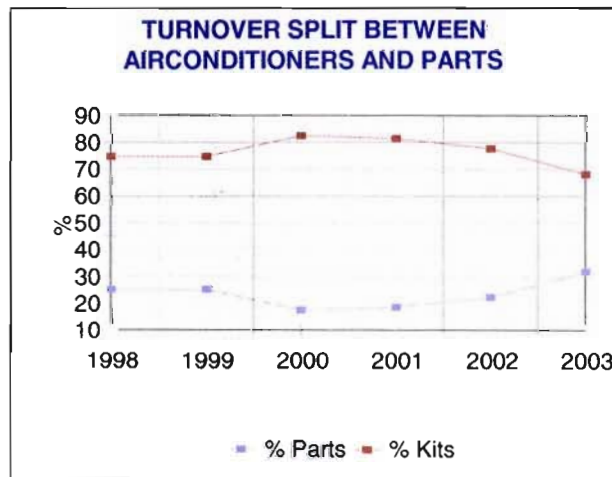
**(b) Segment Sales by Motor Plant**



Source: Figures supplied by Smiths Aftermarket.

The majority of Smiths Aftermarket’s business emanates from the sale of kits rather than parts (graph 4.8), even though the parts market is considered to have more growth than the kits market. If the parts market continues to grow and the air-conditioning kits market continues to shrink the emphasis in business for Smiths Aftermarket may also have to change.

**Graph 4.8 Smiths Aftermarket Turnover – Air-conditioner Kits vs Parts**



Source: Figures supplied by Smiths Aftermarket.

#### 4.6.1 Review of SWOT Analysis of Smiths Aftermarket

In chapter 2 the SWOT analysis was discussed to some degree and an impact analysis as an extension to the SWOT analysis was introduced. The SWOT factors listed were prioritised and are listed in the impact analysis in figure 4.1. The analysis shows that the biggest threat emanates from the approval by motor plants of alternative suppliers for their branded aftermarket air-conditioning kits. This is closely followed by the threat of competitors and improvements in their quality and product range. Both of these serve to erode the market share of Smiths Aftermarket. Although the market is in a mature phase Smiths Aftermarket does not see this as the greatest threat as it has succeeded in improving its turnover under adverse conditions and the decline in the market does not seem to be as rapid as initially expected.

**Figure 4.1 Impact Analysis for Smiths Aftermarket**

	Motor plant approval of alternative suppliers	Competitors (improved quality and product range).	Sale of Crispair.	Declining and stagnant markets.	Fleet deals and govt. contracts.	Motor plant branded a' market kits.	Impact Score
Preferred trading with Toyota.	-3	-2	0	0	-1	+3	-3
R'ship with Motor Plants	-3	-2	+2	0	+2	+3	+2
Dunair name.	-2	-3	+2	0	0	-4	-7
Strong parent company.	0	-1	-2	-2	+2	+3	0
Poor availability.	0	0	-1	0	-1	0	-2
R'ship with fitment centres.	-4	-3	+2	-2	-2	0	-9
Pricing	-3	-3	+2	-2	+3	+3	0
Total	-13	-11	+3	-6	+3	+8	

Branded kits developed for the motor plants are seen as offering the greatest opportunity. The sale of Crispair also provides an opportunity in different ways. Smiths Aftermarket could consider purchasing Crispair itself reaping the benefits in this way or alternatively,

if another party were to purchase Crispair it would be difficult to maintain prices at their low levels due to investment required in the facilities.

The strengths and weaknesses are an area of concern for Smiths Aftermarket where overall each one weakens under the differing opportunities and threats, with the exception of the relationship with the motor plants, which could continue to strengthen. It is not anticipated that the strength of the parent company would change. Overall, pricing would not be affected too greatly, although the declining market means that it might become keener and margins may be squeezed even more. As the relationship with the fitment centres is already a weakness with the emphasis of the opportunities centring around the motor plants it is likely that this relationship could continue to deteriorate. The difficulty for Smiths Aftermarket is that it is competing against itself by having both the Dunair brand and the motor plant branded products.

#### **4.7 EVALUATION OF FINANCIAL RATIOS**

Financial ratios were presented in Chapter 3 and showed that the division of Smiths Aftermarket is in a relatively healthy position. Based on the higher than expected turnover for 2003 the forecasted return on assets for Smiths Aftermarket is estimated to be about 45%. This indicates that Smiths Aftermarket has become even more efficient at putting its assets to work. This is due, in part, to the fact that Smiths Aftermarket has kept its asset base relatively low and benefits from the facilities that Smiths Manufacturing has to offer and to which it has access. In the future it may not be possible to keep the asset base so low, particularly if the strategy of producing branded air-conditioner kits for the motor plants is pursued, leading to products that are produced very close to OE standards, requiring improved technology.

The current ratio (2.1:1) and the quick ratio (1.10:1) illustrate that the liquidity of Smiths Aftermarket is good as it can cover its liabilities with its assets. The distribution strategy pursued has improved these ratios as the onus is on Pro-Fit to ensure that enough stock is carried to satisfy consumer demand and ensures that Smiths Aftermarket does not tie up

too many assets in inventory. The liquidity ratios indicate that Smiths Aftermarket can also pay its debts quickly should it be required to do so.

The assets turnover ratio of Smiths Aftermarket is difficult to evaluate as the industry norm is not known. As Smiths Aftermarket does not have significant assets tied up in inventory it should not affect financial planning. The ratio does need to be tracked as there are a large number of imported components and if the ratio is too low it could indicate that cash flow for Smiths Aftermarket could be affected.

The distribution strategy implemented means that the creditor base for Smiths Aftermarket has decreased to just being Pro-Fit and the motor plant P&A divisions. Previously, Smiths Aftermarket had to try and collect monies from the individual fitment centres, severely restricting cash flow for the business. The accounts receivable ratio indicates that collection of monies due is now relatively efficient. When evaluating the strategies it is important to bear in mind that Smiths Aftermarket obtains funding for any project from the parent company, Smiths Manufacturing.

#### **4.8 REVIEW OF THE MARKETING MIX FOR SMITHS AFTERMARKET**

The product strategy pursued has led to the development of new aftermarket air-conditioning kits such as for the VW Citi Golf. Smiths Aftermarket covers the range of vehicles on the market extensively and has been particularly successful at producing branded products for the motor plants to complement their own aftermarket strategies. Smiths Aftermarket is seen to pursue a strategy of differentiation with the fitment centres, emphasising quality and motor plant approval and follows a focus strategy with the P&A divisions of the motor plants.

Smiths Aftermarket may have to make some difficult decisions in the future as the P&A divisions of the motor plants feel that the Dunair brand is in direct competition with their own aftermarket brands. These sentiments are already beginning to be expressed by the motor plants and Smiths Aftermarket may need to evaluate whether or not it should drop the Dunair brand name and just focus on the business with the motor plants. The fitment

of aftermarket air-conditioners to vehicles at fitment centres is likely to continue in the foreseeable future as this is normally a cheaper option for the consumer due to the motor plants P&A divisions marking up their prices that they charge their P&A outlets.

Pricing is problematic for Smiths Aftermarket to a certain degree as there is no clear pricing strategy. Medium-value pricing is practised on some air-conditioner kits with premium pricing on the kits being supplied to the P&A divisions. The lack of focus will hamper Smiths Aftermarket and a clear pricing strategy needs to be developed.

The distribution strategy adopted by Smiths Aftermarket at the beginning of 2000 has benefited the division in numerous ways; expenses have reduced, stock-holding has decreased and Smiths Aftermarket has managed to add to the value chain with a more streamlined system. Pro-Fit is deemed to be fulfilling its contractual obligations in terms of distribution, but not in terms of marketing. Consequently the relations between Smiths Aftermarket and the fitment centres have deteriorated. The agreement with Pro-Fit only expires in a few years' time and Smiths Aftermarket will have to decide what actions to take in the interim to rectify the difficulties being experienced.

Promotional activities for Smiths Aftermarket have to all intents and purposes ceased to exist, whether it be for Smiths Aftermarket or for the brand name of Dunair. Pro-Fit has not done any promotional activity for Dunair but is in the process of implementing its own strategy of developing 'premier' dealers. A small amount of promotional activity is taking place with the motor plants for their aftermarket branded products. Future promotional activities will take place on a cooperative basis.

The personnel at Smiths Aftermarket are generally suitably qualified for the positions they hold and have many years of service between them. Technical expertise and support is one of the strengths of the division and can be used to differentiate the service that Smiths Aftermarket provides to that of its competitors. Process as an aspect of the service provision by Smiths Aftermarket is an area that is currently lacking and for this

reason discussion of Smiths Aftermarket' website and information on it were highlighted during the surveys.

#### **4.9 SURVEYS CONDUCTED TO EVALUATE SMITHS AFTERMARKET**

The evaluation of Smiths Aftermarket would not be complete without the inclusion of the perceptions held by its customers, namely the motor plant P&A outlets and the fitment centres. A representative sample was not taken for the surveys due to the size and geographic location of the 1100 P&A outlets and 650 fitment centres.

##### **4.9.1 Overview of the Survey with the P&A Outlets and Objectives**

It was concluded during discussions with the management of Smiths Aftermarket that a sample survey could be conducted as a representation of the wider market (Appendix I). The 14 Ford P&A outlets situated in Kwa-Zulu Natal were selected to represent a microcosm of the wider market. Appointments were made with the relevant P&A Managers and Dealer Principals and individual interviews took place. A trial was done in December 2002 and interviews took place between January and May of 2003. The survey aimed to fulfil several objectives:

- Evaluate how many P&A outlets are following the motor plant branded route.
- Understand what the P&A outlets believe to be important aspects when selecting an aftermarket air-conditioner.
- Understand what the customer believes to be important when selecting an air-conditioner.
- Identify with whom the balance of power lies when selecting the air-conditioner.
- If the P&A outlets fit the air-conditioner themselves or outsource fitment.
- Problems experienced with Smiths Aftermarket air-conditioner kits (Motorcraft).
- How service to the P&A outlets can be improved.
- What spares are replaced most frequently and where they are sourced from.
- What sort of catalogue is used and whether or not they use the Smiths website.
- Whether or not the outlet concerned participates in the Ford incentive programme and how important they consider an air-conditioner kit within the programme.



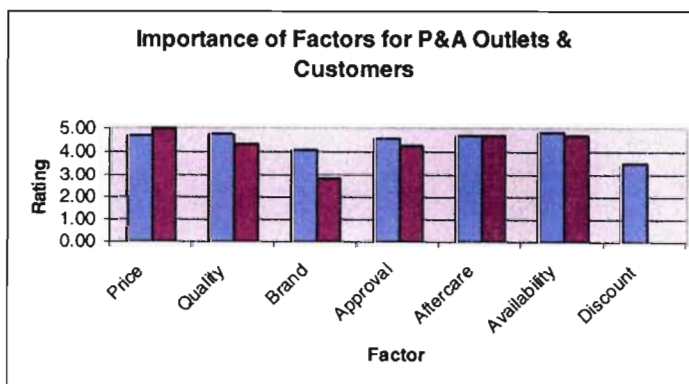
Of the 14 P&A outlets in KZN, interviews were conducted with 11 outlets as 3 elected not to participate. An additional outlet in JHB was interviewed. Motorcraft as a brand name refers here to the Smiths Aftermarket manufactured product.

#### 4.9.2 Results of the Survey with the P&A Outlets

83% of the P&A outlets surveyed fit both Motorcraft and Crispair air-conditioners, with only 17% fitting the Motorcraft brand only. 17% of outlets would consider fitting Arcotemp units, but only if no other units are available. The choice made between Motorcraft and Crispair depends on the deal.

On graph 4.9 from the P&A outlets' perspective availability was the most important factor (average 4.83) when considering which air-conditioner to fit, particularly in summer in KZN when customers want the unit fitted 'yesterday'. This often determines which kit is fitted. This is followed by quality (average 4.75), price and aftercare (both average 4.67). Motor plant approval (average 4.58) was deemed to be an indication of quality with the brand/reputation featuring thereafter. The least important factor is the discount offered (average 3.5) as prices are dictated by Ford Motor Company to the P&A outlets with little room for manoeuvre.

**Graph 4.9 Importance of Factors for P&A Outlets and Customers**



Ratings for P&A outlets are shown in blue and in purple for customers. The discount factor is only applicable to the P&A outlets.

Customers focus primarily on price, with each outlet giving this a 5 rating in terms of importance to the customer. This was closely followed by quality (average 4.3%) with one manager summing it up as customers “*want the best quality at the best price*” (Kirkland A., 2003). Before quality, availability and aftercare are considered to be most important (average 4.7). Motor plant approval then followed (average 4.25) and the least important factor to customers is the brand or reputation, and they appear to have little awareness of brands.

Only two (17%) of the P&A outlets have the ability to fit air-conditioners in-house, leaving the majority (83%) sending vehicles to fitment centres. The main reason cited for this is that the amount of aftermarket air-conditioning business does not justify the cost of the air-conditioning fitment jig, which costs about R100 000 and the full-time employment of an air-conditioner fitment technician. The two outlets with fitment facilities also tended to serve other P&A outlets in the area. The fitment centre that the P&A outlet used was selected on criteria such as; good service, turnaround time, price, convenience and Ford approval.

The P&A outlet has a lot of power as 83% select which aftermarket air-conditioner to fit and the remainder (17%) leave the decision to the fitment centre. Customers do not decide for themselves (0%). 75% of outlets indicated that they have had no problems with the Motorcraft air-conditioners with 25% experiencing minor problems, such as faulty switches. 41.7% of respondents source spares from both Ford as Motorcraft products and from fitment centres. 33.3% source from Ford only and 8.3% source only from fitment centres. Condensers and radiators are replaced most frequently.

The most common form of receiving a catalogue is in hard copy (50% of outlets) with 16.7% having catalogues on CD. Although happy with the hard copy they receive (50% of outlets) the majority (58.3%) would prefer to receive a CD as they feel it is easier to use and can be kept up to date more easily. All outlets have access to emails, but only 33.3% knew that Smiths Aftermarket has a website, and none of them have used it.

91.7% of the outlets participate in the Ford incentive programme and the 8.3% that do not are smaller outlets, where they feel that their turnover does not justify their participation. Within the incentive programme 50% of the outlets rated air-conditioners as being important or very important. The average rating was 3.09, with some outlets remaining negative towards the programme itself. Over the period taken to conduct the survey (January –May 2003) it was interesting to note that there was a subtle change by the P&A outlets in their attitude toward the Motorcraft brand and the incentive programme, with more P&A outlets evaluating the programme as being important as time progressed.

#### **4.9.3 The Evaluation of Smiths Aftermarket by the P&A Outlets**

Question 9 asks: In your opinion, how do you think the service you receive in terms of Motorcraft aftermarket air-conditioners can be improved? This open-ended question was asked in order to obtain the opinion of the outlets on Smiths Aftermarket.

One of the P&A outlets that only fits Motorcraft believes that although the Crispair unit is cheaper they skimp on the product and hence quality is not so good. Other comments focussed on Ford Motor Company and its treatment of the P&A outlets. The survey highlighted shortcomings that exist on the part of Ford. There was criticism of Ford in terms of keeping the outlets up-to-date with part numbers and pricing. The pricing issue was particularly sensitive as the outlets phone Smiths Aftermarket directly and obtain the price from them and when Ford Motor Company invoices the outlet the price is higher.

Advertising between Ford and Smiths Aftermarket was also raised as something which is not taking place. Smiths Aftermarket is working on promotional material to be put into a vehicle once the air-conditioner has been fitted. Smiths Aftermarket was criticised by 3.3% of the outlets on its lack of availability of kits at times, a very important factor for both the outlets and the customer. Delivery was also mentioned as posing problems at times, bearing in mind that Smiths Aftermarket uses Pro-Fit to deliver to some of the outlets. Delivery quality seems to depend on the proximity of the outlet to Smiths Aftermarket itself with some outlets receiving same day or next day service. Some

outlets believe that Smiths Aftermarket needs to improve its pricing, particularly in comparison to Crispair.

Overall the majority of the outlets were satisfied with the service being received with the main areas of concern being; availability, delivery and pricing. In addition to the findings of the survey the sales representative who regularly visits the P&A outlets of all the motor plants compiles customer visit reports. Below are some direct quotations from his reports illustrating the attitude of the P&A outlets to Smiths Aftermarket.

A comment regarding customers who want same-day delivery: *“Joey said that ... if Carcool does not get the Smiths Aftermarket unit from Pro-Fit they fit Crispair. This is done in cases where the customer threatens to taken his business elsewhere”* (Ramnarin J., January 2003). *“Dean mentioned that he ... has since done one (kit) in January but was forced to fit a Crispair unit due to Smiths not having stock on the new Bantam”* (Schoeman D., January 2003).

*“.. I mentioned that we have a standard 12 month 100 000 km warranty for all our units that we manufacture, he said that Connoisseur fitment centre in Durban advises him that the Crispair unit has a three year warranty and this ties up well with the vehicle warranty”* (Naidoo R, January 2003).

*“Narain said that they did not purchase from the Nissan factory because the Nissan kit was far more expensive than Crispair. ... He mentioned that they were sick and tired of the Nissan parts department and wanted to know if he could purchase directly from us. I said to him this would not be possible as we have a contractual agreement with Nissan SA, he then said that our loss is someone else’s gain”* (Naidoo N., January 2003).

*“The salesman had a Crispair unit fitted instead of an Aircare (Smiths Aftermarket) and the customer was not advised that the vehicle would lose its warranty. The unit then gave problems. The salesman was exposed and lost his entire month’s commission and he had to replace the unit with an Aircare unit at his cost”* (Briedmohan L., February 2003).

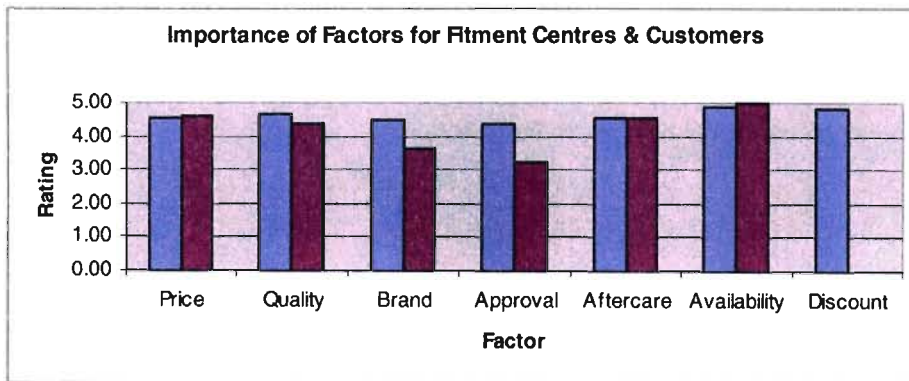
#### 4.9.4 Evaluation of Smiths Aftermarket by the Fitment Centres

Interviews were conducted with 8 fitment centres based in Durban and KZN, including Empangeni and Port Shepstone. The objectives of the survey (Appendix II) were the same as those for the P&A outlets, excepting that the fitment centres do not source the motor plant branded air-conditioners themselves. Either the P&A outlet sends the branded air-conditioner with the vehicle, or the fitment centre sources a Dunair, Crispair or Panacomp (previously Arcotemp and Connoisseur) unit.

#### 4.9.5 Results of the Survey with the Fitment Centres

All of the fitment centres have air-conditioner fitment technicians and so do fitments in-house. None of the fitment centres are loyal to only one brand with all of them fitting both Dunair and Crispair and 75% fitting Arcotemp as well. The importance ratings of the different factors are shown in graph 4.10.

**Graph 4.10 Importance of Factors for Fitment Centres and Customers**



Ratings for fitment centres are shown in blue and in purple for customers. The discount factor is only applicable to the fitment centres.

For the fitment centres availability was the most important factor (average 4.88) and was closely followed by the discount offered (average 4.86) by the air-conditioner manufacturer or distributor as this affects the price at which the kit can be offered. Quality was the next most important factor (average 4.69) as higher quality products were deemed to make the fitment centre's life easier. Price and aftercare by the manufacturer then followed (average 4.56) and most fitment centres were very complimentary about

Smiths Aftermarket on this factor stating that technical support and back up were good and better than that offered by competitors. Brand and manufacturer's approval were rated at averages of 4.5 and 4.38 respectively as most fitment centres only fit air-conditioner kits that have been approved by the manufacturer. The only consideration that was raised is that warranties on aftermarket kits are just for 1 year, whilst most vehicle warranties are for 3 years. The fitment centres place more emphasis on discounts and price and the P&A outlets focus more on quality as they are less price sensitive.

Fitment centre customers focus firstly on availability (average 5) and then price and aftercare (averages 4.63 and 4.57). As long as the air-conditioner makes them feel cool and does what it is supposed to do quality is a tertiary consideration (average 4.38). Customers to fitment centres appear to be even less brand aware when selecting an air-conditioner (average 3.63) than those who go to P&A outlets. Manufacturer's approval (average 3.25) varies in importance depending on the customer. Those people whose vehicle still falls within the three year warranty period offered by the motor plant are more aware and concerned about this aspect than people with older vehicles.

As with the P&A outlets the balance of power in the selection of the air-conditioner lies with the fitment centre, with 87.5% of the fitment centres making the choice on the customer's behalf and 12.5% stating that their choice is quite often accepted. Fitment centres that do fitments for the P&A outlets find that the P&A outlet dictates which air-conditioner is to be fitted and may also send the motor plant branded air-conditioner, such as Aircare with the vehicle. The fitment centre only makes money on the fitment charge in this case.

62.5% of the fitment centres have experienced problems with Smiths Aftermarket air-conditioners, but most stated that all manufacturers have problems at some time or other. Discussion of the problems encountered revealed that they were minor in the main and the technical support provided by Smiths Aftermarket helped to alleviate any dissatisfaction on the part of the fitment centre. As one owner pointed out, when they have problems with other brands they have to make a plan themselves to sort it out. One

fitment centre was not happy with the service provided by Smiths Aftermarket for warranty claims. This case appeared to be an isolated one and discussions with Smiths Aftermarket revealed a long history between Smiths Aftermarket and this fitment centre with some of the fitment centre personnel being prejudiced towards Smiths Aftermarket. Spares are mainly purchased through both Time and Transport (87.5%) and Pro-Fit (75%) and condensers and compressors were the most commonly purchased spares.

The majority of fitment centres (87.5%) receive their catalogues in the form of a hard copy, but most (62.5%) would prefer to receive it on a CD as they can then download it for themselves. Other preferred methods are via the internet and remaining with the hard copy. A commonly held misconception about the fitment centres is that they are not proactive and not keen to move with the times, but all of them have access to the internet and receiving e-mails. 75% of respondents were aware that a website for Smiths Aftermarket existed, but only one of the respondents had tried accessing it.

#### **4.9.6 The Evaluation of Smiths Aftermarket (via Pro-Fit) by the Fitment Centres**

In theory Smiths Aftermarket no longer has direct contact with the fitment centres as Pro-Fit is the official distributor of Smiths Aftermarket products. In practice this is often not true. Question 7 asks how the service from Smiths Aftermarket can be improved and as Pro-Fit is the distributor it really asks about Pro-Fit's service provision. Sentiments that were expressed centred on the same or similar issues.

##### **Availability of products.**

Pro-Fit appears to carry very little stock and often cannot supply products to the fitment centres. When questioned, shortages from the manufacturer i.e. Smiths Aftermarket are cited, which is often not correct. Long unreasonable lead times for the receipt of products are then quoted. Fitment centres often resort to telephoning Smiths Aftermarket directly to source products and feel that availability from Smiths Aftermarket is better than that from Pro-Fit.

### **Economic batch quantities**

Some of the fitment centres complained that when ordering products from Pro-Fit, they are requested to order minimum quantities. The fitment centres do not feel that they are in a position to carry extra stock and see this as being a tactic by Pro-Fit to avoid carrying stock themselves.

### **Discounts**

Various discounts are offered by Pro-Fit to the fitment centres; payment within 30 days, discounts on bulk orders and discounts to members of Pro-Fit/Arda. Arda was set up as a group to which fitment centres could elect to belong to Arda through the payment of a small monthly fee, for which they would enjoy certain privileges. The discount for early payment is not always accorded and Pro-Fit is not always negotiable on discounts for bulk orders. Some Arda members also did not receive the Arda discount. The feeling was that discounts are not always honoured and that Pro-Fit is very quick to follow up on payment even within the 30 day period. Allocation of discounts seemed to depend on the relationship between Pro-Fit and the fitment centre and there was no consistency in how discounts are applied, with some centres being set turnover targets to be able to enjoy a discount.

### **Delivery**

The delivery of products to the fitment centres varied but it was noted that deliveries had reduced to either daily or once every two days, a deterioration from previous levels. Some fitment centres in Durban struggled to get products delivered from Pro-Fit and resorted to collecting the products themselves. The fitment centres felt that they had to place larger orders before Pro-Fit would deliver to them.

### **Marketing**

Numerous issues were raised under marketing. Pro-Fit does not do any marketing and one fitment centre has been trying to obtain a Dunair sign from them for the last 2 ½ years, with no success. The Pro-Fit sales rep. in Durban was recently retrenched and even when employed the fitment centres outside of Durban rarely saw him. Concerns



were raised about product knowledge and another fitment centre felt that the retrenchment of the sales rep. was detrimental as he had more product knowledge than others within Pro-Fit.

### **Pro-Fit's Premier Dealer strategy**

Pro-Fit is currently trying to implement a new marketing strategy, namely selecting fitment centres to become Pro-Fit Premier Dealers. Fitment centres have been approached to sign up to be a dealer with the philosophy that Pro-Fit will become a brand and Dunair will be a brand sold by Pro-Fit, somewhat akin to the SupaQuick chain and the products they sell. Grave concerns were expressed about the handling of the strategy. Pro-Fit is stating that fitment centres who do not sign up with them will not be able to source Dunair products and will, therefore, lose any Dunair business that they do. Tactics employed by Pro-Fit seem to be rather heavy handed and most of the fitment centres feel that they are being coerced into signing. Some fitment centres with longstanding relationships with Smiths Aftermarket have not been approached and feel slighted. The majority of the fitment centres want to know exactly what Smiths Aftermarket' role in this strategy is and their level of involvement. A few fitment centres also raised the legality of this strategy and stated that they would not be afraid to go to the Competitions Commission if they feel that it is unfair.

The sales rep. for Smiths Aftermarket also calls on the fitment centres and compiles customer visit reports with them. In relation to the premier dealer strategy being pursued *"Pro-Fit does not have any business ethics and they only use threats of pulling dealerships away"* (Hoskins M., February 2003). *"Robin said that he was disillusioned with Pro-Fit and the manner in which they operated"* (Gracie R., February 2003). *"Gary is not pleased with Pro-Fit and he complained that he would not use them by choice but would in some cases if he could not source from anyone else. ... Gary said he felt sorry for us as we do not realise the amount of business that we are losing daily"* (Dawson G., January 2003).

*“Kim was full of complaints regarding Pro-Fit and its staff. ... She could not get any delivery dates on parts and kits ... and that she has to order a minimum quantity of 5 or 10. ... Kim says she tries her best with Pro-Fit but will only use them if necessary”* (Mackee K., January 2003). *“Chris mentioned that he was lucky if he was visited twice last year by Pro-Fit and compared to Time and Transport and Crispair, who visit every month, and once in two months by Behr he feels that we (Dunair) would be extinct in a few years from now if we continued in this manner”* (Ferreira C., January 2003).

Numerous other quotations in the same vein could be given. The main flaw in the evaluation of Smiths Aftermarket through Pro-Fit is that it only focuses on fitment centres in KZN. Sharon Moir the national sales manager for Smiths Aftermarket, indicated that the fitment centres in the Cape Town region have a different perspective and view the premier dealership strategy favourably. It must be noted, however, that the competition in the region is not so intense and the person who runs the Pro-Fit branch there is very proactive with better overall service provision to the Cape region.

#### **4.10 CONCLUSION**

The evaluation of the aftermarket air-conditioning market has shown that the market is not stagnating as quickly as first anticipated and consumers often still purchase a lower specification vehicle and fit an air-conditioner retrospectively. Smiths Aftermarket offers a wide product range catering for both entry level vehicles and also offering kits for vehicles on which air-conditioning is an option, including light commercial vehicles. Smiths Aftermarket has access to the required technology and sub-components and produces air-conditioning kits that adhere to international quality standards.

Within South Africa Smiths Aftermarket is a very strong competitor in both the air-conditioning and replacement parts markets, holding majority market share. Smiths Aftermarket benefits from the purchasing power of Smiths Manufacturing and its relationship with the motor plants and is the only aftermarket manufacturer to have developed branded air-conditioner kits for the motor plants. This strategy has helped

Smiths Aftermarket to reduce the bargaining power of the buyers as the motor plants themselves are strongly pursuing the strategy of developing aftermarket brands.

The main threat for Smiths Aftermarket in terms of its competitors is from Crispair, which pursues business aggressively and has a higher percentage of the fitment centre business. Crispair is for sale and this could provide uncertainty for the future as it is not clear if there are any potential buyers.

The evaluation of Smiths Aftermarket showed that although turnover has remained relatively healthy, gross margins have decreased over the last few years with a slightly downward trend. The graphs showing sales by customers also revealed that Smiths Aftermarket is over-reliant on Toyota as a customer, which could place it in a vulnerable position. The turnover split between air-conditioner kits and replacement parts shows that the parts market is growing, although it remains a smaller part of Smiths Aftermarket' business.

The impact analysis showed that the biggest threat is from the approval by the motor plants for alternative suppliers for their branded products, followed by improvements in quality and product range by competitors. The branded kits also offer Smiths Aftermarket the greatest opportunity, but Smiths Aftermarket will have to work hard at improving its strengths and weaknesses to meet the opportunities and threats. The main areas of focus are the relationship with the fitment centres and the Dunair name. From a financial perspective Smiths Aftermarket is considered to be reasonably healthy.

The product strategy pursued has been beneficial to Smiths Aftermarket whilst areas of concern within the marketing mix are the lack of pricing and promotional strategies. The distribution strategy of distributing through Pro-Fit has been successful in some respects but not in others. From the survey conducted with the P&A outlets it is deduced that the service provision to them by Smiths Aftermarket is satisfactory on the whole with concerns raised about availability, delivery and pricing. Lack of availability can lead to Smiths Aftermarket losing business as competitors' products are then fitted.

Service provision by Smiths Aftermarket to the fitment centres via Pro-Fit was considered far less satisfactory. Complaints were raised with regards to availability, honouring of discounts by Pro-Fit, delivery, marketing and trying to get the fitment centres to order economic batch quantities. The premier dealer strategy that Pro-Fit is pursuing is also causing unhappiness in the market in KZN, but not in Cape Town.

In summary, if a gap analysis were to be conducted for Smiths Aftermarket the main gap that Smiths Aftermarket has to overcome is improving the gross margins in a stagnant market, whilst reducing its over-reliance on Toyota as a customer. The second gap is how to improve service provision to the P&A outlets, particularly the availability of products. The final gap, which can be considered to be having a direct impact on Smiths Aftermarket' business, is that of improving the relations between Smiths Aftermarket and the fitment centres and improving the service provision of Pro-Fit to the fitment centres.

Chapter 5 first discusses the identification of possible strategies for Smiths Aftermarket in view of the evaluation presented in this chapter. The strategies are then ranked for suitability and evaluated for acceptability and feasibility, culminating in recommendations of which strategies should be pursued.

## **CHAPTER 5**

### **PRESENTATION OF STRATEGIES & RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

The evaluation in chapter 4 led to the identification of certain gaps that Smiths Aftermarket has to overcome in order to be successful in the future. These included stemming the downward trend of the gross margin and dealing with the over-reliance on Toyota as a customer. Additionally the service provision by Smiths Aftermarket through Pro-Fit to the fitment centres also needs to be addressed.

This chapter commences with a review and identification of the possible types of strategies, which Smiths Aftermarket can pursue, based on the evaluation conducted in chapter 4. Models presented in chapter 2 are re-introduced and enable the identification of strategies to take place. From this analysis four strategies are identified and each one is presented in turn along with an assessment of the suitability of the strategy. The suitable strategies are then assessed for acceptability and feasibility. The chapter concludes with the presentation of the recommendations for Smiths Aftermarket, which would address and close the gaps identified at the end of chapter 4.

#### **5.2 IDENTIFICATION OF STRATEGIES**

Using the evaluation data presented in chapter 4 it is possible to identify the type of strategies that Smiths Aftermarket can select using matrices presented during chapter 2.

##### **5.2.1 Identification of Grand Strategies**

The grand strategy matrix (figure 2.12, page 32) was presented and strategies are identified along two criteria; market growth and competitive position. The evaluation of Smiths Aftermarket has shown that it has a strong competitive position due to its market share, whilst growth in the industry is slow and stagnating. Based on this evaluation Smiths Aftermarket would fall into quadrant IV for which the following strategies are suggested:

- Concentric diversification – the acquisition of an unrelated company with potentially synergistic aspects.
- Horizontal diversification – the acquisition of a similar firm.
- Conglomerate diversification – the acquisition of a firm that represents the most promising investment opportunity, which is not necessarily synergistic.
- Joint ventures

### **5.2.2 Identification of Business-Level Strategies**

The case study identified that current strategies that are being followed from a product perspective are differentiation with the fitment centres and focus with the motor plants, both of which fall under Porter’s generic strategies (see figure 2.13 page 33). As these strategies have already been identified the focus of the identification of strategies will be on the remainder of the matrices. The first matrix is the life-cycle matrix, whose criteria are the stage of the life-cycle that the industry is in and the strength of the company under consideration. Returning to figure 2.14 on page 35 the following are given for a strong company in a mature and ageing industry:

- Attain cost leadership. Renew. Focus. Differentiate. Grow in Industry.
- Find a niche and hold niche. Hang in. Grow with industry. Harvest.

The SWOT matrix (figure 2.10 page 25) details the types of strategies that need to be developed. In identifying strategies it will be important to take the results of the impact analysis conducted in section 4.5 into consideration. The BCG matrix (figure 2.15 page 36) focuses on the relative market share of a company and the market growth rate. The growth rate is low, whilst the relative market share of Smiths Aftermarket is high. This identifies Smiths Aftermarket as a leader in a mature market, i.e. a cash cow, where the return on assets achieved by Smiths Aftermarket (37.5%) is greater than the market growth rate and so the business generates more than it consumes. The recommendation in this instance is to milk the cash cow to extract as many profits as possible, whilst investing as little cash as possible. This would indicate a strategy of “more of the same”, where little changes.

The GE industry attractiveness–business strength matrix is an involved process and it would be difficult to gain consensus amongst the management of Smiths Aftermarket as to where it would sit on the matrix. If criteria such as size, growth, market share, margins, distribution and flexibility were evaluated it is highly likely that Smiths Aftermarket would be considered to have high business strength. Conversely, if the market were also evaluated against size, growth, competition, price, profitability and technology, then in all probability the industry would only have low to medium attractiveness. Returning to figure 2.16 on page 37 the following strategies are recommended:

- Selectivity – maintain position and seek cash position.
- Selectivity and growth – identify growth area and invest in growth.

### **5.2.3 Strategies Identified for Smiths Aftermarket**

The analysis of the varying matrices leads to the identification of the strategies shown below:

- Grand strategy – horizontal diversification. Smiths Aftermarket’ main competitor, Crispair, is for sale, representing an opportunity for the company.
- Business-level strategy – find a niche and hold on to the niche. Smiths Aftermarket has developed the niche of branded aftermarket air-conditioning kits and replacement parts for the motor plants. The strategy would be to pursue this niche, focusing on its main customer, Toyota.
- Business-level strategy – focus, differentiation. Grow the industry. As Smiths Aftermarket is already following these strategies, this strategy could be termed ‘more of the same’ as also suggested by the BCG matrix.
- Business-level strategy – maintain position and seek cash position. The change in distribution strategy at the beginning of 2000 was implemented to enable Smiths Aftermarket to maintain its position whilst becoming more cost effective as a division. The evaluation of Smiths Aftermarket via Pro-Fit indicated that there are numerous problems to be addressed and the question is whether or not Pro-Fit remains the sole distributor of Smiths Aftermarket’ products or whether an alternative should be sought to enable Smiths Aftermarket to maintain its position.

### 5.3 PRESENTATION OF THE FOUR STRATEGIES

#### 5.3.1 Grand Strategy – Horizontal Diversification

Crispair is a well-established aftermarket air-conditioning kit and replacement parts manufacturer. The company is 100% owned by Seil UK, who purchased it in 1995 from manager-owner Billy Clarke. It is estimated that the company has been for sale for about four years and it is suspected that the owners have yet to find a buyer. The company has about 40 employees and it is estimated that their turnover is no more than R40 million per annum based on their market share and projected growth. Market shares for Crispair are shown in table 5.1 and indicate that Crispair has managed to increase its market share over the ten year period.

**Table 5.1 Market Share for Crispair**

Year	Air-conditioner Kits	Replacement Parts
1989	14%	7.9%
1990	12.7%	7.2%
2000	22%	11%

Source: Perrie M. J., 1990, 2001. *Auto-airconditioning. Market Evaluation.*

Referring back to table 3.4 which gave an overview of prices that different competitors charge it was seen that Crispair charges a medium-value price. Whilst the prices shown are the official retail prices it is known that Crispair is often willing to discount prices to undercut competitors to secure business. At times Smiths Aftermarket has wondered how Crispair is managing to make an acceptable gross margin on its products as it appears to trade very closely to a break-even point.

Crispair aggressively seeks new business and holds the larger share of the independent dealer and fitment centre business (42.8%) as opposed to Smiths Aftermarket's share (24.7%) (Perrie M. J., 2001:35). Although Ford P&A outlets are supposed to only fit the Motorcraft product range, as the study has shown the majority 75% will still fit a Crispair unit as well as a Motorcraft unit. During a recent visit to a Ford P&A outlet an employee stated that Crispair had questioned with management the Ford directive to only fit Motorcraft. The P&A outlet management had then informed staff that they could carry



on fitting Crispair as well as Motorcraft, indicating that either Crispair has very good powers of persuasion or that further discounts were given.

When a company is for sale it is highly unlikely that the owners will invest more money in tooling, equipment and facilities and the assumption is made that this is the case with Crispair. On this basis it is determined that Crispair’s facilities are reasonably old with ageing technology. During the study conducted in 1990 (Perrie M.J., 1990) Crispair was considered to be better than Smiths Aftermarket in terms of; parts pricing, response to queries, quality of its reps. and product quality. From the study and information gleaned during the interviews with the Ford P&A outlets and the fitment centres, Crispair can be seen to have the following strengths and weaknesses.

**Figure 5.1 Strengths and Weaknesses of Crispair**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Good availability of kits.</li> <li>• Strong marketing and strong reps.</li> <li>• Good distribution.</li> <li>• Approved products (also given in writing).</li> <li>• Wide product range.</li> <li>• Majority of fitment centre business.</li> <li>• Competitive pricing.</li> <li>• Low overhead structure.</li> </ul>	<ul style="list-style-type: none"> <li>• Age of facilities and technology.</li> <li>• Lack of investment.</li> <li>• No direct relationship with the motor plants. Does not supply air-conditioners to motor plants at OE level. Therefore, no anchor range of products.</li> <li>• Although quality has improved it could still be improved in terms of ease of fitment and so on.</li> <li>• High stockholding (both in-house and being held at distributors – consignment stock).</li> </ul>

**Assessing the Suitability of Purchasing Crispair**

According to Johnson and Scholes (2003: 385) a diversification strategy might be suitable when a market is saturated or declining as in this case. An acquisition can enable a company to satisfy supply and demand within a market and also acquire competencies and economies of scale. It is important to estimate what the growth would be and whether or not there would be a clash of culture. The strategy of purchasing Crispair would be suitable from the following perspectives:

- Smiths Aftermarket would become the outright leader in the market for air-conditioner kits and could continue to grow its business in the declining market.

- Smiths Aftermarket would be the main supplier to both P&A outlets and fitment centres.
- Its position within the replacement parts business would also be solidified.
- Smiths Aftermarket could service both the higher and lower ends of the market simultaneously by offering products with a range of prices to satisfy the needs of customers.
- Operations could be streamlined to add more value into the value chain, by consolidating manufacturing and distribution.
- Smiths Aftermarket could begin to achieve some form of economies of scale.

At first glance it appears that this strategy is suitable for Smiths Aftermarket. However, the question remains as to whether or not market share would actually increase that much based on the overlap in product ranges offered by Crispair and Smiths Aftermarket. The product range of Smiths Aftermarket is featured in figure 3.8 on page 92. The only air-conditioners that Smiths Aftermarket produces that Crispair does not are; Toyota Landcruiser, Land Rover Defender, BMW 3 series and Toyota Condor. Conversely, Crispair produces certain units that Smiths Aftermarket does not produce; Mazda 626, Mazda Etude, Hyundai (Accent, Elantra, Atoz, LDV, Panel Van), Lada Niva, Daewoo Lanos, Fiat Palio and VW Polo.

Units for Hyundai, Lada and Daewoo are negligible as sales of such vehicles are low and the majority of vehicles come fitted with air-conditioner with only a minority providing an opportunity for aftermarket fitment. Air-conditioner fitment on the Etude and 626 is now 100%. Of more interest to Smiths Aftermarket is the VW business that Crispair currently has. In terms of market share, VW currently holds the second largest share of the vehicle sales market with 22.44% of the market (NAAMSA vehicle sales, May 2003). Based on the air-conditioner percentages of VW vehicles and forecasted sales for 2003, this represents a total potential market of over 25 000 units, although it is highly unlikely that all of these vehicles would have aftermarket air-conditioners fitted.

Another question regarding this strategy is whether or not there would be a clash of cultures between Smiths Aftermarket and Crispair. Smiths Aftermarket suspects that Crispair employs questionable tactics at times to retain business. If this is the case Smiths Aftermarket would have great difficulty operating in the same manner and would then have to change the practices of Crispair. The last question regarding suitability is whether or not Smiths Aftermarket would be permitted by the Competition Commission to purchase Crispair. The collaboration between Connoisseur and Arcotemp does not mean that either company gains the lion's share of the market, whereas the purchase of Crispair by Smiths Aftermarket would lead to that, which may not be deemed to be acceptable.

### **5.3.2 Business-Level Strategy - Find a Niche and Hold on to the Niche**

One of the key strengths that has enabled Smiths Aftermarket to secure its position with the motor plants and their P&A outlets is the development of branded air-conditioners for the motor plants. Smiths Aftermarket has developed a niche for itself. Smiths Aftermarket could consider focussing solely on this business and exiting from business with the fitment centres. Returning to graph 4.7 (a) on page 114 sales with the P&A outlets of Toyota, Ford and Nissan accounted for 55.67% of turnover in 2002. When the turnover with Pro-Fit is taken into consideration and sales by motor plant are calculated, 80.67% of turnover is for Toyota products, 10.54% for Nissan products and 6.57% for Ford products. Therefore, 97.78% of Smiths Aftermarket business is based on sales of products for Toyota, Nissan and Ford vehicles.

Toyota, Ford and Nissan are keen to ensure that strategy of their P&A outlets only fitting their aftermarket branded products takes place, benefiting Smiths Aftermarket. During the administration of the survey it was seen that more and more Ford P&A outlets were beginning to comply. Criticism has been levelled at Smiths Aftermarket, particularly by Toyota, for maintaining the Dunair brand, which the motor plants consider to be in direct competition with the Aircare, Motorcraft and Nissair brands. By focussing on the motor plant branded aftermarket kits, Smiths Aftermarket could further strengthen its relations with the motor plants and could use this strategy to secure future business with the motor

plants. The evaluation of Smiths Aftermarket pricing also indicated that it is easier to practice premium pricing with the motor plant branded aftermarket kits and parts.

### **Assessing the Suitability of Focussing only on Branded Kits and Parts for the Motor Plants**

The strategy would enable Smiths Aftermarket to consolidate its position with the motor plants P&A outlets placing it in an advantageous position for future business. Smiths Aftermarket would not be so vulnerable to the stagnant market as its business would be more secure. By focussing on Toyota as the main customer and developing the Ford and Nissan business, Smiths Aftermarket would not need to engage in other developmental work such as units for VW and Delta, which could result in savings being made. Employees of Smiths Aftermarket would also become experts with superior product-knowledge being developed.

The motor plants in South Africa have rationalised the number of platforms off which vehicles are made. In the future Toyota will be using one platform to produce three different types of vehicles. The rationalisation has led to larger vehicle volumes being produced by the motor plants, offering more air-conditioning opportunities for Smiths Aftermarket. The areas of commonality between vehicles being built on the same platform also mean that economies of scale are more feasible for Smiths Aftermarket, leading to more efficient production. The favourable pricing with the motor plant P&A outlets offers Smiths Aftermarket the opportunity to reverse the downward gross margin trend.

Focussing on this strategy would negate the need to retain Pro-Fit as a distributor once the contract with them has expired. This would serve the purpose of closing the gap of poor service by Pro-Fit as it would no longer be a consideration. Smiths Aftermarket could either then use a straightforward transport company to get the products to the motor plant P&A warehouse. In addition the question of service provision to the fitment centres would no longer exist, as Smiths Aftermarket would not be selling products to them.

The strategy is attractive in that it closes some of the gaps that were identified in chapter 4. One of the gaps identified was that of the over-reliance by Smiths Aftermarket on Toyota as a customer. With Toyota constituting 80.67% of the turnover of Smiths Aftermarket this strategy would strengthen Toyota's position with Smiths Aftermarket and would not resolve this issue. Previously Toyota had a small indirect shareholding in Smiths Manufacturing as Smiths Manufacturing is owned by Metair, which, in turn is owned by Wesco, a major shareholder of Toyota South Africa (TSA). Wesco's shareholding in TSA reduced to 25% in 2002 and so the shareholding link between Smiths Manufacturing and Toyota was lost. Toyota Motor Corporation (TMC) of Japan has invested more in TSA and there is no guarantee that the preferential relationship enjoyed between Toyota and Smiths Manufacturing will continue.

Part of Smiths Manufacturing's service provision to the motor plants is the availability of aftermarket kits for vehicles on which Smiths Manufacturing has OE business. The focus on only the three motor plants means that Smiths Aftermarket would no longer be producing aftermarket air-conditioner kits and parts for other motor plants, which may be undesirable. Smiths Aftermarket may be seen to be favouring only these three motor plants. If this strategy were to be pursued then the withdrawal by Smiths Aftermarket from the production of aftermarket kits and parts for other motor plants would need to be gradual. Conversely the damage to the relations between Smiths Manufacturing and the other motor plants would be minimised by the fact that the competitors in the aftermarket sector produce aftermarket kits and parts for the other motor plants' vehicles in any case.

Production of vehicles in South Africa only constitutes a small portion of world-wide vehicle production. Locally produced vehicle volumes have increased and motor plants, such as BMW, VW, DCSA and Toyota have successfully launched export programmes. When BMW commenced its export programme, one of its biggest European component suppliers Behr acquired a South African company, Connoisseur. The conclusion that can be drawn is that overseas companies are watching the development of the South African motor industry and are likely to invest in South Africa when they feel that the market is big enough. TSA is looking at producing 180 000 units by the year 2007, doubling its

current production. This growth may entice one of Toyota's larger international component suppliers to invest directly in South Africa, rather than just be a licensor to local companies. The incoming supplier would anticipate fulfilling both the OE and aftermarket requirements of Toyota. In all likelihood Smiths Aftermarket would lose any aftermarket business it has with Toyota, including the Aircare branded business. Smiths Aftermarket would then only have the Ford and Nissan business, which would not be enough to sustain it.

The survey conducted with the P&A outlets revealed that they do not always comply with the motor plant directive of just fitting the branded aftermarket parts. This is particularly true when the P&A outlet outsources the fitment of an air-conditioner. In the short term this situation is unlikely to change and the fitment centres will continue to have a role to play in the decision-making of which air-conditioner to fit for the foreseeable future. If Smiths Aftermarket is no longer servicing this sector of the market by not distributing to them then they may be biased and may favour the competitors' products.

The vehicle variants that have air-conditioners offered as standard are increasing. Whilst chapter 4 showed that the market is not decreasing as rapidly as expected at some point this trend will be reversed as income becomes more equal in South Africa. Toyota, Ford and Nissan are due to launch new models on to the South African market over the next few years and the indications are that the air-conditioner fitment percentages on these new vehicles will continue to increase.

### **5.3.3 Business-Level Strategy – Focus, Differentiation, More of the Same**

When evaluating some businesses one of the questions that can be asked is "is it desirable to change from the current strategies being followed?" Smiths Aftermarket is already pursuing a strategy of differentiation with the fitment centres through its superior quality and one of focus with the motor plants with its branded aftermarket products. Factors favouring the continuation of these strategies and remaining "as is", are that turnover is increasing and ROA is forecasted to be 45% in 2003. Although market conditions have become tougher over the last 15 years Smiths Aftermarket has managed to successfully

maintain its market share, even though competitors have managed to improve the quality of their products. Of all the aftermarket manufacturers, Smiths Aftermarket has the strongest relationship with the motor plants.

Part of the strategy of more of the same would be to continue the development of the VW and Delta business, the pursuance of business on heavy-duty vehicles and on export vehicles. Smiths Aftermarket would also continue to tender for fleet business and government contracts. Smiths Aftermarket could build on its current success with the focus strategy with the motor plants and develop branded air-conditioner kits and parts for other motor plants.

#### **Assessing the Suitability of More of the Same**

Smiths Aftermarket has pursued the same strategies of focus with the motor plants and differentiation with the fitment centres for the last four years. The result has been an increase in market share by Smiths Aftermarket and consolidation of its place in the aftermarket sector. By following more of the same Smiths Aftermarket will be able to continue to serve both the motor plants' P&A outlets and the fitment centres, both of whom will continue to have a strong role to play in the aftermarket sector for the foreseeable future. Smiths Aftermarket can continue to build on the positive relationships it has with both parties to ensure that sales are maintained, so that its market position remains intact.

As part of the relationship between Smiths Manufacturing and the OEMs it is important that the company is seen to provide a full service to the OEMs, including an aftermarket service. The only OEM that Smiths Aftermarket does not currently have products for is Delta and the contract between Smiths Manufacturing and Delta only comes into effect in 2004, at which point Smiths Aftermarket will develop aftermarket products for Delta. Aftermarket products are manufactured for all other motor plants, enhancing the service they can provide to the end-user.



For some time Smiths Aftermarket has been examining the possibility of producing aftermarket products for heavy-duty vehicles. This is in its infancy at the moment, but does provide an opportunity for the development of additional products. The opportunity also exists for Smiths Aftermarket to target vehicles, which are being exported from South Africa. Unfortunately, the market is difficult to quantify, as volumes are erratic. Vehicles are produced locally and an order may be received from within Africa for some to be exported. The motor plant often uses vehicles it already has in stock to fulfil the order and usually such vehicles have not had air-conditioners fitted. Smiths Aftermarket then supplies the aftermarket air-conditioners for these vehicles. It is estimated that a large percentage of turnover achieved with Nissan is attributable to these export vehicles, as Nissan is the main exporter of vehicles and particularly LCVs into Africa. By pursuing these opportunities Smiths Aftermarket is reducing its over-reliance on Toyota as a customer and also creating new niches in view of the stagnant market.

Whilst opportunities exist to reduce the impact of the stagnating market, there is little indication that the downward trend in the gross margin would be reversed. This remains an area of concern and would still need to be addressed. Smiths Manufacturing prides itself on the fact that it offers an aftermarket service to all of its OEM customers, but sometimes this is done at the expense of Smiths Aftermarket. Small production quantities make certain units uneconomical to produce at times and do not allow Smiths Aftermarket to benefit from economies of scale, making products more expensive. The nuisance volumes may also inhibit the production of aftermarket units for more popular models, which could result in poor availability to the market. Smiths Aftermarket was criticised quite heavily on its availability and needs to find ways to improve the situation.

Trying to service all of Smiths Manufacturing's customers can also incur additional expenses for Smiths Aftermarket in the form of development, testing and approval costs. As an example, Smiths Aftermarket has been trying since the beginning of the year to obtain approval from VW on its Citi-Golf unit. The process has proved to be a lengthy and costly one for Smiths Aftermarket involving numerous visits by Smiths Aftermarket personnel to VW and so on. It has proved very frustrating for Smiths Aftermarket as



potential sales have been lost in the interim and the kit is still not approved 6 months later.

#### **5.3.4 Business-Level Strategy, Maintain Position and Seek Cash Position**

The appointment of Pro-Fit as a distributor at the beginning of 2000 was done on the basis of enabling Smiths Aftermarket to maintain its position in the market and improve its competitive edge from a cash perspective. Such was the importance of this strategy that the Board of Smiths Manufacturing had stipulated that Smiths Aftermarket could no longer do its own distribution as it was not cost-effective. During the evaluation of Smiths Aftermarket it was shown that the appointment of Pro-Fit had led to a large decrease in certain costs to Smiths Aftermarket. Smiths Aftermarket would then be able to pass some of these benefits on to its customers.

Smiths Aftermarket has been able to maintain its position and has certainly become more streamlined in its cost structure, but concerns have been raised regarding the effectiveness of Pro-Fit as a distributor. The evaluation of Pro-Fit by the fitment centres showed that there are problems being experienced relating to delivery, availability of products and economic batch quantities, honouring of discounts and marketing issues. As the contract for Pro-Fit is only due for renewal in a couple of year's time Smiths Aftermarket has to decide whether to look for an alternative distributor to Pro-Fit or to find ways in which the strategy taken can be made to work.

#### **Assessing the Suitability of the Strategy**

The strategy implemented has been successful for Smiths Aftermarket mainly from a cost point of view. Smiths Aftermarket has not lost market share by distributing through Pro-Fit but Pro-Fit has not yet grown the business and has relied more on the business base that existed prior to it taking over the distribution. Seeking an alternative distributor to Pro-Fit at this stage would be very difficult. The first dilemma is to find an alternative distributor and the generally held opinion is that one does not exist at this point in time. Secondly Smiths Aftermarket has invested a great deal of time and effort in working with Pro-Fit, which would go to waste if Smiths Aftermarket were to switch distributor now.

Smiths Aftermarket would then have to start from scratch with a new distributor and there is no guarantee that they would be more effective.

Of more immediate concern to Smiths Aftermarket should be the deterioration of the relations between Smiths Aftermarket and the fitment centres based on the service provision by Pro-Fit. Smiths Aftermarket rather needs to work with Pro-Fit to remedy the current difficulties to minimise any further damage taking place. Contractually it would also be very difficult for Smiths Aftermarket to relieve Pro-Fit of its distribution duties. Pro-Fit has a couple of years in which to prove itself and if it does not achieve this then Smiths Aftermarket can be justified in seeking and developing an alternative distributor at that time.

**5.3.5 Evaluating the Relative Suitability of the Strategic Options**

Various methods can be used to evaluate the relative suitability of the four strategic options presented, including ranking, decision tress and scenarios. For the purposes of this paper the ranking option has been chosen and is illustrated in table 5.2. The options have been ranked against key factors in the environment, resources and expectations. They are ordered taking both the ticks, crosses and question marks into consideration.

**Figure 5.2 Suitability Ranking for Smiths Aftermarket’ Strategic Options**

		Key Strategic Factors							
	Strategic Options	Market Share	Gross Margin	Relations with Motor Plants	Relations with Fitment Centres	Economies of scale	Availability of Products	Price of products	Ranking
1.	Purchase Crispair	✓	?	✗	?	✓	✓	?	B
2.	Focus only on motor plant brands.	✗	✓	✓	✗	✓	?	✗	C
3.	More of the same	✓	?	✗	✓	✓	?	✓	A
4.	Seek alternative distributor	✗	?	✗	?	?	?	✗	C

✓ = favourable; ✗ = unfavourable; ? = uncertain or irrelevant. A= most suitable; B = possible; C = unsuitable

Taking a snapshot of the current situation it is seen that the most suitable strategy at this stage is for Smiths Aftermarket to pursue its current strategies and remain as is. The purchase of Crispair by Smiths Aftermarket is also a possibility but would depend on the acceptability and feasibility of the strategy. The strategy of focussing solely on the motor plant branded products is unsuitable in view of the fact that it would leave Smiths Aftermarket in too vulnerable a position were one of Toyota's international component suppliers to invest in South Africa. Seeking an alternative distributor to Pro-Fit is not suitable as too much has been invested with Pro-Fit by Smiths Aftermarket and it would be very difficult for Smiths Aftermarket to extricate itself from the current contract.

#### **5.4 ASSESSING THE STRATEGIES FOR ACCEPTABILITY**

The strategies that are considered suitable and possible for Smiths Aftermarket to pursue are now assessed for their acceptability. Various criteria can be used to assess the acceptability of strategies, including profitability and financial ratio projections.

##### **5.4.1 Assessing the Acceptability of More of the Same**

Concrete figures for the future for Smiths Aftermarket are unfortunately not available, so discussions took place with financial managers at Smiths Aftermarket to ascertain their opinions of financial measures for Smith Aftermarket going forward. The general consensus is that the profitability of Smiths Aftermarket will start to decline and turnover from next year will decrease. Gross margin is expected to reduce by 10% on the current year and each year thereafter. Therefore, doing more of the same can be considered to be a short-term strategy.

The financial ratios are expected to continue to improve, particularly those ratios that are calculated using the asset base of Smiths Aftermarket. It would be false economy to view these ratios favourably as no further investment in Smiths Aftermarket will take place in the next few years. The negative aspect of this is that with the technology involved in producing aftermarket air-conditioners and parts improving all the time, Smiths Aftermarket will reach a point where it has to make a decision whether or not to make some investments. Investments will become obligatory for Smiths Aftermarket to be able

to maintain its superior quality products and to be able to produce aftermarket products that meet the expectations of the motor plants and consumers. At this juncture Smiths Manufacturing may also decide to exit from the aftermarket sector and may divest itself of the business.

Overall the strategy of more of the same is only acceptable in the short-term and will need to be re-evaluated on an annual basis. If Smiths Aftermarket develops business on heavy-duty vehicles and grows the export business, then there is the possibility that some of the negative aspects such as declining turnover and gross margin may be reversed.

#### **5.4.2 Assessing the Acceptability of Purchasing Crispair**

Smiths Manufacturing, as the parent company of Smiths Aftermarket, previously conducted an evaluation to determine whether or not it would be acceptable to purchase Crispair. The study was done based on the volumes supplied by M Perrie in his 2001 study (Perrie M. J., 2001). What has emerged from this paper is that the market is not declining as rapidly as first anticipated and it is recognised that there will always be the need for aftermarket air-conditioners and parts.

The economic indicators of the industry in chapter 3 indicated that an estimate of set-up costs for an aftermarket company is about R10 million. Based on the knowledge possessed by Smiths Aftermarket of Crispair it is estimated that the facilities and technology within Crispair are old and, therefore, some investment would be required. From this it can be assessed that Smiths Aftermarket would need to spend in the region of between R10 million and R15 million to purchase Crispair and to make the investments necessary to bring the products up to the same quality standards.

To ascertain the acceptability of purchasing Crispair an internal rate of return (IRR) was calculated to determine at what sort of price it would become viable for Smiths Aftermarket to purchase Crispair. The IRR discounts all future profits and gives a net present value (NPV) of the business, which, if positive, means that the business is worth investing in. The IRR needs to be higher than the figure that the company would receive

were it to put the same funds into a bank account and earn interest on the capital. The IRR calculation became positive if Smiths Aftermarket were to purchase Crispair for R11 million or less.

When the study was done on the previous volumes both the turnover and gross margin were expected to decline after 2004. In view of the revelation that the market is not declining as quickly as first thought it is recommended that the acceptability of purchasing Crispair be re-evaluated. Smiths Aftermarket would also need to approach the Competitions Commission to see whether or not the acquisition of Crispair would be acceptable to them.

## **5.5 ASSESSING THE STRATEGIES FOR FEASIBILITY**

Assessing the feasibility of strategies can be done in a variety of ways, including funds flow forecasting and resource deployment. The main purpose of assessing the feasibility of the strategies is to verify whether or not Smiths Aftermarket has the resources and competences necessary to deliver a strategy. From a resource perspective Smiths Aftermarket has all the resources necessary to produce its aftermarket products. Production is relatively labour-intensive and so few machines are required. The efficiency rate of 65% indicates that Smiths Aftermarket has more than enough resources to meet their current strategies and hence to be able to do more of the same.

Resources within Smiths Aftermarket are not necessarily unique and are believed to exist within its competitors Aftermarket as well. A distinct core competence, which was identified during the interviews with the P&A outlets and the fitment centres, is the quality of products that Smiths Aftermarket produces, which is considered to be superior to that of competitors. With regards to funds necessary to be able to support both the strategy of more of the same and the strategy of purchasing Crispair, these would be provided by Smiths Manufacturing. The funds are available from Smiths Manufacturing and would not be difficult to procure.

Smiths Manufacturing is currently experiencing constraints in terms of space and if Smiths Aftermarket were to grow its current business it will need to seek slightly larger premises elsewhere. The purchase of Crispair would provide the necessary space resources, which would enable both Smiths Aftermarket and Smiths Manufacturing to pursue strategies of growth. Both the strategy of more of the same and that of purchasing Crispair are deemed to be feasible.

## **5.6 RECOMMENDATIONS**

The primary purpose of this study has been to evaluate the different environments in which Smiths Aftermarket operates and the position of Smiths Aftermarket within them. The main conclusion drawn is that the aftermarket market for air-conditioning and related parts is not stagnating and declining as rapidly as was first suspected. Within the aftermarket sector Smiths Aftermarket is a key role-player and has managed to maintain the dominant market share, although its relations with the fitment centres have deteriorated slightly over the last few years. Two concerning factors identified are that both the gross margin and turnover for Smiths Aftermarket are expected to decline after 2003.

The evaluation of Smiths Aftermarket led to the identification of four strategies that could be considered for the future. The assessment of the suitability of the strategies revealed that only two of these strategies are suitable at present for Smiths Aftermarket. It is important to bear in mind that the aftermarket sector is in a state of flux at present and that strategies may need to be re-evaluated on an annual basis to meet the changing needs of Smiths Aftermarket.

Recommendations for Smiths Aftermarket which follow are based on the findings of: the evaluation of the environments in which Smiths Aftermarket operates; the evaluation of Smiths Aftermarket; the findings of the two surveys conducted; the identification and assessment of strategies for Smiths Aftermarket. Owing to the turbulent nature of the aftermarket industry and the likelihood of changes taking place in the industry the recommendations are presented along a time-line.

## **5.7 RECOMMENDATIONS FOR THE SHORT-TERM (YEARS 1 & 2)**

In the immediate future Smiths Aftermarket has to focus on the deficiencies that are most pressing, which are creating the gaps identified at the end of chapter 4, and that can be seen to be hampering its current business and progress. The areas that require most attention are listed below.

- Decreasing gross margin and resultant decrease in profitability.
- Deficiencies in terms of availability, delivery and pricing to the P&A outlets.
- Poor service provision by Pro-Fit to the fitment centres.
- Lack of coherence in the marketing mix of Smiths Aftermarket.

### **5.7.1 Re-Evaluation Of The Strategy To Purchase Crispair**

One of the main revelations of this paper has been that the aftermarket air-conditioning market is not stagnating and declining as rapidly as anticipated. Initially it was expected that the market would be almost dead within the next 5 years and Smiths Manufacturing would have had to decide whether or not to stay in the aftermarket business. It is now more likely that the market will decline, but at a slower rate and it will remain reasonably attractive for between 5 and 10 years. In view of this it is recommended that the initial study conducted to evaluate whether or not the purchase of Crispair by Smiths Aftermarket was attractive, be re-done and the purchase of Crispair be re-evaluated.

The acquisition of Crispair by Smiths Aftermarket would be beneficial for numerous reasons.

- Smiths Aftermarket could grow its business within a stagnating sector.
- A coherent pricing strategy could be developed in year 2 once the market has settled down. As part of the purchase price includes the goodwill of Crispair, the brand name could be retained and Smiths Aftermarket could service both the lower and upper ends of the market.
- Smiths Aftermarket would be in a position where it could control prices more effectively and would be in a better position to maximise gross margins and potentially improve profitability.

- Smiths Aftermarket could then move off-site from Smiths Manufacturing, giving the parent company the much-needed space for expansion.
- Smiths Aftermarket would benefit from the strong relations existing between Crispair and the fitment centres.
- If Pro-Fit failed to improve its service provision, Smiths Aftermarket could use the distribution infrastructure that Crispair has to deliver all products.

The main constraints facing Smiths Aftermarket in putting this strategy into effect are whether or not Crispair can be purchased at a price that makes it an acceptable option and whether or not the acquisition would be accepted by the Competition Commission.

### **5.7.2 Recommendation Of Strategies With Pro-Fit**

The service provision by Pro-Fit to the fitment centres is souring relations between Smiths Aftermarket and the fitment centres and is also affecting the delivery service to some of the P&A outlets. There is an immediate need for Smiths Aftermarket to work closely with Pro-Fit to remedy the situation. A meeting should be set up between Pro-Fit and Smiths Aftermarket to discuss critical issues. In addition Pro-Fit needs to be made aware of the precarious position they are placing themselves in with their poor service in terms of successfully renewing the contract with Smiths Aftermarket. Recommendations that can be made that would rectify some of the existing problems now follow.

#### **Installation of a Computer System in the Four Pro-Fit Dealerships**

It is recommended that Pro-Fit installs a computer system in its four dealerships that will enable the dealerships to communicate with each other. One of the features of the system is that each dealership should be able to see what stock the other dealerships are carrying. If one dealer does not have stock available they can see if there are any available at the other outlets and can organise to receive that stock. The benefits of the system are many:

- Problems encountered in terms of ordering economic batch quantities (EBQ) from Smiths Aftermarket are negated. For example, if the EBQ is 5 units then they can be split amongst the 4 outlets so that they all have stock of the item.



- Availability to fitment centres and the P&A outlets that Pro-Fit services would be greatly improved as stock can be sourced easily from one of the other Pro-Fit dealers.
- Communication between the Pro-Fit dealers, Pro-Fit and Smiths Aftermarket and Pro-Fit and the fitment centres would be greatly enhanced as e-mail could become a standard form of communication. All of the fitment centres have e-mail and so the price lists and updated fitment instructions could be e-mailed through.
- Pro-Fit has been criticised for poor delivery, but it is also known that the fitment centres are notoriously bad at telephoning Pro-Fit for a product and expecting immediate delivery. When Pro-Fit does not accommodate them they then telephone Smiths Aftermarket who then normally responds. The fitment centres need to be educated to develop a better way to order parts and to understand that the Smiths Aftermarket route is not acceptable. By using the computer system, either through email or developing a separate ordering area, the fitment centres can be taught to place orders by (for example) 15h00 each day. This would then enable Pro-Fit to download the orders, check for stock locally and then on a national base if necessary, organise for a part to come from elsewhere in the country and then plan their deliveries for the next day. This will add value to the service provision by Pro-Fit.
- Although this is recommended for the air-conditioning side of Pro-Fit's business, it can easily be extended to both the audio and security parts of the business. Sharon Moir, Smiths Aftermarket's National Sales Manager, obtained an estimate of the cost of such a system, which would be no more than R40 000. This is very cost-effective in view of the benefits that can be reaped from it.

### **Second a Smiths Aftermarket Person to Work with Pro-Fit on Marketing Issues**

Smiths Aftermarket supports the premier dealer strategy that Pro-Fit is pursuing and believes that it will assist to streamline the industry by eliminating some of the fly-by-night operators that exist, of which there are many. The strategy is mainly a marketing one and Pro-Fit has stated that they will be appointing a dedicated Marketing Manager to oversee the premier dealer strategy. One of the areas of weakness of Pro-Fit since they

have taken over the distribution of Smiths Aftermarket products is that the marketing side has been totally lacking.

Smiths Aftermarket sets aside marketing budget each year to do cooperative marketing with Pro-Fit. The recommendation is made that a Smiths Aftermarket person be seconded in the short term to work with Pro-Fit specifically on the marketing side to ensure that marketing does begin to take place. The person would be responsible for ensuring that the marketing budget is effectively spent and that efforts are made by Pro-Fit to support the Dunair brand. This will still be necessary even if the Dunair brand is a brand supplied by the Pro-Fit premier dealers and branding is a joint effort between Smiths Aftermarket and Pro-Fit. The marketing person would also ensure that requests by the fitment centres for marketing material, such as signs, brochures and so on are evaluated and organised if approved. They could also be involved in the setting up of the computer system. This would serve to enhance the service provision to the fitment centres and would ensure that money set aside for marketing is being spent on marketing.

Clarity needs to be given to Pro-Fit that their performance over the next year will be very closely monitored by Smiths Aftermarket and if not satisfactory then Smiths Aftermarket will seek an alternative distributor when the contract is due for renewal. It is estimated that Smiths Aftermarket business represents 40% of Pro-Fit's turnover and so Pro-Fit should take Smiths Aftermarket seriously. It is also recommended that Smiths Aftermarket reviews the business targets set with Pro-Fit as Pro-Fit has not yet generated any new business and does not seem to feel any pressure to do so.

Pro-Fit has to be informed that Smiths Aftermarket is aware of the fact that Pro-Fit is not always honouring discounts. Pro-Fit receives preferential pricing from Smiths Aftermarket to enable it to be able to give discounts to its customers and as they are not being given, it adversely affects the pricing of Smiths Aftermarket' products in the marketplace, making them less competitive. Ultimately, this affects turnover and profitability for both Pro-Fit and Smiths Aftermarket and has to be addressed.

The recommendation is made that the service provision by Pro-Fit is re-evaluated during year 2 so that Smiths Aftermarket can begin to prepare itself should it need to source an alternative distributor.

### **5.7.3 REVIEW OF SMITHS AFTERMARKET MARKETING MIX**

The marketing mix of Smiths Aftermarket also needs to be reviewed to ensure that Smiths Aftermarket is operating efficiently and maximising its opportunities.

#### **Product Strategy**

Smiths Aftermarket is obliged to keep aftermarket products available for vehicles for up to 10 years after the production of the vehicle has ceased. It is recommended that the product range be pruned to eliminate any obsolete products and to identify those products, which are not cost-effective for Smiths Aftermarket to produce and which may be adversely affecting gross margins. Alternative sourcing routes may need to be investigated and identified.

The strategy of more of the same includes the pursuance of export business and potential air-conditioning opportunities on heavy-duty vehicles. These opportunities need to be aggressively pursued by Smiths Aftermarket as the stagnating market represents little opportunity for growth.

#### **Pricing Strategy**

If Smiths Aftermarket were to purchase Crispair a coherent pricing strategy could then be developed. Alternatively, Smiths Aftermarket should review current prices and evaluate them against competitors' prices to determine exactly where in the market it wants to be. Smiths Aftermarket products are still deemed to offer superior quality and so, in theory, premium pricing could be practised. This will not be possible if other aspects of the marketing mix, such as promotion are not put in place.

### **Place Strategy**

The dissatisfaction expressed by the fitment centres and P&A outlets with regards to delivery service is linked to the service provision of Pro-Fit and recommendations have been given on page 152.

### **Promotion Strategy**

Earlier it was recommended that a Smiths Aftermarket person be seconded to assist Pro-Fit with marketing aspects. The same person could also be responsible for promotional material developed with the P&A outlets. This includes brochures and leaflets than can be included in the vehicle handbook pouch once an air-conditioner is installed, detailing how it works, how to look after an air-conditioner and so on. Similar promotional material could also be developed for the fitment centres to distribute, as many people are unaware of the fact that an air-conditioner should also be serviced as part of a general service on a vehicle, and the motor plants do not advertise this. This also offers an opportunity to generate new business, particularly for aftermarket replacement parts. Promotion is crucial in ensuring that brand names, such as the Dunair brand name are top-of-mind with customers when they think of an aftermarket air-conditioner.

### **Process, People and Physical Strategies**

It is recommended that Smiths Aftermarket works very closely with Pro-Fit to develop better ordering processes. This can partially be achieved if Pro-Fit agrees to install a computer system as an on-line ordering process can be developed. The website for Smiths Aftermarket was redone at the end of 2002 with a view to being able to develop it further with the potential of eventually being able to accommodate such a system. This would streamline operations greatly.

From a people perspective the recommendation has been made that a person is identified, either within Smiths Manufacturing or within Smiths Aftermarket, who could dedicate themselves to the marketing of Smiths Aftermarket, via Pro-Fit, to the fitment centres and directly with the P&A outlets, including the development of marketing materials. This would be a short-term strategy and it would have to be made clear to Pro-Fit that the onus

for the marketing of Smiths Aftermarket to the fitment centres ultimately lies with them. It has to be viewed as a short-term cooperative strategy to support Pro-Fit in what it is trying to achieve with its premier dealer strategy.

## **5.8 RECOMMENDATIONS FOR THE MID-TO LONG-TERM (YEARS 5-10)**

Throughout this paper it has been recognised that the aftermarket air-conditioning and spare parts market will eventually begin to decline. Within the South African landscape it will never disappear entirely due to the unequal distribution of income and wealth in the country, which will take many years to change. The government and many other companies also favour entry level vehicles for its vehicle fleets and these do not come fitted with air-conditioners. The reality is, that while an aftermarket market will always exist in some form or other, it may not be sustainable business for Smiths Aftermarket.

It is estimated that after about 5 years it will be necessary for Smiths Aftermarket to conduct another study to re-evaluate the aftermarket sector again. The necessity will arise for two reasons; the age of the facilities and technology of Smiths Aftermarket and the decline in the market. The outcome of the study will influence whether or not Smiths Aftermarket decides to invest in the business or divest itself of the business. Another factor playing a role in the decision to invest or divest will be whether or not international component manufacturers, such as ones whose main customer is Toyota, have actually invested in South Africa. If they have invested then Smiths Aftermarket will potentially lose a lot of its own business and the recommendation is made that Smiths Aftermarket divests itself of the remaining business. It would be an attractive business for a person with entrepreneurial flair.

## 5.9 CONCLUSION

From the evaluation conducted in chapter 4 it was possible to identify strategies that are available to Smiths Aftermarket, of which there are four. The first strategy considered was a grand strategy of horizontal diversification, where there is the possibility of acquiring a competitor. Three business-level strategies were identified; do more of the same, find a niche and hold on to the niche and maintain position and seek cash position.

The suitability assessment and ranking determined that only two strategies were suitable at this stage; horizontal diversification was possible and do more of the same was suitable. These two strategies were then assessed from the perspectives of acceptability and feasibility. The strategy of horizontal diversification is acceptable depending on the purchase price requested by the competitor and would then only become feasible if approved by the Competitions Commission. The strategy of more of the same was recognised to be both acceptable and feasible.

The recommendations given in this paper were based on the strategies being put forward and were also based on closing the gaps that were discussed at the end of chapter 4. Smiths Aftermarket must first re-evaluate the study done regarding the purchase of its competitor, Crispair, taking into consideration the fact that the aftermarket market is not stagnating as rapidly as anticipated. The reaction of Crispair in terms of the price for the business will determine whether or not it is possible to implement this strategy. A more pressing need is for Smiths Aftermarket to work very closely with Pro-Fit to address the issues that were raised in the evaluation of Pro-Fit in chapter 4. The recommendations have been given from a short-term and longer-term perspective to allow for potential changes in the market. In concluding and evaluating the position of Smiths Aftermarket for the future, Smiths Aftermarket is in a favourable position, but needs to act now to ensure that this favourable position can be maintained.

## BIBLIOGRAPHY

### BOOKS

- Aaker D. A. 1998, *Developing Business Strategies 5<sup>th</sup> Edition*, John Wiley & Sons, Canada.
- Ambrosini, V. with Johnson, G. and Scholes, K. 1998, *Exploring Techniques of Analysis and Evaluation in Strategic Management*, Prentice Hall, Britain.
- Anderson J.C. & Narus J.A., 1999, *Business Market Management, Understanding, Creating, and Delivering Value*, Prentice Hall, New Jersey.
- Arbee A. & Naidu K., 2001, *Marketing Management Book 1: Marketing Philosophy and Strategy 2001/2 Edition*, Natal Business School Publishers, South Africa.
- Bhowan K. Hosking C. Msweli-Mbanga P. & Naidu K., 2001, *Marketing Management Book 2: Marketing Mix Strategies 2001/2 Edition*, Natal Business School Publishers, South Africa.
- Billsberry J., 1998, *Gap Analysis*, Ambrosini V. with Johnson G. & Scholes K., Prentice Hall, Britain.
- Colenso, M. 1998, *Strategic Skills for Line Managers*, Butterworth Heinemann, Oxford.
- Churchill G. A. & Peter J. P. 1998, *Marketing, Creating Value for Customers*, 2<sup>nd</sup> Edition, McGraw Hill, USA.
- Crawford C. M. & Di Benedetto A. C., 2000. *New Products Management 6<sup>th</sup> Edition*. Irwin-McGraw Hill, USA.
- Cundiff, Still & Govoni, 1980, *Fundamentals of Modern Marketing 3<sup>rd</sup> Edition*, Prentice Hall, New Jersey.
- David, F.R. 1998, *Strategic Management Concepts 7<sup>th</sup> Edition*, Prentice Hall, New Jersey.
- Fahey L. & Randall R.M., 1994, *The Portable MBA in Strategy*, John Wiley & Sons Ltd, New York.
- Faulkner D., 1998, *Portflio Matrices*, Ambrosini V. with Johnson G. & Scholes K., Prentice Hall.
- Goodstein L. D., Nolan T. M. & Pfeiffer J. W., 1997. *Applied Strategic Planning: A Comprehensive Guide*. John Wiley & Sons Inc, New York.

- Hanson D. & Dowling P., 2001. *Strategic Management: Competitiveness and Globalisation*, Pacific Rim Edition, Thomas Learning International, Melbourne.
- Hax, A. C. & Majluf, N. S., 1996. *The Strategy Concept and Process, A Pragmatic Approach*. Upper Saddle River, Prentice Hall, New Jersey.
- Hollensen S. 2001, *Global Marketing, A Market-Responsive Approach 2<sup>nd</sup> Edition*, Prentice Hall, Gosport.
- Kolb C. Msweli-Mbanga P. Pramjeeth S. 2001, *Marketing Management Book 3: Specific Topics in Marketing 2001/2 Edition*, Natal Business School Publishers, South Africa.
- Kotler P. & Armstrong G., 1993, *Marketing An Introduction 3<sup>rd</sup> Edition*, Prentice Hall, New Jersey.
- Jacobs T., Shepherd J. & Johnson G., 1998, *Strengths, weaknesses, opportunities and threats (SWOT) analysis*, Ambrosini V. with Johnson G. & Scholes K., Prentice Hall, Britain.
- Johnson G. & Scholes K., 1999, *Exploring Corporate Strategy 5<sup>th</sup> Edition*, Prentice Hall Europe.
- Johnson G. & Scholes K., 2002, *Exploring Corporate Strategy 6<sup>th</sup> Edition*, Prentice Hall Europe.
- Kotler P. & Armstrong G. 1993, *Marketing, An Introduction 3<sup>rd</sup> Edition*, Prentice Hall, USA.
- Lynch R., 2000, *Corporate Strategy 2<sup>nd</sup> Edition*, Prentice Hall, Europe.
- Manning T. 2001, *Making Sense of Strategy*, Zebra, South Africa.
- McDaniel Jr C. & Darden W. R. 1987, *Marketing*, Allyn & Bacon, USA.
- Mercer D., 1998. *Scenarios Made Easy*, Ambrosini V. with Johnson G. & Scholes K., Prentice Hall, Britain.
- Mintzberg, H., 1994. *The Rise and Fall of Strategic Planning*. The Free Press, New York.
- Mintzberg, H & Quinn J. B., 1991. *The Structuring of Organisations in The Strategy Process: Concepts and Contexts 3<sup>rd</sup> Edition*. Prentice Hall, New Jersey.



- Pearce J.A. & Robinson R.B., 1997. *Formulation, Implementation, And Control of Competitive Strategy 6<sup>th</sup> Edition*, Irwin, USA.
- Pearce J.A. & Robinson R.B., 2003. *Formulation, Implementation, And Control of Competitive Strategy 8<sup>th</sup> Edition*, Irwin, USA.
- Plessis du P.J., Jooste C.J., Strydom J.W., 2001, *Applied Strategic Marketing*, Heinemann, South Africa.
- Porter M. E., 1998. *The Competitive Advantage of Nations*. Simon & Schuster.
- Saloner, Shepard & Podolny, 2001, *Strategic Management*, John Wiley & Sons Ltd, New York.
- Schiller B. P., 2000. *The Economy Today 8<sup>th</sup> Edition*, McGraw Hill, USA.
- Smit P. J., 2000, *Strategy Implementation Readings*, Juta & Co Ltd, Cape town.
- Shepherd A. 1998, *Understanding and Using Value Chain Analysis*, Ambrosini V. with Johnson G. & Scholes K., Prentice Hall, Britain.
- Stanton W. J. & Futrell C. 1987, *Fundamentals of Marketing 8<sup>th</sup> Edition*, McGraw Hill, Singapore.
- Tampoe M., 1998, *Getting to Know Your Organisation's Core Competences*, Ambrosini V. with Johnson G. & Scholes K., Prentice Hall, Britain.
- Thompson A.A. & Strickland A.J., 2001, *Crafting and Executing Strategy 12<sup>th</sup> Edition*, McGraw Hill, USA.
- Tomlinson G. 1998, Comparative analysis: benchmarking, *Exploring Techniques of Analysis and Evaluation in Strategic Management*, Ambrosini V. with Johnson G. & Scholes K., Prentice Hall, Britain.
- Van der Walt A., Strydom J. W., Marx S. & Jooste C. J. 1999, *Marketing Management 3<sup>rd</sup> Edition*, Juta & Co Ltd, South Africa.
- Zeitaml V.A. & Bitner M.J., 2000, *Services Marketing, Integrating Customer Focus Across the Firm 2<sup>nd</sup> Edition*, McGraw Hill, USA.

## JOURNALS & PUBLICATIONS

- Belohlav J. A. & Giddens-Emig K. 9. 1986-1987, *Selecting A Master Strategy*, The Journal of Business Strategy, Volume 7, 1986-1987: 76-82.
- Budd L. & Perrie M., 1989, *The South African Automotive Airconditioner Market*, Associated Information Technologists (Pty) Ltd, 1989.
- Car Magazine, vehicle price list, June 2003: 222
- Christensen C. M., Raynor M. E. & Scott D. A. 2003, *Six Keys to Creating New-Growth Businesses*, Harvard Management Update, January 2003: 3-6.
- Collis D. J. & Montgomery C. A. 1995, *Competing on Resources: Strategy in the 1990s*, Harvard Business Review, July-August 1995: 118-128. (Smit)
- Collis D. J. & Montgomery C. A., *Creating Corporate Advantage*, The Strategist, Vol. 14, No. 11: 14-16.
- “*Digital Strategist*” or *Traditional Strategy Firm – Which Is Best for your Company?*, Harvard Management Update, November 2000 Vol. 5 No. 11: 1-6.
- Durand P., Wujciak M., Kuglin F. A. & Wilson C., *Reshuffling the Global Automotive Leadership*, Cap Gemini Ernst & Young CEO Position Paper, 2002.
- Fites, D. V., *Make Your Dealers Your Partners*, Harvard Business Review, March-April 1996: 85-95.
- Frisch B. 1998, *A Pragmatic Approach to Vision*, *Journal of Business Strategy*, July/August 1998:12-15. (Smit)
- Fernandes P. & Fourie F., *Introduction to the Automotive Industry in South Africa*, Automotive Purchasing News, Vol. 1, Issue 1, 2003: 10-12
- *Global Challenges Mirror SA*, RMI/Automobil, April 2003:32.
- *Global market for automotive heating, ventilation and conditioning*, About Publishing, 2000.
- Henkoff R., *Companies That Train Best*, Ronald Henkoff; Fortune Magazine, March 22, 1993: 62-70.
- Henry I., *Untouched Wilderness*, Automotive World, November 1999: 46-50.

- Kaplan R. S. & Norton D. P. 1992, *The Balanced Scorecard – Measure That Drive Performance*, Harvard Business Review January-February 1992: 71-79.
- Keller K. L. 2000, *The Brand Report Card*, Harvard Business Review, Jan/Feb 2000, Vol. 78 Issue 1: 147-154.
- KZN Benchmarking Club Newsletter Vol.4 no.10.2001: 11.
- *Marketing Implementation in Small and Midsized Industrial Firms*, Industrial Marketing Management, 1996, Vol. 25:74.
- McCunn P. 1998, *The Balanced Scorecard... the eleventh commandment*, Management Accounting, December 1998: 34,35.
- Moncrieff J. 1999, *Is Strategy Making a Difference?*, Long Range Planning, Vol. 32, No. 2 : 273-276. (Smit)
- Mooraj S. M., Oyon D. & Hostettler D. 1999, *The Balanced Scorecard: a Necessary Good or an Unnecessary Evil?*, *European Management Journal*, Vol. 17, No. 5, 1999: 481-491. (Smit)
- Oakham C. 2000, *The Service Revolution*, Automotive World, July/August 2000: 63-64.
- Oosthuizen H. 2000, *Developing Strategy – do we really need a new paradigm?*, SA Business Management, 2000, Vol. 31, No. 1: 9-15.
- Perrie M. J. 1991, *Dunair – An Assessment of the Automotive Air-conditioning Market in South Africa Project # 195*, Associated Information Technologists (Pty) Ltd, January 1991.
- Perrie M. J. Auto 2001, *Air-Conditioning, Market Evaluation #1871*, The Marketing Shop, 2001.
- Prahalad C. K. & Hamel G. 1989, *Strategic Intent*, Harvard Business Review, May-June 1989: 62-75.
- Prahalad C. K. & Hamel G. 1990, *The Core Competence of the Organisation*, Harvard Business Review, May-June 1990: 79-90.
- Proctor T., 2000, *The Aftermarket: it's where the money is*, Automotive World, July/August: 53-55.
- *Revving it up – Motor Marketing Strategies Reviewed*, Marketing Mix, June 1998: 62-64.

- Rothschild W. E. 1996, A Portfolio of Strategic Leaders, *Planning Review*, January/February 1996:16-19. (Smit)
- Sashittal H. C. & Wilemon D. 1996, *Marketing Implementation in Small and Midsized Industrial Firms*, *Industrial Marketing Management* Vol. 25, 1996: 67-78.
- Schuler R. & Jackson S. 2001, *HR Issues and Activities in Mergers and Acquisitions*, *European Management Journal* 2001, Vol. 19 No. 3: 239-253.
- *South Africa – Current Developments in the Automotive Industry*, The DTI, September 2002: 5-14.
- *Surviving and Winning*, *Automobile International Management*, March 2002: 50,51.
- *Toyota SA's Global Vision*, *Automobil Magazine*, April 2003: 8-10.
- Wagstaff I., 2000, *Leading the Way*, *Automotive World*, July/August 2000: 57-60.
- *World Automotive Aftermarket*, *Freedonia Industry Study* (extract) #1408, 2001: 1-15.
- Wessels A. J. & Bradley E., 2003, *International Growth*, *Toyota: The New Era*, January 2003: Chapter 3:28-32.
- Williams, W., *The Future of the South African Automotive Component Industry*, NAAMSA, 2003.

## INTERNET

1. *Automotive Industry Market in South Africa*, 2002 (Online). Available at: [http://www.tradepartners.gov.uk/automotive/south\\_africa/profile/overview.shtml](http://www.tradepartners.gov.uk/automotive/south_africa/profile/overview.shtml)
2. Ibid
3. Manning T. 2000, *Managers Need a New Approach to Strategy* (Online), Available at: <http://www.manning.co.za>
4. Byrne J. A. 1996, *Strategic Planning – After a decade of gritty downsizing, Big Thinkers are back in corporate vogue* (Online), Available at: <http://www.businessweek.com/1996/35/b34901.htm>
5. *PEST Analysis*, 2001 (Online), Available at: <http://www.quickmba.com/strategy/pest/>
6. Laxton D. M., 2002, *The Competitive Advantage Through “New Sciences” on Strategic Thinking* (Online), Available at: [www.gsb.nyu.ac](http://www.gsb.nyu.ac)
7. *Porters 5-forces revisited*, 2003. (Online), Available at: <http://www.edu.cbs.dk:2002>
8. *Porter’s 5 Forces*, 2003. (Online), Available at: <http://www.quickmba.com/strategy/porter.shtml>
9. Duboff R. and Spaeth J. 2003, “*Competitive Analysis Overview*” (Online), Available at: [http://www.marktingpower.com/live/content.php?Item\\_ID-1031&Category\\_ID=&Short...](http://www.marktingpower.com/live/content.php?Item_ID-1031&Category_ID=&Short...)
10. “*Marketing Plan Components: Competitor & Issues Analysis*” 2003. (Online), Available at: [http://www.onlinewbc.gov/docs/market/mk\\_plan\\_competitor.html](http://www.onlinewbc.gov/docs/market/mk_plan_competitor.html)
11. *Alternative Model of Superior Returns*, 2003. (Online), Available at: [www.cba.siu.edu/faculty/michalis/BA598/Slides/ch2.ppt](http://www.cba.siu.edu/faculty/michalis/BA598/Slides/ch2.ppt)
12. Ibid
13. *Presentation on Core Competencies* (Online). Available at: <http://www.cba.siu.edu/>
14. Proenza L. M. 1999, “*Strategic Intent*” (Online), Available at: [http://www.uakron.edu/president/co\\_08\\_21\\_99.php](http://www.uakron.edu/president/co_08_21_99.php)
15. “*What’s in a Mission statement*”, 2003 (Online) Available at: <http://www.allianceonline.org/faqs/spfaq6.html>
16. Ibid
17. “*Generic Strategies and Industry Forces*”, 2003. (Online), Available at: <http://www.baiclass.panam.edu/mana6390/flashreports/FR3A.htm>

18. Ibid
19. University of Sunderland, Sunderland Business School, Solutions Paper (August 2002, page 5), (Online), Available at:  
<http://www.babs.sunderland.ac.uk/BDL303/BDL303SOLSAUG02.doc>
20. Ibid
21. James D. (2003), *Crystal ball - Scenario planning technique is peek at what's to come* (Online). Available at:  
[http://www.marketingpower.com/live/content.php?Item\\_ID=10441](http://www.marketingpower.com/live/content.php?Item_ID=10441)
22. *Evaluating Strategies – A Framework*, 2003. (Online) Available at:  
<http://www.dur.ac.uk/p.j.allen/masess9.doc>
23. Ibid
24. *The Strategic Management Process*, 2003. (Online) Available at:  
<http://www.hull.ac.uk/hubs/students/notes/26057/Slides.PPT>.
25. *Evaluating Strategies – A Framework*, 2003. (Online) Available at:  
<http://www.dur.ac.uk/p.j.allen/masess9.doc>
26. Manning, T. (2000), “*Leaders Must Lead*” (Online), Available at:  
<http://www.manning.co.za>
27. Hagberg R. & Heifetz J. *How to Tell the CEO His Baby Is Ugly* (Online). Available at: [http://w3.hcgnet.com/research\\_uglybaby.html](http://w3.hcgnet.com/research_uglybaby.html)
28. Unit 5, The Marketing mix (online), Available at: [www.marketingmix.com](http://www.marketingmix.com)
29. Ibid
30. *Chapter 11, Class Notes*, 2001. (Online), Available at:  
<http://www.udel.edu/alex/chapt11.html>
31. Unit 5, The Marketing mix (online), Available at: [www.marketingmix.com](http://www.marketingmix.com)
32. “*Integrating the Promotions Mix*”, 2003. (Online), Available at:  
[http://www.themarketingteacher.com/Lessons/lesson\\_promtion.htm](http://www.themarketingteacher.com/Lessons/lesson_promtion.htm)
33. *Unit 5, The Marketing mix*, 2002. (Online), Available at: [www.marketingmix.com](http://www.marketingmix.com)
34. *Automotive Industry Market in South Africa*, 2003 (Online), Available at:  
[http://www.tradepartners.gov.uk/automotive/south\\_africa/profile/overview.shtml](http://www.tradepartners.gov.uk/automotive/south_africa/profile/overview.shtml)

35. *Global market for automotive heating, ventilation and conditioning*, 2002.  
(Online), Available at: [http://www.just-auto.com/strore/products\\_detail.asp?art=14882&lk=ss](http://www.just-auto.com/strore/products_detail.asp?art=14882&lk=ss)
36. Hagberg R. & Heifetz J. *How to Tell the CEO His Baby Is Ugly* (Online).  
Available at: [http://w3.hcgnet.com/research\\_uglybaby.html](http://w3.hcgnet.com/research_uglybaby.html)

## OTHER

- Arcotemp Price List, July 2001.
- Automotive Industry Soundbites, April 2003 (Received as a weekly email).
- Briedmohan L., Parts Manager at Killarney Toyota, February 2003, Personal Conversation.
- CBI Market Survey on “*Parts for Cars, Trucks, Trailers and Other Mobile Equipment*” July 2001 and 0August 2002, supplied by the DTI.
- Crispair – Air-conditioner Kits Prices, August 2002.
- Dawson G., owner of Dawson’s Auto Electrical, January 2003, Personal Conversation.
- Delport A. J., Director of Smiths Aftermarket, March – June 2003, Personal Conversations.
- Delport A. J. & Ziemkendorf F. *Dunair Proposal*, October 1999.
- Delport A. J. & MacDonald L. B., *Dunair Survey of Service and Satisfaction*, May 1998.
- Delport A. J., *Factors That Will Affect Dunair Marketing in the Future*, 2000.
- Dunair Income Statement, December 2002 and May 2003.
- Dunair Strategic Plan: 1996-2000, 1997-2000, 2001, 2002, 2003.
- Ferreira C., owner of Carcool, January 2003, Personal Conversation.
- Gebhardt T., National Sales Manager of Smiths Aftermarket, May 2003, Personal Conversation.
- Gracie R. Co-owner of Auto Air and Accessories, February 2003, Personal Conversation.
- Hoskins M., of Coolpower, February 2003, Personal Conversation.
- Jamine A. Dr, 2003, *Outlook for the South African Economy for NAACAM*, Econometrix (Pty) Ltd, April 2003.
- Kirkland A. 2003, Interviewed by K. Chetty. Fed Auto, Newcastle, 24 February 2003.
- Mackee K., telesales operator of Carcool, January 2003, Personal Conversation.
- Moir S., National Sales Manager of Smiths Aftermarket, May-June 2003, Personal Conversations.



- NAAMSA vehicle sales, January – December 2001, 2002. January – May 2003.
- Naidoo A., Manufacturing Manager at Smiths Aftermarket, May 2003, Personal Conversation.
- Naidoo N., Parts Manager at Datcentre Nissan, January 2003, Personal Conversation.
- Naidoo R., Parts Manager at Barons Southfleet VW, January 2003, Personal Conversation.
- Pro-Fit Price List, March 2003.
- Ramnarin, J. Parts Assistant at Mortimer Toyota, January 2003, Personal Conversation.
- Schoeman D., Dealer Principal at Halfway Auto, January 2003, Personal Conversation.
- Smiths Manufacturing Strategic Plans 1997, 2001, 2002.
- Twine T. 2003, *Presentation for NAACAM*, Econometrix (Pty) Ltd, April 2003.
- Vermaak P., HR Manager at Smiths Manufacturing, May 2003, Personal Conversation.
- Weidokal, M, 2000. “*South Africa in the Global Automotive Industry*”, PricewaterhouseCoopers, 05 April 2000.
- Ziemkendorf F., General Manager, Smiths Aftermarket, March – June 2003, Personal Conversations.

## **APPENDIX I**

### **SURVEY CONDUCTED WITH THE FORD P&A OUTLETS**

Ford has appointed Smiths to distribute the Motocraft air-conditioners to the Ford/Mazda franchise network. In order to evaluate how Smiths can best serve you we would appreciate it greatly if you would spend 10 minutes completing the attached questionnaire.

Answers given will be treated with the strictest of confidence.

NAME OF FRANCHISE/DEALER .....

NAME OF INTERVIEWEE .....

POSTION HELD IN FRANCHISE/DEALER .....

NO OF AIRCON FITMENT TECHNICIANS  
AT FRANCHISE/DEALER .....

DATE .....

**QUESTION 1**

Please list the aftermarket air-conditioner you fit for each model:

- (a) Ranger/ Drifter .....
- (b) Bantam .....
- (c) Mazda Midge .....
- (d) Fiesta / Ikon .....

**QUESTION 2**

Please indicate how important **you** rate the following, when selecting an aftermarket air-conditioner: (Please circle your answer for each attribute).

	Not important				Important
Price	1	2	3	4	5
Quality	1	2	3	4	5
Brand name / reputation	1	2	3	4	5
Manufacturer's approval	1	2	3	4	5
Aftercare service	1	2	3	4	5
Availability	1	2	3	4	5
Discount offered (by aircon company)	1	2	3	4	5

**QUESTION 3**

In your opinion how important does **the customer** rate the following, when selecting an aftermarket air-conditioner? (Please circle your answer for each attribute).

	Not important				Important
Price	1	2	3	4	5
Quality	1	2	3	4	5
Brand name / reputation	1	2	3	4	5
Manufacturer's approval	1	2	3	4	5
Aftercare service	1	2	3	4	5
Availability	1	2	3	4	5

**QUESTION 4**

How often does the customer take your advice in terms of which aftermarket air-conditioner to fit?

Not very often	Sometimes	Quite often	Nearly always
----------------	-----------	-------------	---------------

**QUESTION 5**

Do you fit the aftermarket air-conditioner yourself or do you outsource the fitment?

FIT IT MYSELF	OUTSOURCE
---------------	-----------

**QUESTION 6**

If you outsource, to whom do you outsource the fitment? .....

Why? .....

**QUESTION 7**

If you don't have in-house technicians and so you outsource the fitment, who decides which aftermarket air-conditioner is fitted?

Myself	The customer	Leave it to the fitment centre
--------	--------------	--------------------------------

**QUESTION 8**

If you do currently fit Motorcraft aftermarket air-conditioners, have you ever experienced problems?

Yes	No	Not Applicable
-----	----	----------------

If yes, what sort of problems have you experienced?

.....

.....

.....

.....

.....

**QUESTION 9**

In your opinion, how do you think the service you receive in terms of Motorcraft aftermarket air-conditioners can be improved?

.....

.....

.....

.....

.....

**QUESTION 10**

Which distributor of aftermarket air-conditioner spares do you use for the following categories?

- (a) Air-conditioner service parts .....
- (b) Condensers .....
- (c) Radiators .....
- (d) Compressors .....

**QUESTION 11**

Which of the above aftermarket air-conditioner spares do you replace most frequently. (1 = most frequent, 4 = least frequent).

- (a) Air-conditioner service parts
- (b) Condensers
- (c) Radiators
- (d) Compressors

**QUESTION 12**

What sort of catalogue are you using for aftermarket air-conditioner? (Please tick more than one where relevant).

- (a) Hard copy - booklet
- (b) Electronic (via email)
- (c) Via the internet
- (d) On a CD

**QUESTION 13**

What would you prefer to use?

- (a) Hard copy - booklet
- (b) Electronic (via email)
- (c) Via the internet
- (d) On a CD

**QUESTION 14**

Do you have access to receiving emails at work?

Yes	No
-----	----

If yes, what is your email address? .....

**QUESTION 15**

Are you aware that Smiths and Dunair have a website?

Yes	No
-----	----

If yes, have you ever used it?

Yes	No
-----	----

Have you ever experienced problems with the website and downloading of fitment instructions?

Yes	No
-----	----

If yes, please give details .....  
.....  
.....

**QUESTION 16**

(a) Does Ford have an incentive programme?

Yes	No
-----	----

(b) Do you participate in it?

Yes	No
-----	----

If not, why not? .....

.....

.....

If you do participate, how important are aftermarket air-conditioners to you in the incentive programme? (Please circle your answer).

Not important					Important
1	2	3	4	5	

If the air-conditioner is not important to you in the incentive programme, please can you indicate why it is not important to you.

.....

.....

.....

.....

***Thank you for your time and effort.***



## **APPENDIX II**

### **SURVEY CONDUCTED WITH THE FITMENT CENTRES**

Smiths has appointed Pro-Fit to distribute the Dunair air-conditioners to the fitment centres. In order to evaluate how Smiths can best serve you we would appreciate it greatly if you would spend 10 minutes completing the attached questionnaire.

Answers given will be treated with the strictest of confidence.

NAME OF FITMENT CENTRE .....

NAME OF INTERVIEWEE .....

POSTION HELD .....

NO OF AIRCON FITMENT TECHNICIANS  
AT FITMENT CENTRE .....

DATE .....

**QUESTION 1**

Please list the aftermarket air-conditioners you fit:

.....

.....

**QUESTION 2**

Please indicate how important **you** rate the following, when selecting an aftermarket air-conditioner: (Please circle your answer for each attribute).

	Not important				Important
Price	1	2	3	4	5
Quality	1	2	3	4	5
Brand name / reputation	1	2	3	4	5
Manufacturer's approval	1	2	3	4	5
Aftercare service	1	2	3	4	5
Availability	1	2	3	4	5
Discount offered (by aircon company)	1	2	3	4	5

**QUESTION 3**

In your opinion how important does **the customer** rate the following, when selecting an aftermarket air-conditioner? (Please circle your answer for each attribute).

	Not important				Important
Price	1	2	3	4	5
Quality	1	2	3	4	5
Brand name / reputation	1	2	3	4	5
Manufacturer's approval	1	2	3	4	5
Aftercare service	1	2	3	4	5
Availability	1	2	3	4	5

**QUESTION 4**

How often does the customer take your advice in terms of which aftermarket air-conditioner to fit?

Not very often	Sometimes	Quite often	Nearly always
----------------	-----------	-------------	---------------

**QUESTION 5**

Do you fit the aftermarket air-conditioner yourself or do you outsource the fitment?

FIT IT MYSELF	OUTSOURCE
---------------	-----------

**QUESTION 6**

If you outsource, to whom do you outsource the fitment? .....

Why? .....

**QUESTION 7**

If you do currently fit Dunair air-conditioners, have you ever experienced problems?

Yes	No	Not Applicable
-----	----	----------------

If yes, what sort of problems have you experienced?

.....

.....

.....

.....

.....

**QUESTION 8**

In your opinion, how do you think the service you receive in terms of Dunair air-conditioners can be improved?

.....

.....

.....

.....

.....

**QUESTION 9**

Which distributor of aftermarket air-conditioner spares do you use for the following categories?

- (a) Air-conditioner service parts .....
- (b) Condensers .....
- (c) Radiators .....
- (d) Compressors .....

**QUESTION 10**

Which of the above aftermarket air-conditioner spares do you replace most frequently? (1 = most frequent, 4 = least frequent).

- (a) Air-conditioner service parts
- (b) Condensers
- (c) Radiators
- (d) Compressors

**QUESTION 11**

What sort of catalogue are you using for aftermarket air-conditioner? (Please tick more than one where relevant).

- (a) Hard copy - booklet
- (b) Electronic (via email)
- (c) Via the internet
- (d) On a CD

**QUESTION 12**

What would you prefer to use?

- (a) Hard copy - booklet
- (b) Electronic (via email)
- (c) Via the internet
- (d) On a CD

**QUESTION 13**

Do you have access to receiving emails at work?

Yes	No
-----	----

If yes, what is your email address? .....

**QUESTION 14**

Are you aware that Smiths and Dunair have a website?

Yes	No
-----	----

If yes, have you ever used it?

Yes	No
-----	----

Have you ever experienced problems with the website and downloading of fitment instructions?

Yes	No
-----	----

If yes, please give details .....

.....

Thank you for your time and effort.