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**OPTIMISM FOR PROPERTY OWNERS IN  
THE CENTRAL BUSINESS DISTRICT OF  
DURBAN**

**By**

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Submitted in partial fulfillment of the requirements  
for the degree of

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

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## STATEMENT 1

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

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## 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.

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## ABSTRACT

The aim of this thesis is to identify and recommend strategies for the Teachers Centre and to enable it to “reinvent itself in a stagnant and declining market.” The thesis commences with a discussion of the literature and theoretical concepts relevant to the study.

It considers purpose, internal and environmental analyses towards the identification, evaluation and implementation of strategies.

The Teachers Centre, once a growing business entity in a vibrant central business district, is now precariously grasping at straws in a ghost-like environment.

The case study paints the dilemma of the Centre.

An evaluation of the case reveals weaknesses in management and incongruence with its environment. The absence of direction for the Company has maintained a tenuous financial position in a see-saw pattern between profitability and loss.

Based on Company resources, its capabilities and the future development of the City, the management has to seriously apply itself to creating a plan both for the short and long-term to achieve a turnaround situation.

The recommendation of strategies at the end of the thesis is as a consequence of the valuation and considers radical changes which will result in improvement to its internal and external operations.

The eye opener in the study is for the Board to take a decisive step now to stimulate the Company into a profitable situation or risk further erosion of its assets.

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# CHAPTER ONE : INTRODUCTION

## 1.1 INTRODUCTION

Constructive management by the city fathers, having due regard for the hopes and aspirations of the all players, can provide an ideal environment for property owners and business entities within the Durban Metropolitan area. The study undertakes to identify, suggest and evaluate strategies for property owners to become viable/profitable and or to expand their businesses under clearly adverse conditions. The suggested strategies will be augmented by a revised marketing mix to ensure its success.

By undertaking this study it is hoped to extract valuable insights from the property field and changes in the business environment within the CBD. With this knowledge property owners may become better equipped to consider and implement strategy options and to focus or re-engineer their operations with some optimism within the CBD.

## 1.2 BACKGROUND AND LITERATURE REVIEW

The Durban Metropolitan area was once a bustling, vibrant economic hub of the city. The last decade, however, has seen a rapid exodus of businesses away from the city. The decentralised nature of business locations has seen many clusters of new buildings sprouting close to residential units. Simultaneously, many previously disadvantaged citizens scrambled to become part of the “attractive” CBD whilst many disillusioned and “elitist” groups preferred to move out or stay away.

“The essence of good strategy making is to build a market position strong enough..... capable enough to produce successful performance despite unforeseeable events, potential competition, a rash of delays or cost surpluses” (Thompson & Strickland 2001:05).

The infrastructural problem of the apartheid years e.g. inadequate parking and public transport served as a foundation for new and increased detrimental patterns for business. These include uncontrolled crime, unstructured informal trading, neglect, cleanliness and the emergence of opposing party-political representatives in city management.

“A criticism of the re-organisation process of the Durban Metropolitan area argues that the people who controlled and drove the process had a “vested interest” in the outcome with the result that strategic and organisational reprioritisation was minimised and that the resulting structures have not altered the existing balance of power (Internet 1).

Margaret Winter, a councillor argues that whilst committees agree on joint plans, nobody takes responsibility for implementation”.

In this transformational and turbulent environment property owners’ and business entities’ perceptions of environmental future and changes for the city remain unsure and mixed.

When you consider the pocket movements of people from one place to another especially in the city centre, the slum nature of these developments create new and increased problems for business.

A shrinking market heightens competitive pressures..... Some Companies may exit the industry and those remaining may be forced to close less efficient plants.....

Emerging social issues and changing attitudes and lifestyles can be powerful instigators of industry change (Thompson & Strickland 2001).

Suppliers are relegated to a weak bargaining position whenever there are good substitutes for the item they provide..... (Thompson & Strickland 2001).

Movements of major business and property ownership away from the CBD is an example of this.

Decentralisation and flight from the central city by established business threaten the rates base of local government.....

How do the local powers define their developmental objectives and how do they ensure that these reflect the aspirations, demands and initiatives of the different social groups.

(Internet 2)

The past attraction of the city centre reminds one of the huge potential that still exists there.

Kirby (1991) describes the new immigrants of the city as “the interested” as opposed to the “disinterested”, who are the emigrants of the inner city who have chosen to leave the city for the privacy of suburbia. The latter, do not place high value on urbanity and consider the city merely as a machine for making money or as a symbol of corporate wealth..... Institutions which remain in the city intensify their security .... It is doubtful that institutions which remain do so out of love for the city; rather it would appear that these decisions are motivated for reasons of retaining their property investments (Internet 3).

Rival sellers can elect to form long term strategic partnerships and close working relationship with select suppliers.....

Rivalry tends to be more vigorous when it costs more to get out of a business than to stay in and compete.

Drawing up an ideal strategy would take into account the organisation’s resources, its strengths and weaknesses in the face of its external environment.

Optimising operating costs and overheads are of vital importance to obtain a competitive advantage and to maximise return on investment..... (Internet 4).

A complete situational analysis and a industry and competitive analysis need to be carried out to identify as sharply and as clearly as possible the strategic issues and problems confronting the Company. (Thompson & Strickland 2001)

Whenever gaps confront the organisation alternative action has to be taken. Gap analysis will cause management to “redefine its objectives, do nothing or change the strategy” (Ambrosini 1998)

How does the Durban Investment Promotion Agency “attract viable, new fixed investments and retain existing business in Durban.”

(Internet 5)

A research study on marketing and segmentation based on tenants perceptions of office attributes in Cape Town revealed complex relationships between the variables. (Quayle University of Cape Town. 1979)

Durban's municipal manager Sutcliffe explains that to create the international smart city, the priorities for growth development must be clearly defined whilst ensuring the attention to poverty and provisional services.

(Internet 6)

#### Informal traders

With a metamorphosis within the CBD and changes in the role activities of the authorities, Property owners and formal businesses had to adjust strategies in selecting and monitoring tenants and the determination of core/supplementary offerings to the market.

..... Within the DMC, the Department of Economic Development is responsible for strategic economic planning of the metropolitan areas, including informal trading. The business sector has over the years been increasingly involved (albeit erratically at times) with informal trade issues and has established the Durban Central Business District Association which operates under the Durban Chamber of Commerce and Industry. The Association has appointed a coordinator to deal with informal trade, cleanliness and the marketing of the CBD. Subsequently, an executive committee was established to support and guide his work.....

(Internet 7)

Usually the central area is more expensive than the little cities. However, the costing in the DMA seems to be cheaper with a dire need to attract business.

Internationally, small informal sector plants play a key role in fostering local productive environments eg. In Silicon Valley- the computer elect centre around San Jose, California is a less regulated sector.....they fill special roles and supply key components to large scale plants in the formal sector. Mukherjees (90) work on Calcutta shows that the informal sector is a vibrant, productive sector that interacts strongly with the formal sector, meeting specific demands for components and repairs (Internet 8).

#### Crime:

Crime is one of the most serious obstacles to sustainable development in the Durban Metropolitan area. It is having negative impacts on job creation, investment, the quality of life of residents and the management of the environment.



Crime in the DMA decreases investors' confidence in the area. Large Companies, both national and transnational, are unwilling to invest in Durban where crime is likely to affect their business. In 1998, there were over 7000 burglaries (or attempted burglaries) of business premises reported to the police. Perceptions that Durban's Central Business District is unsafe has also led to many businesses moving out of the area resulting in a reduced rates base to the Central Councils (Internet 9).

Whilst the aims of the Centre for the Study of Violence and reconciliation and especially its project has been well received by municipalities, the practicalities adopted by those concerned appear to be insufficient in counteracting the levels of crime.

It is interesting to witness the development of the Urban Strategy Department on their Quality of Life Project. The Department seeks to make pertinent information available to the policy makers in the Durban Metro area councils to enable them to accurately target these actions which can result in the most significant improvement in the quality of life in the area (Internet 10).

The E-Thekwini Municipality has entered into a partnership agreement with the United States Agency to carry out an economic assessment of the structural constraints to investment and job creation in the local economy. Examples of structural factors were identified by the Monitor Company in 2000 in their assessment of the state of the Durban economy (Internet 11).

When signs are evident of bottom line erosion every organisation should not wait for the worst scenario but take immediate urgent steps towards corrective action. It needs to consider " the scale impact and consequences of failure, the causes, symptoms and environment, common errors in policy formulation and management and strategies for survival and turnaround (Internet 12).

### **1.3 MOTIVATION FOR THE RESEARCH**

Any visitor to the CBD is exposed to an eyesore of “ TO LET” signs. The vacancy factor in many buildings range from 20% to 50%.

The continuous increase in the oversupply of shops and offices creates expenditure and revenue problems. Huge falls in turnover adversely affect the nature of fixed costs which is generally prevalent in multi-storey buildings.

There appears to be a fundamental mismatch between the city councils valuation based on investment principles. This anomaly has caused owners, developers and investors to procrastinate on initiatives within the CBD.

Shareholders are continually questioning the merits of continued investment in the CBD.

### **1.4 VALUE OF THE STUDY**

Durban has been a city in transition for a long time now. The nomadic shifts away from the cities seem to have become a pattern in many provinces. With management plans for the city being continually affected by the various social and political stakeholders, business finds itself having to alter its strategy from time to time.

It is hoped that that the results obtained from the study will provide a greater understanding of the operations of business for property owners and business entities within the CBD. By understanding the nature and development of the market and conducting an introspection of the firms internal processes given its resource and capabilities management is able to better weigh the options available and to reach a decision in the best interest of stakeholders.

The evaluation and strategies formulated for the case study with minor adjustments could be applied to any property owner in the CBD.

### **1.5 PROBLEM STATEMENT**

The property letting market for businesses over the past 10 years has been affected by:

- Increased competition- glut of shops and offices
- A decreasing market- relocation to decentralised areas
- Loss of revenue- emergence of informal trading, flea and make-shift markets.
- Increasing returns required by owners and developers.

- The declining rateable values of property within the CBD

#### Management dilemma

Progressive fall in tenancy levels and difficulty in enlisting new tenants in the CBD.

#### Management question

How can we retain existing tenancies and entice prospective tenants in the CBD?

To what extent does the management or management structures in the CBD affect the viability of its new and existing business entities?

How can business entities in the CBD remain viable when faced with massive demographic and development changes in the CBD?

How does perceptions of management style impact on property owners and business entities within the CBD?

**How can property owners in the Durban Metropolitan area explore, evaluate and implement strategies in response to a changing business environment?**

### 1.6 OBJECTIVES OF THE STUDY

The research will be confined to one case study. It will attempt to:

- To understand the external environment and to gauge the internal processes, resources and the capabilities of the case study, its structure, the effect of its leadership and culture on the organisation.
- To evaluate the organisation's internal processes and business outcome within the macro- environment development of the CBD.
- To select appropriate options with a view to presenting these to management for acceptance and implementation.

### 1.7 RESEARCH DESIGN AND METHODOLOGY

#### Case study approach

The research would be qualitative with the case study approach being used. A property owner of a multi-storey building would be chosen. An Industry and Competitive analysis would be conducted. The Organisation's resources and

competitive capabilities would be assessed. Internal financial documents and strategic planning would be looked at. Strategic options would be identified and evaluated.

### **Data collection to identify strategic options**

A literature search through books, journals, Government legislation and the Internet would be considered. An appropriate model would be extracted to base the case study and its evaluation.

The findings of the case study will reveal strengths and weaknesses in the organisation. These aspects have to be considered in the light of the environment's opportunities and threats. The analysis will indicate strategic options available.

Available information on the property letting market in certain areas of the central business district's in South Africa would be explored.

The approach would be triangular with a balance between quantitative and qualitative techniques to the gathering of data.

### **Evaluation of strategic options**

The options available will be assessed on 3 criteria i.e. suitability, acceptability and feasibility.

**Suitability:** Does the strategy address the circumstances in which the organisation is operating or plans to operate? Techniques to determine suitability would include Life style analysis, positioning, value chain analysis, portfolio analysis and business profile. Thereafter the merits of each strategy would be compared by "screening".

The **acceptability** of strategies would be assessed by considering return, risk and stakeholder reactions.

**Feasibility** of a strategy would consider " whether an organisation has the resources and competencies to deliver that strategy." Techniques employed can include a Funds flow analysis, a break-even analysis or a resource deployment analysis.

### **Selection of strategy/strategies**

After the strategic options have been critiqued, a presentation would be made to the senior management of the Property owner.

Thoughts may revolve around selection of strategies within the operating units of the organisation – “ adapting to a changing environment.” A general discussion and acceptance of certain strategies would be made. The Company’s objectives, vision or certain priorities may influence that decision.

### **Execution of strategies/ marketing mix**

The selection of a strategy serves as a foundation upon which many structures affecting the business are added and integrated. The change has to be all-embracing and driven by leadership.

## **1.8 LIMITATIONS**

The research will be confined to an area of the CBD including Smith Street moving parallel up to end of Albert street.

## **RECOMMENDATIONS AND CONCLUSION**

The research is confined to a specific area of the CBD. It seeks to create insights into the environmental impact on property owners and businesses.

Further research has to be conducted in other areas of the CBD with other influences that also impact on property owners and businesses.

## **1.9 STRUCTURE OF THE STUDY**

Chapter two:

This chapter covers the theoretical section of the study. Various theories are tabled, debated and discussed. A synthesis of the relevant theory is extracted to form a model. This model will then be used as a framework to detail the internal processes and the external developments of the case selected.

Chapter three:

A detailed review of the case study is provided here. The model chosen at the end of chapter two is used as a framework to write the case study.

Chapter four:

In this chapter the information in chapter three is evaluated against the 'model' developed at the end of chapter two. Certain strategic tools have been used to assist with the evaluation.

Chapter five

This chapter deals with the recommendations and conclusion. It suggests ways which would lead the company to a position of strength and viability.

### **1.10 SUMMARY**

The chapter considered background information leading to the companies management dilemma. It further explained the motivation and value of the study. It then developed the problem statement. The management dilemma relates to the companies inability to attract sufficient and quality tenants in a stagnant CBD.

The objectives of the study are set out with details of its limitations.

## CHAPTER TWO : STRATEGY IN CONTEXT

### 2.1 INTRODUCTION

The chapter considers theory to the research question. It tables and discusses relevant theory, which would be used in addressing the enquiry of the research question. The theory revolves around strategic vision and planning, competition and industry analysis, segmentation aspects and competitive strategies. Secondary aspects, which may contribute to the research include strategic management, resource based theory, corporate strategy, product strategy, value chain leadership, growth and organisation structure. Various tools listed in this chapter would be used to conduct a strategic analysis of the case study.

### 2.2 STRATEGY AS CONCEPT

According to Quinn ( 1999 ) for strategy to be effective it should incorporate the following:

- Clear decisive objects
- Maintaining the initiative
- Concentration
- flexibility
- co-ordinated and committed leadership
- surprise / correct timing
- security / effective intelligence system

Mintzberg (1999:13) refers to a multifaceted definition which revolves around the following:-

- PLAN - a consciously intended course of action
- PLOY - a specific manoeuvre intended to outwit a competitor
- PATTERN - consistency in behaviour
- POSITION - mediating force between internal and external context
- PERSPECTIVE - looks inwards

By its very nature strategy is intangible and is conceived and structured by interested persons to achieve a common purpose for the organisation.

Rumelt (1998) sees strategy as a 'set of objective, policies and plans that together define the scope of the enterprise and its approach to survival and success.

Pascale ( 1984 ) considers strategy as 'a process by which a firm searches and analysis its environment and sources.....'

Chander (1962 : 13) defines strategy as the definition of basic long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out the goals.

Henderson ( 1998: 001 ) from the Boston Consulting Group captures the concept of strategy:

"all competitors who persist over time must maintain a unique advantage by differentiation over all others. Managing that differentiation is the essence of long-term business strategy."

"Managers all too frequently use a one-size-fits-all theory. But the ground beneath them inevitably shifts. Strategies that worked so wonderfully in the past, no longer suffice" ( Christensen et al 2003: 03 ).

### **2.3 STRATEGIC VISION**

Strategy has to be guided by a strategic vision which marks where a company wants to go, how it will get there and why it will be successful ( Kaplan & Norton 2001:12). If you know where you want to go, you would act decisively.

Having staked a clear direction for the company, management move in concert and with confidence towards a predetermined goal.

It is not easy to project the future. Frankly you cannot. It is indeed the commitment in a belief, which turns itself into reality. No wonder, many associated realities linked to achievement is often not seen by great visionaries (Kaplan and Norton 2001 : 04).

An inspiration towards an end does not constitute core strategic vision. Leadership needs to demonstrate such a vision so that the organisation and its resources are appropriately directed towards a defined purpose.



Kaplan and Norton (2001: 15) states “that the responsibilities for a business core strategic vision rests clearly with the CEO or general manager of that unit.”.

Managers and CEO has defined and represented such vision, which has transformed organisations in massive corporations. It is like the fulfilment of a dream. Consider successful companies like IBM and Microsoft.

For Jack Welch who became chief executive in 1981, vision was centre to strategy (Kay 1993: 339 ).

‘Good business create a vision, articulate the vision, passionately own the vision and relentlessly drive it to completion’ (quoted in Tichy & Charan 1989:113).

However, besides visions having limitations and its need to evolve there are times when change becomes necessary. A dynamic environment where various factors interact and affect the business environment both internally and externally calls for equivalent changes both in strategy and vision. This is why it is so important to align both strategy and vision.

Without an alignment it becomes extremely difficult to readily change, should that need arise (Kaplan & Norton 2001).

The CEO is guided by the executive or Board in formulating a strategic vision. Should it not, then, become incumbent on that Board to periodically monitor the success or otherwise of that vision. Many a corporation have fallen because of the executive allowing the CEO a free range philosophy and strategies in pursuance of a dream.

Constant interference obviously would throw obstacles in the path of the CEO.

However, we are not able to see the malaise before all is lost.

Van der Merwe et al (1997: 15-1) advises that the board of directors must retain full and effective control over the company, monitor the executive management and ensure that the decision on material matters is in the hands of the board.

Kaplan & Norton (2001) warns that “ sticking to an obsolete vision for too long is almost always the reason that once- successful companies fall” and

“One of the challenges of changing a core strategic vision is to change it while your business is still strong” (Kaplan & Norton: 2001: 25).

According to Kaplan & Norton (2001 ) the final responsibility for making this change is the task of the Board of Directors.

Any strategic vision need to take into account of the organisations limitations e .g resources etc e.g. external trends may cause interference with a vision and therefore require alignment of new strategies with a modified vision.

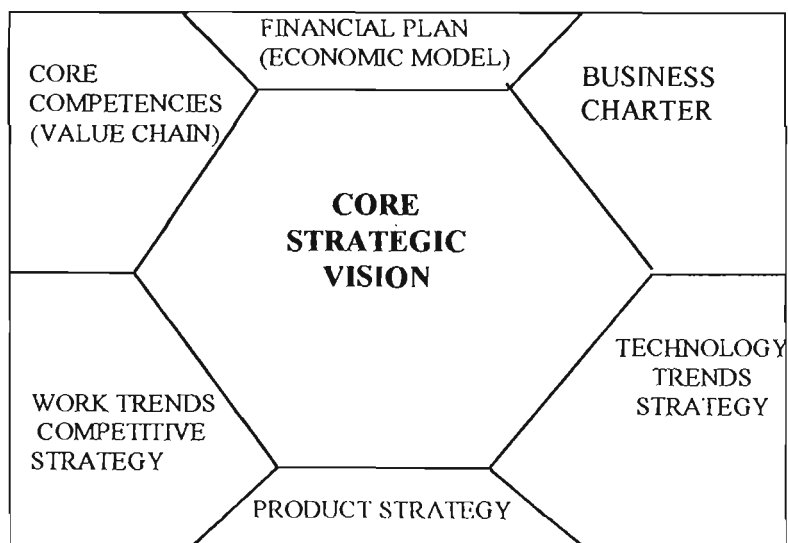
K Ohmae (1982:76) uses the analogy of the deer when describing the fatal error of managers in organisations.

The deer in its state of shock totally lost its bearing and charged onto an oncoming vehicle. Similarly managers make fatal blunders when undergoing ‘a mental paralysis’

Strategic thinkers require to be vigilant and flexible at all times

### CORE STRATEGIC VISION

The framework has six boundaries that must be contracted to provide strategic alignment.



**FIGURE 2.1**

### PLANNING STRATEGY

Management usually considers a systematic analysis of competitors and markets and the Company’s strengths and weaknesses to determine strategies.

Crafting according to Mintzberg involves skill, dedication and perfection. Managers through their long experience and commitment display closeness to the task at hand

and the structure and implementation result in creative strategies. The planning image distorts the processes and misguides the organisation.

The craftsman uses his intimate knowledge to consider the future of market opportunities and then to craft strategy. There is no one best way to formulate strategy. Lots of knowledge is used in constructing a strategy. However, it is very difficult to for see everything in advance. One learns as one goes along. Errors can become opportunities and limitation stimulates creativity. How did Honda stumble into major success. It made every mistake there was until the correct strategy was conceived. Flexible strategies need to develop until certain patterns emerge (Mintzberg 1999).

It is such an 'experience curve' that renews itself and in terms of its versatility projects itself in the future.

#### PLANNED STRATEGY VS EMERGENT, CRAFTED AND EVOLUTIONARY STRATEGY

Extensive planning has long since lost favour with strategists. This task by central authorities stifled initiatives by operating managers.

H Mintzberg (1970) extolled the idea that strategy should be 'crafted' rather than "planned": it should be a creative and intuitive interaction between the firm's aspirations and results in the marketplace."

Koch (2000) interprets strategy as being simple and easy to remember "Strategy is not just an analytical process..... it requires intuition, crafting, creative skill, sensitivity to market trends..... Creative strategy requires thinking as well as analysis."

#### **2.4 NATURE AND DEVELOPMENT OF BUSINESS STRATEGY**

Like the CEO of Xerox says on the implications of new strategy "we have to change. People need new skills. Probably the greatest impact is on our relationships with customers...."

We are working with customers..... In future Xerox wont just sell copiers. It will sell innovative approaches.....

These days you just don't manufacture goods and display them in the market place hoping for some miracle to unfold.

The demand from the market place will assist you in designing and producing a good/service that is readily acceptable to a consumer. That very same demand cannot be taken for granted. Everyday new occurrences impact on the market and peoples needs change or are influenced by a combination of factors.

Organisations are continually faced with a volatile business environment.

“Both technology and demands of the market place are constantly changing, forcing the company to quickly adapt or prepare to disintegrate (Mintzberg 1999).

## **2.5 STRATEGIC MANAGEMENT**

Managing a company’s financial goals system is an unending process in which competing and conflicting priorities must be balanced. At any point the system is potentially unstable because of the changing corporate environment and shifts in power and influence among constituencies.

..... that goals are interdependent, and that a change in one goal always necessitates a trade off with another.

- as a rule market priorities are crucial to any corporate strategy and will tend to dominate the financial goals system and any change contemplated -

Rationale is basic. In any game, you are in until you are out... (Donaldson 1974)

‘The critical strategic requirement is not to devise the most ingenious and well co-ordinated plan but to build most viable and flexible strategic process; the key organisational task is not to design the most elegant structure but to capture individual capabilities and motivate the entire organisation to respond co-operatively to a complicated and a dynamic environment (Mintzberg 1999).

Strategists have over the years considered many ways to improve an organisation’s strength and overcome competitions. But to now there is no specific formula to cure a company’s ills. However, many a strategist has shown sign posts.

The discerning traveller has to identify such an indication that will lead him to well-constructed roads eventually to that ideal (Adapted from Ohmae 1982).

A chief strategist at Compaq saw the Digital acquisition as a mistake “In his (P. Peiffers) quest for bigness, he lost an understanding of the customer and set what I call empty market share – large but not profitable.” (Kaplan & Norton 2001:29)

A Congruence model for organisation problem solving:

Organisations making incorrect strategic decisions will pay the penalty by under performing or failing. No matter how well the organisation is structured, a poor strategy would inevitably ruin the organisation. Similarly the best strategy cannot succeed unless it harmonises with the ‘ structural and cultural capabilities of the organisation.

It flows from a well thought out plan of the organisation’s future- what are its dreams, its competitive strengths, position in the market and its existing culture. What are the Company’s specific objectives to reach its aspirations.

The model looks at the independence of all elements within an organisation at their different levels of balance and at the ‘transformation’ of total input into strategic outputs. The organisation makes use of the following inputs : the environment, its resources and its modus operandi (Nadler & Tushman 1998).

## **2.6 ENVIRONMENTAL /COMPETITIVE ANALYSIS**

Future goals (Porter 1980: 50-63)

Information on competitors goals would equal its reaction to ‘strategic changes’

These goals require to be analysed at different management levels. In terms of ‘live and let live’ by analysing competitive goals an organisation may avoid ‘bitter warfare’ and choose a positioning away from threats.

Assumptions

Here the emphasis is on the competitors assumption about itself and about the industry and other companies unit.

Current strategy

What are the competitors key operating policies via each area and how does these inter relate.

Capabilities

The 5 key competitive forces will determine the strengths and weakness of the competitor.

## 2.7 INDUSTRY ANALYSIS

### Strengths and weaknesses

Buyers and Suppliers (Porter – 1980:110)

Buyer selection and Strategy

Porter refer to 4 broad criteria that determines quality of buyers:-

- Purchasing needs versus company capabilities
- Growth potential
- structural position - intrinsic bargaining power  
use of this power in demanding low prices.
- Costs of servicing

A firm could increase switching costs by locking the customer into the organisation.

This organisation could increase value added services like:-

- providing responsive customer service
- providing credit or rapid delivery
- creating new features of the product.

It is apparent from the above that organisation require to adjust itself into the crucial needs of the customer. This is a major failing – not being able to see a company's offering from the other side. The customer, like the organisation has a defined purpose in purchasing a product. The organisation therefore cannot allow the perception of the any product as a mere commodity item but to prolong the life of the product in the mind of the customer.

The organisation is restricted by its resources and capabilities and can only offer its product to a select segment. The costs of selling to a buyer needs to be measured. It is futile selling to high costs buyers however, as such buyers may be 'price insensitive' and be prepared to offer higher prices.

Switching costs can be strategically manoeuvred in favour of the organisation when a substantial buyer is recruited. In the property market, units sold may be upgraded to suit the customer at nominal prices, provided a long term lease has been provided.

For the customer it is often an acceptable situation to remain in the present location with enhanced space considering an established base already created.

Strategic groups are those within the industry following similar strategies.

Porter ( 1980 ) identified the following entry barriers for the industry:-

- \* economics of scale
- \* product differentiation
- \* switching costs
- \* cost advantages
- \* access to distribution channels
- \* capital requirements
- \* government policy

Where a group targets a segment not served by other groups its product differentiation tend to be insulated.

Firms have different strategies which are subject to different circumstances. The combined impact on firms cause a continuous rift amongst groups.

Strengths and weaknesses- Porter (1980:149)

#### STRENGTHS

- \* factors that build mobility barriers
- \* factors enhancing bargaining power of its group through buyers and suppliers
- \* factors insulating its group from rivalry
- \* greater scale relative to its strategy group
- \* factors allowing lower costs of entry into its strategic group
- \* strong implementation abilities

#### WEAKNESSES

- \* factors that lower mobility barriers
- \* factors worsening the bargaining power through
- \* factors exposing its group to rivalry
- \* smaller scale relative to its strategy group
- \* factors causing higher costs of entry into its strategic group
- \* weaker implementation

via its strategy relative to competitor	abilities via its strategy relative to competitor
* resources and skills to overcome mobility barriers and move into more desirable groups	* the lack of resources and skills that allow the firm to overcome mobility barriers and move into more desirable groups

Long run changes in growth

Porter ( 1980 : 164-167 ) lists 5 important external reasons for change in growth.

- Demographics  
As age groups/income levels and demographic factors change demand pattern changes as well.
- Trends in needs
- Change in position of substitutes
- Change in position of competitor products
- Penetration of the customer groups

Apart from cost leadership and differentiation Porter (1980) also considers a viable alternative of concentrating on a specific segmented groups offering them a 'focus strategy'. The organisation may adopt a low cost position, a differentiated position or a combination of both.

The particular type of industry will determine in terms of its resources which concept is viable amidst the competition it faces.

Porter believes that differentiation is limited to a certain 'price differential'.

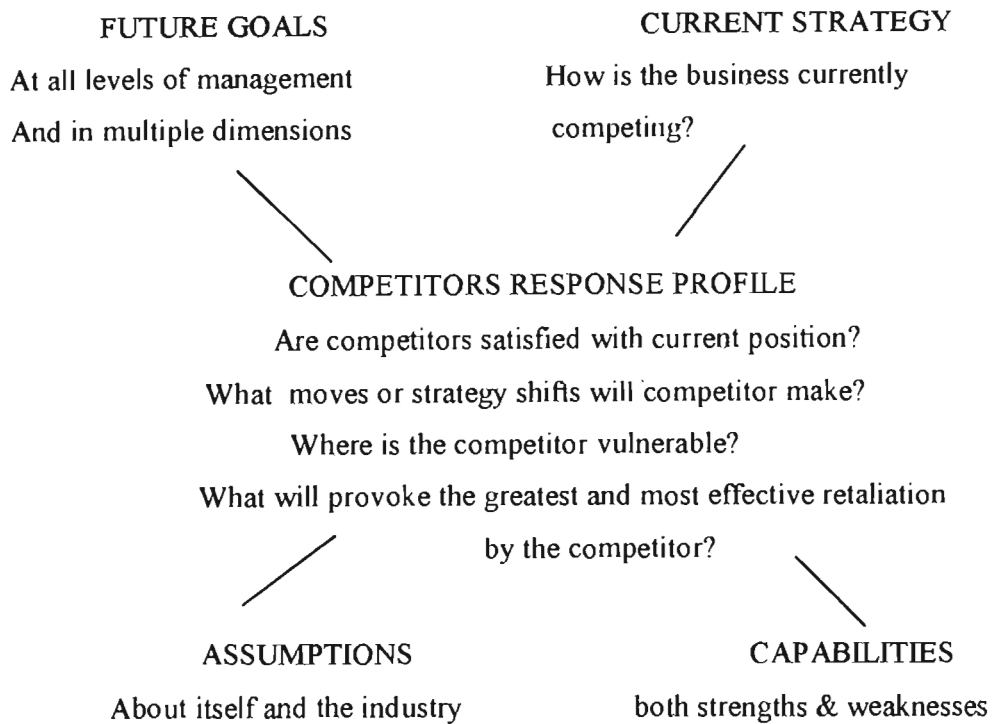
Taken to extremes, the low cost competitor can make valuable and attack such differentiation e.g. Kawasaki against Harley Davidson.

A seasoned strategist always looks beyond the normal purview of his analysis. Quinn, Doorley and Paquette ( 1994 ) are of the view that competitive analysis should consider not only competitors in the Company's own industry but also at the likely industries that can cross compete. After all, the market has new entrants all the time.  
Porters framework for competitor analysis



The difficulty in assimilating enough information on competition makes the task intricate.

Four fundamental components are explored in a competitor analysis i.e. future goals, current strategy, assumptions and capabilities.



PORTER'S COMPONENTS OF A COMPETITOR ANALYSIS ( 1980: 49 )

**FIGURE 2.2**

- Threat of new entrants. New entrants can cause major problems with the offer of 'new capacity' In turn, firms revenue gets marginalized with affected profits.
- Barriers to entry. These include economies of scale, product differentiation, capital requirements, switching costs, access to distribute channels, government policy and cost advantages.
- Bargaining power of suppliers. Suppliers can strangle firms by price increases and reduction in quality of products. A supplier's power is enhanced by the following :-
  - it is dominated by a few large companies.

- Satisfactory substitutes products are not available.
  - Industry firms not an important customer.
  - Suppliers goods are critical to buyers success
  - Efficiencies of suppliers products create high switching costs for industry firms.
  - Suppliers can integrate forward.
- Bargaining power of buyers. Buyers are forever looking for lower prices, higher quality and greater levels of service. They usually play one up against the other. Customers become powerful when:-
- they buy a large proportion of industry's output
  - the product being purchased account for a significant part of buyers costs.
  - They could easily switch to another account
  - Industry products are undifferentiated and buyers could integrate backwards.
- Threat of substitute products.

## **2.8 RESOURCE BASED STRATEGY**

Mills et al ( 2002 ) reminds us that when an individual is struck by disaster he/she has to rely on his/her resources'. This is also true for companies.

What makes competence important?

- \* important resources which are sustainable and versatile may be dormant in an organisation. It is the co-ordination and management of these resources in a specific manner that has appeal to customers.
- \* a firm could co-ordinate a number of resources into one valuable competence
- \* The combination of resources can become a rare competence.

It becomes incumbent on the company to identify a firm's resources and to assess their value and sustainability.

In the absence of a defined tool, hereunder is an outline toolkit offered by the authors:

## ASSESSMENT OF A RESOURCE

Is it valuable? (Answers to the right indicate valuable resources)

What is its net effect on the organisation's costs and revenues?

<b>HIGH NEGATIVE IMPACT</b>	<b>NEGATIVE IMPACT</b>	<b>NIL IMPACT</b>	<b>POSITIVE IMPACT</b>	<b>HIGH POSITIVE</b>
E.g. Out of date manufacturing system			Above average new product	A share of an oil field

**TABLE 2.3**

Is the value sustainable? (Answers to the right indicate sustainable value)

How easily can competitors recognise it?

Very easily      quite easily      only if looking for it      its invisible

(Mills et al 2002: 89)

The resource base strategy takes an opposing view from a market structure positional view which is reliant upon the organisation environment.

The resource base view looks at its internal resources and determines the optimal use or combination of same.

In this dynamism of the market individuals, suppliers, competitors, purchasers and a whole host of business entities interact with each other. The market is continually bombarded with “technology, deregulation and internationalisation.” As a result all playing fields change too. Is it not clear then why the same team cannot win all the time. Similarly, business entities cannot hope to be achievers when sporting blinkers. Capabilities, strengths and competitive advantages have to be continuously aligned and adjusted with the market forces. If we seek to move with the market then maybe a redefining of our roles become necessary.

Nobody steals from others. In business it is a case of many parties being beneficiaries- “a rich network of relationships” Best practice in other firms are important for several facets of business e.g. finance and accounting.

Strategy is “based on what rivals cannot do or cannot do readily.....”

Strategy should not be formulated on aspirations and dreams e.g. Saatchi & Saatchi and Groupe Bull, but rather on the analysis of the competitive strengths of the business. Firms lack distinctive capabilities which are difficult to acquire. These have to be sustainable and the company must be able to translate distinctive capabilities into competitive advantage e.g. Philips and Glaxo. With its brand and reputation, customer and supplier relations, market dominance and control of strategic assets, Glaxo continues to add value to the organisation (Kay 1993/5).

In order to have competitive advantage, resources require certain characteristics : must be valuable, rare, imperfectly mobile, imperfectly imitable and there should not be any equivalent substitutes for them (Ambrosini: 2002).

#### The Role of Core Competencies in the Corporation

How can one Company, Hitachi grew from \$ 12 to \$ 50 billion primarily through internal development during a decade while another Company, Westinghouse with a similar starting portfolio, grew from \$8 to \$12 billion only.

It has been argued that opportunities in the markets were there for everybody and ‘ technological capabilities’ were present everywhere. Much thought has been given to this anomaly.

Prahalad ( 1994 ) believes that the answer lies in growth and value creation. That meant on the one hand focusing on performance at all levels and on the other plucking opportunities where Company resources could create new businesses and markets.

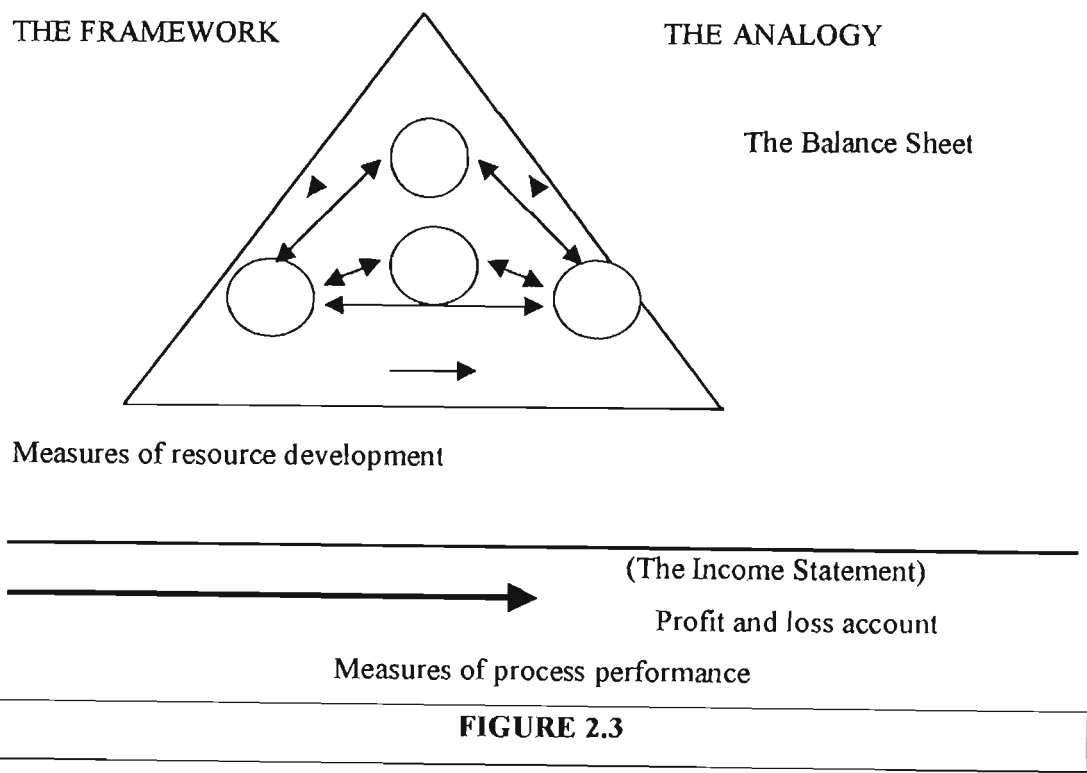
Strategic intent permeates throughout an organisation involving everyone over a long period of time. It seeks to confront employees with a conflict between high aspirations and resources of the firm which would hopefully lead to innovative ideas for the firm. Core competence is ‘ the creative bundling of multiple technologies and customer knowledge and intuition and managing them as a harmonious whole’ ( Prahalad 1994).

Valued competencies and resources take years to build. Performance measures in essence, considers short-term occurrences. e. g Profitability. Short - term improvements can occur by curbing expenditure such as R & D projects. This would increase profitability in the short term but damages long - term profitability. These short -term results, if not managed efficiently, can destroy the longer- term process of resource development (Mills, et al 2002 : 130).

The balanced score card ( Kaplan and Norton 1992) represented a balanced view of any organisation. It took into account the following :-

- financial
- external customer
- internal process
- innovation and learning

By defining creative performance measures in each type of the above a framework can be structured that differentiate between measures of performance and measures of resource development. ( Mills et al 2002.)



The competence and resource framework and its financial analogy  
Mills et al 2002

Mills et al (2002) expresses the view that resource based and market based strategies are complementary.

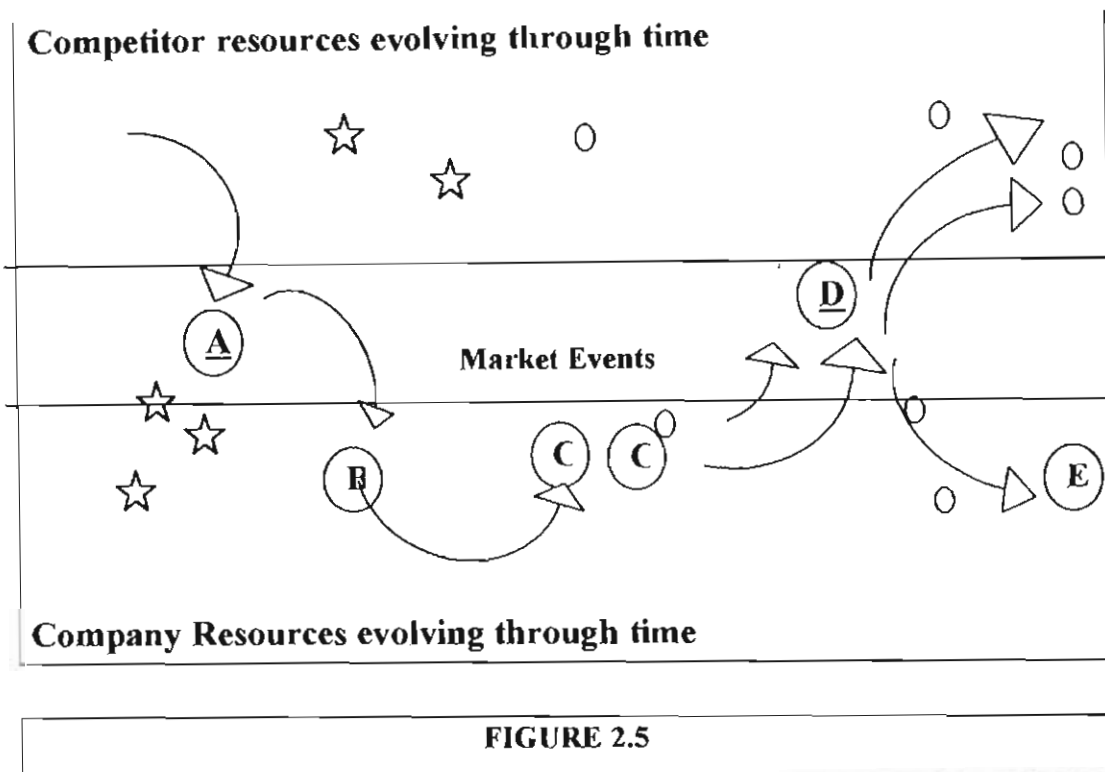


FIGURE 2.5

#### THE MIXTURE OF RESOURCE

- A - Competitor launch new product
- B - Company notice launch and copies specifications in more cost effective way
- C - actions change engineering and product resource base which lead to
- D - companies new product launch
- E - companies product very successful- positively affecting company's resource position and confirming a perception of the market

## 2.9 COMPETITIVE STRATEGY

What makes competitive strategy possible?

Business strategy must create financial value. There is a relationship between profit and competitive strategy. Normally accounting looks backwards. It does not account for the cost of capital, risk factor and the time value of money.

The tight control of expenses with maximum sales and profit can only assist in improving short-term results. It does not have relevance to strategy. Fire fighting commonly secures “marginal” improvements only. A competitive strategy positions and offering in a unique relationship with customers and competitors. Its attraction is its financial value. The positioning of the offering is very important for tomorrow's customers.

The combination of differentiation, volume and margins determine profitability. A further innovation is Porter's (1980) framework of his five forces model which could be used as a checklist (Mathur & Kenyon 2001).

Offerings: The company usually produces more than one offering. Can these be lumped together e.g. a Toyota product or a Debonair product. Since we want to aim individual products at specific audiences it seems understandable to position individual products at different markets.

Offering should take a cue from body cells. If they don't replicate themselves the body dies. Our dynamic world of today demand variants on a continuous scale. Consumers out there are subjected to novelties, sophistication, new technology, time constraints and enormous pressure. Their individuality is eroded and moulded by external factors. The marketer is now faced with numerous intricate needs by the consumer (Mathur & Kenyon).

Kaplan and Norton (2001) demonstrate the power of a single ‘platform’ from which numerous offerings can emerge. This allows the organisation investment in specific resources to be spread across products which can result in a competitive advantage.

Also, a common brand name is continually entrenched e.g. Amazon.com

Mathur and Kenyon (2001) argues that the core purpose of a business is “to build financial value.”

“ Its future cash flows, discounted at its costs of capital results in a positive net present value.”

Therefore financial analysts would ‘assess’ investment in a business at NPV “ of expected future cash flows from that investment.”

Strategy then has to target the bottom line i.e. it must achieve a financial objective.

Unfortunately strategies are devised and structured in the upper echelons of a company. It is important to note that the theory of strategy need to be actionable. The implementation thereof is extremely difficult. Where strategy is being formulated all affected parties need to be represented. Without this collaboration, the energy and effort expended becomes futile. It is then that the original strategy permeates throughout the organisation as a weak manipulated self-centered effort by managers. Competitive strategy then has to “ profitably manage the individual offering.” The strategy has to be aligned with the organisation’s strategic vision. This is then used as a road map by senior managers to track the paths leading to a fulfilment of the company’s objectives.

It seems to me that both the positioning view and the resource based view offers the organisation potential benefits and as such weighing one against the other is debatable and unnecessary.

According to Koch (2000) and M Porter (1980) inter alia, competition actually occurs in business segments.

According to M Robert (1993), companies that succeed are those that can leverage their unique set of capabilities ( driving forces and areas of excellence) across the largest number of products and markets.

Lets consider Samsung – “A leader by product.” It uses its capabilities, its core competencies to manufacture and market air- conditioners, stoves, refrigerators, washing- machines, TV’s, videos etc.

But then, how easy is it to identify an organisation’s winning resources? What makes Samsung produce leading products? What about different competitors in different segments? Samsung has had to position itself and compete against a number of brands in the refrigerator segment e.g. Fridge Master and Whirlpool. Besides, Central Corporations may impose a uniform strategy for all Company offerings.



Koch (2000) is not in total denial. He concedes “ if you start at the top, you either have to de-emphasise..... sell the activities that don’t fit the overall core competencies. If you start at the bottom,..... You should nurture and deepen those core competencies and make them more difficult for competitors to imitate.....”

John Kay (1993) concurs with the rationalist approach where strategy arises from the organisation.

“An organisation must therefore have a solid and realistic view of its distinctive capabilities, or what others call ‘ core competencies’. Successful strategy is often opportunistic and adaptive rather than calculating.” He, however, disagrees with certain resource based strategists e g Hamel and Prahalad’s views (1990) on strategic intent and stretch goals and the development of new core competencies.

Would a uniform strategy work both at corporate and the business unit level? We are mindful that the top-down approach of resource strategy interferes with the optimum functioning of the business unit which attracts customers at a certain level only.

Competitor based strategies (Ohmae 1982 :128-132)

Power of an image : A strategy between an image is risky and needs to be removed periodically. Where differentiation is difficult image may constitute the only differentiation.

Exploiting tangible advantage:

Corporations could defend its strategy by fighting on real functional strengths and capitalising on profit and cost structure differences.

### **2.9.1 Key success factors:**

Key success factors are the foundation blocks from which strategy launches itself to attack competition.

Consequently, whilst strategy need not be absolutely perfect, key success factors has to. It shapes that strategy.

Ohmae (1982) describes 4 ways to strengthen a company's position from that of the competitor.

- **Key factors for success.** This involves firstly the identification of key factors of success for the industry. Thereafter a redistribution of the company's resources takes place concentrating its effects on the areas relevant to the maximum gain. A company may have less resources than a competitor but the utilization of such a resource in a key area may sway an advantage in its favour.
- **Building on relative superiority ( Ohmae 1982: 50-56 )**  
Here the idea is to concentrate on secondary products not directly in line with competition. Use could be made of technology, sales network. Profitability etc. Also use could be made of the differences in assets between the organisation and its competitors.
- **Pursuing aggressive initiatives ( Ohmae 1982: 57-61 )**  
Should the main competitor be set in a 'stagnant slow growth industry' then an organisation could interfere with key success factors that has been propped up the competitor. The organisation could change its mode of doing business and consequently develop a competitive advantage.
- **Exploiting strategic degrees of freedom: ( Ohmae 1982 : 62-74 )**  
The competition could be overcome by innovations like opening new markets or introducing new products. The need here is to discover and exploit a gap in the market.

### **2.9.2 Capabilities:**

Quinn Doorley and Paquette (1994 ) re-iterates that "smart strategies no longer analyse market shares and their associated costs positions ad infinitum, nor do they build integrated companies to exploit them. Instead they concentrate on identifying those few core service activities where their company has or can develop - unique capabilities"

Kaplan and Norton (2001) demonstrate the power of a single 'platform' from which numerous offerings can emerge. This allows the organisation to invest in a specific resource to be spread across products which can result in a competitive advantage. Moreover, a brand name is continually entrenched.

According to Mathur & Kenyon (2001) Porter's competitive strategy revolves around positioning a whole company or its sub-unit more profitably whereas Mathur positions an offering.

(Stalk Jr, Evens, and Shulman – 1992)

The Boston School advises on how the market and consumer needs have transformed themselves demanding a whole new era of capabilities based competition.

“As workers fragment and proliferate, owning any particular market segment becomes simultaneously more difficult and less valuable .

Competition seems to have become “a war of movement”

Successful competition move quickly in and out of products, markets and sometimes even entire business.....

The writers have enhanced 4 principles of capabilities based competition.

The building blocks of corporate strategy is not products and markets but business processes.

Competition success depends on transforming a Company's key processes into strategic capabilities that consistently provide superior value to the customer.

Companies create these capabilities by making strategic investments in a support infrastructure that links together.

The business process becomes the strategy starting and ending with the customer.

Business processes are made up of a number of links and the uniqueness of each link makes the capability difficult to imitate. Even associated links can be integrated into the organization's chain. The Boston group sees scale and flexibility as the hallmark of a CEO strategy based on the following :

Speed – ability to respond quickly to customer and market demands and to incorporate new ideas and technology quickly into products.

Consistency – ability to produce a product that unfailingly satisfies customer expectations.

Acuity – ability to see the competitive environment clearly and thus to anticipate and respond to customers evolving needs.

Agility – Ability to adapt simultaneously to any different business environment.

Innovativeness - ...ability to generate new ideas and to combine existing elements to create new sources of value.

Stalk Evens & Shulman (1992 : 90)

### **2.9.3 Differentiation**

‘made less price sensitive. If planned offering is very different from future substitutes then the strategy is to re- position it. Where it is a little less different but cheaper, the strategy is one of price competition. Position of offering is very different but not differentiated.

When price is very important and differentiated they position the offering.

Usually customers pay attention to prices and difference between substitutes.

The modern economy demands private markets with a array of offerings.

Mathur (2001) discusses 2 practical methods i.e.:

- Support differentiation - features assisting customer in choosing, obtaining and using the offering.
- Merchandise differentiation - all other features of differentiation

Differentiation allows the company to maintain its prices and therefore its sales.

Consumers would buy into the feature and not be readily influenced by price enticement by competitors. Consequently the company can build a manageable defence against ‘close substitutes’.

Types of differentiation - Mathur (2001) identifies 4 types of differentiation.

System buy: offering differentiation in both merchandise and support. Here the supplier designs, supplies, installs and maintains the packaged product according to customers requirements.

Product buy: differentiation in merchandise area not in support e.g Hi-tech Sony with special features and quality.

Service buy: differentiation in support and not merchandise

Commodity buy: offering is similar to competitors

Further sub classification of Support differentiation:

Personalisation- special attention to each customer dependent on extent of competitors efforts. The business looks into customers needs and preferences. The extension of this differentiation could mean loyal customer support and an imposition of switching costs.

Expertise: The nature and use of the offering can be elaborated and strengthened in the mind of the consumer by superior knowledge of the seller.

The two types of merchandise differentiation are content and aura.

Content: unique performance capabilities / physical - aesthetic out put features

Company's size – reputation What will offering do for the customer?

Aura: What does offering say about customer – say right things. Status/good taste.

Brand names – e.g. Pringle – extra value placed on customer.

Combinations:

- Exclusive merchandise: content - softens – durability. Aura – associate shoe with star athlete – status

- Augmented merchandise: only aura – special status. Branding/advertising
- Special merchandise : differentiated in content. Distinct performance attributes e.g. suitable for running on different roads/light, weight etc.
- Standard merchandise : no different from other substitutes

16 cell matrix

Different types of customers can choose from any cell. Less obvious cell sometimes most rewarding.

E.g. standard/consultant – target customers willing to pay for support but content with a basic carpet (retired or seaside guest houses)

Advertising important in re-positioning existing product. It draws attention to offering and its features.

Inputs are for the supplier. The customer is concerned with output e.g. security company sells a system instead of burglar alarm system – different or else it becomes mere commodity buy.

Triangular relationships between offering, customers and competitors is central (Mathur 1984, 88,92).

Trade off: Different attention to distinctiveness of output. Price – emphasis on unit cost control.

Inter relation between differentiating the offering and making it less price sensitive.

Indirect and complex relationship : can occur on simple rankable scale – can be non-rankable.

A – Auto      B – Side impact      C – catalytic converter  
 ABC / AB / AC / BC / A / B / C - 8 multi-dimensional permutation

To position a new offering in relation to its substitutes, map out tomorrows substitutes and tomorrows customers, anticipate shifts from customer and competitor. The timing is very important.

Does different mean better quality? No single scale is appropriate e.g. auto

Language is unhelpful and customer interpret quality in different ways e.g. some associate more sugar, some less sugar with better quality.

Differentiation is a relative term – no fixed point of origin.

If offering is sold below comparable price of substitutes – price competition. First movers have an advantage with customers. Second movers have an advantage of saving some of first movers learning and experiment costs.

Competitive strategy would be viable if innovative Company can get high margins for long enough to amortize its investments at appropriate costs of capital.

Can these products be imitated? (There is a need to continue to innovate and differentiate offerings)

Pricing policy depends on extent of differentiation. There is a time delay in differentiating.

Prices can be changed faster.

Customer perceptions may vary with prices e.g. nationwide firm may charge more than local handyman

S. Tilles (1974) believes that “ A differentiated product remains a differentiated product only until the emergence of the first follower. After that it begins to behave as a commodity. Over time all products tend to become commodities.

Kaplan and Norton (2001 ) describe differentiation as “a strategic approach” to positioning products advantageously as customers decide which product to choose. The differentiated products offers something unique, that which is missing in competitive products.

#### Concepts of differentiation

- It positions a product in the market. It combines with price and positions it among competitors in the market place.

Competition is determined by customer preference. Should the market not be receptive to differentiation – the product will shed off difference and lean towards on lower price structure. Usually commodity markets compete mainly on price.

- It segments the market  
Each segment will base its purchase on its own preferences towards a specific level of differentiation. That differentiation could actively create a new market.
- Differentiation evolves throughout a markets life cycle. Usually companies entering the market untried. Variations in products. As time passes these variations are adjusted according to the demand/preference of customers.

#### Market growth

As the market grows, the qualities of products become popular and customers categorise products – resulting in market share for companies. Competitors feel the impact of growth and this is where leadership or a lag is noticed.

#### Market maturity

As markets mature the product assumes commodity status relying on price and service as bases for competition.

Dedifferentiated market – sometimes upon maturity organisation may introduce new different qualities – because of new techniques etc. This raises prices and market decline.

As a market declines – competitors have already positioned themselves in the market. Competition continues on price, service, brand or convenience.

- Differentiation should be managed as vectors and not points. When competitive products are differentiated in a certain direction it allows leverage in terms of size and length.

#### Differentiation strategies ( Kaplan & Norton 2001: 168 )

- Using unique features - Increases in technology make provision for many new and interesting features. Companies can achieve differentiation with a single feature e.g. Sharp who replaced the conventional view finder on its



viewcam with a 4 inch colour LCD panel. Users could then watch what they use filming in colour. Consequently Sharp market share rose from 3 to 20% However for optimum results unique features should be grouped around a common theme.

This type of differentiation is limited and can easily be replaced by competitors obliterating a temporary advantage.

#### Differentiation by measurable customer benefits

When differentiation is especially targeted at customers special needs, the customer will purchase even at a premium price.

The product then needs to be carried through by detailing and informing customers.

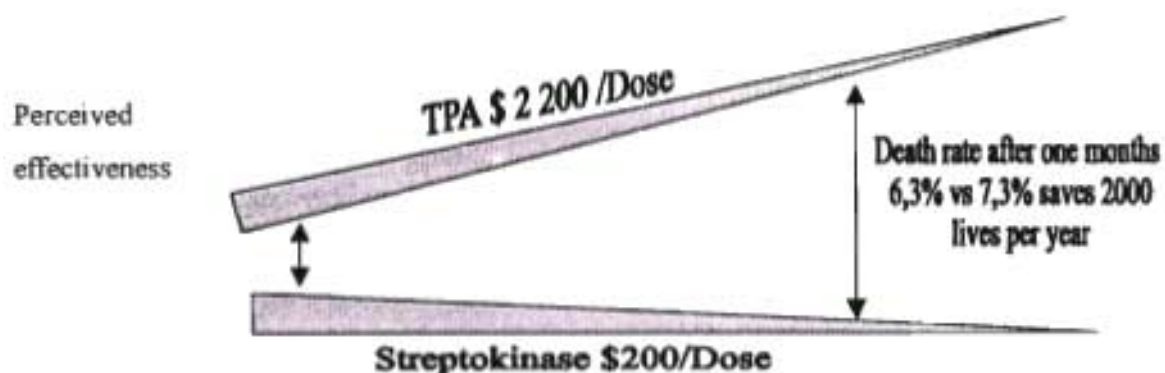


FIGURE 2.6

When product is differentiated with direct and dramatic measurable results, customers will prefer it, even at a higher price ( Kaplan & Norton 2001:170 ).

#### Differentiation through ease of use

Ease of use appeals to a large segment in most markets.

#### Differentiation through design

Here the design differentiation can make it comfortable and ready to use by the customer.

#### Differentiation by total solution

Customers could make use of a number of facilities offered by the landlord at a savings in cost.

Downsides of differentiation :

- Cant be sustained long enough
- Insufficient proximity to price
- Customer preferences are misunderstood
- Cost of differentiation is high
- Too much unfocused differentiation ( Kaplan & Norton 2001;184 )

#### **2.9.4 Price**

Eventually the success or failure of many products may depend on their pricing strategy. Companies tend to attribute financial implications to pricing instead of strategy.

Market leaders may lower prices because of economies of scale. Different products command higher prices. Stages in the product life cycle also determine price.

“Business with high fixed costs and high margins are ripe for price wars, particularly when there is excess capacity in their industry”

In a market competitors have different costs structures and these determine whether an organisation has a competitive advantage.

“The sources for cost advantage provide the foundation to support price strategy. Without a cost advantage, a company competing on price is really just cutting its profit.

Effects of pricing strategy

- Price positions a product in the market. Price combined with differentiation positions a product in the market. However the positioning of products varies by segments within the market. Each segment places different values on differentiation and price.
- Prices decline throughout a markets evolution
- during development : value priced
- growth : customers are more selective. Competitors compete aggressively on price.

( Kaplan & Norton 2001:192 )

### 2.9.5 Product platform strategy

Product platform is a collection of common elements – mainly the technology that supports a whole range of products. A product platform allows an organisation to plan and make decision. It acts as a foundation for production strategy.

A number of products can develop from a common platform.

Several ingredients are required for a successful platform strategy.

- understand elements of the platform – how do characteristics of elements fit together, change with time and how is it different from competitive platforms. The defining technology is key to understanding a production platform. Many a platform strategy failed due its incorrect understanding of its defined technology.
- The defining technology is clearly distinguishable from other platform elements. One element usually stands out – determining it life cycle.
- Platforms unique differentiation provides a sustainable competitive advantage. The difference in platforms provides differentiated theme on its product line. Individual products reflect variations of that theme. Product platform would use various aspects of differentiation e.g. Specific materials, computer platforms for fault tolerance, price performance or integration of common functions etc.
- No more than one product platform should serve a market. This usually stifles development and dampens competitiveness. Usually an organisation is faced with different platforms upon acquisition. These platforms would eventually have to merge.

Experience suggests that core competencies should never be outsourced ”

(Kaplan & Norton 2001).

Advantages of platform strategy (Kaplan & Norton 2001: 63)

It simplifies the product strategy process, allowing senior management to concentrate on platform level decisions. Platform strategy spreads the costs of developing individual products – thus reducing manufacturing costs. By initially developing a product platform the company can then create multiple products resulting in a spread of its investment. It takes a product platform much longer to process through a life

cycle then individual products brought about by that platform. Platform life cycles are instrumental for the major competitive changes in product strategy. Platform strategy also spreads operating efficiencies e.g. Use of common components in different products, supply chain costs. Product platform helps management to determine the extent ability of that platform and to decide when to replace it.

The delay or lack of reaction to attend to a production platform can result in disaster e.g. Wang & Digital equipment.

The Offerings : Product line strategy (Kaplan & Norton 2001: 92)

“Without an effective product line strategy, the true potential of a platform strategy will not be realised.”

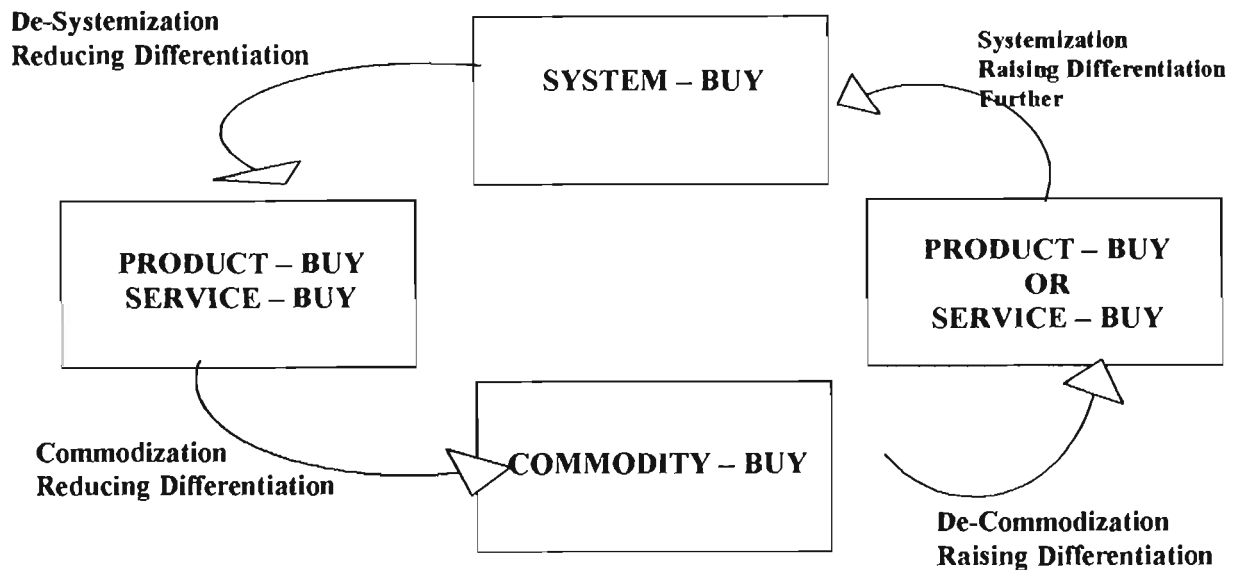
However, the platform strategy remains an anchor without which the production line strategy cannot survive.

A good product line strategy aims certain product at certain markets and not merely host an array of products based on the brilliance of the platform.

#### Successful ingredients

- The product line must cover all the targeted market segments. An understanding of the market and its segmentation is essential in identifying appropriate segments. Does the segmentation process result in a competitive advantage for the organisation? Segmentation can change and product line strategy requires to adapt to these changes :-
- Each product offering has to be focused. You cannot over supply products to a market resulting in customer confusion. Customers may demand for a multi product line. The organisation has to weigh the market needs amidst competition and decide on a range of products.
- Timing in the release of products. Each version has to be released at different times.
- Similar products families and product lines are co-ordinated. Having a large product line from a single platform can limit an organisation and is risky. The product line could be adjusted to aim as a longer market share.

## 2.9.6 Life Cycle: Dynamics of Positioning



**FIGURE 2.7**

### THE TRANSACTION LIFE CYCLE

E.g. Desk top publication software – usually transacted as system buys – vender supply software and unique support. Package is different – novelty/unique.

As software gains popularity - new players enter area and offer their own.

Competitors move closer. Some match merchandise of pioneer and vary support-dependent on behaviour of customers. Buyers learn

Application know how and support are no longer critical. Buyers need less support – become more price conscious. Pioneer differentiation only in support – service buy transaction – de-systemisation started

Other competitors match support and vary merchandise. Reduced to product-buy.

Competitors move in. Pioneers offering becomes commodity-buy

Can resist onslaught – differentiate its offering – use advance packages – de-communisation.

Can again become systemisation

Customer will encounter all four types of transactions

Markets can be defined and redefined as competitors jostle for position

Transaction life cycle brings out two important lessons:

- The competitor needs to continually adapt, adjust and change the entire offering.
- The Company does not have to move or change direction.

Types of offerings:

Re- arranger: new offering which does not radically transform the market.

Changes are usually brought about by external forces e.g. tastes and fashions/ changing technology. Here a decision could be made to serve latent customer segments e.g. singles package holiday.

Transformer: This offering would destabilise and reshape the market. The Company may choose to compete on price only. Here preferences are created e.g. Magnum ice-cream.

Peteraf's (1993) four corner stones. Winning resources must be :

- heterogeneous – distinctive
- subject limits to competition or bargain
- subject to post limits to competitor or match less
- imperfectly mobile or inseparable

## **2.9 LEADERSHIP AND GROWTH**

Capable leaders do the following :-

- gain complete and willing acceptance of their leadership
- determine business goals, objectives and standards of behaviour....
- Introduce and motivate the organisation to accept the established objectives
- Change the organisation relationships internally as when necessary for the acceptance and achievement of new objectives. Good leadership can be likened to driving; where the stress and danger is at its maximum on a mountain road at all times a leader needs to incorporate objectives, needs and

resources into his leadership style (B.D. HENDERSON 1968 : 239 -240 (BCG).

There has been debate on whether the effective leader is one who focuses on the task, or one who focuses on relationships with and between people. According to Fiedler (1967), Vroom & Yetton (1973) and Hersey & Blanchard ( 1988 ), leadership style should be chosen by the individual manager and to be successful a style that matches a certain pre-given situation must be chosen ( Stacey 2000: 110 ).

Manning 2001 citing J. Welch from GE

“ Candour is critical part of leadership. Executives must look the future in the eye and confront the facts as they are, not as they might wish them to be. They must face reality.”

Thompson and Strickland (2001:481) narrowed four activities for developing leaders. These were travel, teamwork, training and transfers to other countries.

The transition skill from growth to advantage is strategy and the change from building to strategy is difficult for most organisations.

A pre-requisite for learning is to continue to develop comprehensive data.... Shared across..... This requires group activity, which can be effective only if there is leadership to make it effective and a time commitment to make it possible and..... support services to make it efficient (Jilles 1985 : 249-250 BCG).

### Mission

The Ashridge mission model sees a mission as consisting of 4 components :

- An inspirational definition of what an organisation is there for
- The organisations strategy
- The policies and behavioural standards, defining how managers and employees should behave
- The beliefs that constitute an organisation's culture and underpin its management style.

The sense of mission is important because generates trust and belief in the activities in an organisation. ( Stacey 2000: 106 )

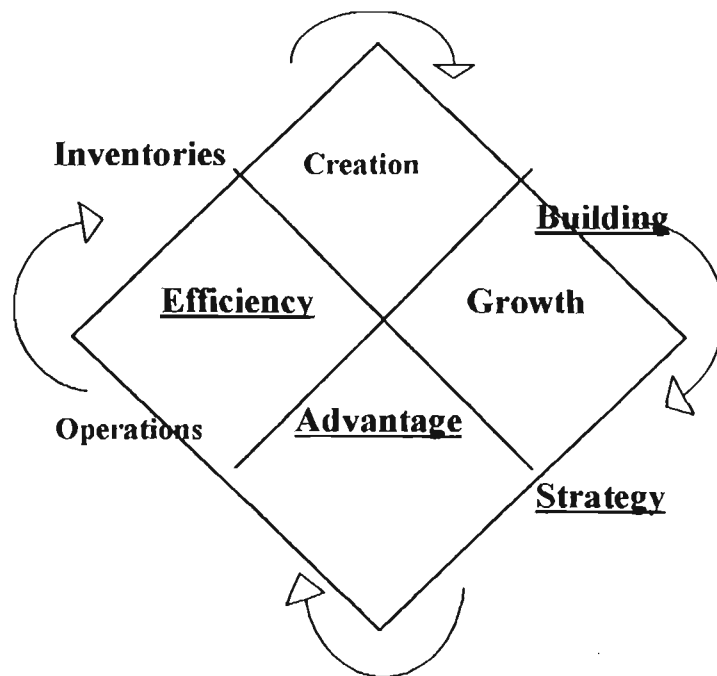
Lure of growth

Zakon and Lockridge 1984 (BCG) state that for the success of an organisation is shown by market growth. Success appears easiest for companies in growing markets. The authors argue further that since progress is necessary for all, every company needs to build, manage and gain advantage.

Organise :

Successful business units go through four phases towards maturity.

Creation, growth, advantage efficiency. If the transition between phases are managed then success can be sustained.



**FIGURE 2.8**

Growth strategies ( Kaplan & Norton 2001: 275-281 )

Rapid - growth companies make a commitment to grow by following a deliberate, pro-active process. They identify the growth highways and head down them.

Kaplan and Norton explain further that rapid growth is an attitude. These has to be a commitment to pro - actively pursue that path. Usually that kind of commitment is



enunciated in the company's core strategic vision. E.g. Micro-soft - what do you want to be?

There are a number of opportunities to increase revenue. However a company's product strategy has to show that potential to achieve growth.

#### Additional product offering

How product offerings are contrived to penetrate new segments and to steal a slice away from competitors. However one has to weigh the actual growth from new offerings to ascertain the growth factor. The real level of growth is the difference between the revenue from the new offering and the lost revenue from the others.

Generating revenue from next generation platforms ( Kaplan & Norton 2001:278 )

Timing is critical when a product platform means the end of its life cycle. A next-generation platform can contribute to growth when the offering is superior to others and warrants an increased pricing.

Customers may migrate from an existing offering to the newly created one providing growth opportunities.

#### Growth by strengthening competitors position

By continually improving its offerings by differentiation could make the company growth orientated. The company needs to sustain a competitive advantage.

Expanding into a related market (Kaplan & Norton 2001: 281)

By building on existing capabilities a company could expand into a related market creating an opportunity for new revenue growth. The company has an understanding of the market and is aware of customer needs. The following growth strategies are long risky and at time remote to many organisation.

- expanding into new market not closely related to existing markets
- using an acquisition to expand into a related or new market
- considering diversification as a way to grow.
- Creating opportunities to grow through innovation.

## 2.11 ORGANISATIONAL DESIGN

Rheault and Trusen (1995) denigrates traditional central control in the face of ever changing technology and markets. They advocate “a minimalist corporate centre that sees to corporate governance, provides essential shared services, sets the right objectives, measures and rewards – and then gets out of the way” The BCG feels that “strategy should drive structure.

### Culture:

Culture represents an ‘ ideology.’ It is a collection of values and beliefs unique to an organization. The ideology develops over time as and when people are attracted by its pull and at other times drawn by the organization through special selective procedures. There are times when repeated actions and behaviour, a certain ideology manifests itself in an organization. These then grow over time embedding the ideology.

Individuals find themselves in different ways into the organization and whatever the mould of that individual the organization is bound to impact and taint its culture upon that individual (Mintzberg: 1999).

### Organisational Structure

Structure goes hand in hand with strategy. Strengths and weaknesses of an organization determine the strategy formulation for that organization. Structure needs to reflect the circumstances the organization finds itself in. Factors impacting on structure are age, size, the environment etc. The design of an organization has been subject to much research. Listed hereunder is a synthesis:

#### Age and size:

With an old organization people are more set in their ways and are subject to repeat behaviour. An organization structure seems to reflect the age of the industry in which it operates, no matter what its own age.

#### Technical System:

Technical systems regulate the work of the operators. Automation causes work to become ‘ routine and predictable.’ Automation tends to change the structure to an organic one, where line authority disappears with staff expertise.

Environment: Outside the organization there are markets, politics, economy etc. that affect the organization. The organization needs to be flexible in a dynamic environment. A decentralized structure lends itself to such flexibility.

Power: Extreme external control tends to centralize structures with formal behaviour.

Fashion influences structures to mould itself with trendy settings in an area (Mintzberg 1999).

## **2.12 SEGMENTATION OF THE MARKET:**

As markets mature, they fragment into segments with distinct products and service needs, and price elasticity's to match. For the producer, these needs translate into different costs to serve each segment.

With increasing global competition and a lack in demand in the late 70's organization's found themselves wanting in trying to achieve some sort of competitive advantage.

According to Henderson ( 1998 ) the only way would be "transform the business" by reintroducing scale or by utilizing innovation and differentiation .....

After flexible and time based competition there came re-engineering. The 90's sought growth and a new focus on strategy ( Boston Consulting Group 1998 ).

Ohmae's (1982 : 171) response is to challenge the conventional wisdom about product and market head on. The strategist should be free to explore the feasibility of some alternative method even if it seems to mean flying in the face of common sense.

### **Segment of one marketing**

The specific customer segments can now be narrowed to the individual. It combines two concepts "information retrieval and service delivery." The organisation maintains an updated database of customers preferences and purchase behaviour. It also uses that base to provide a unique package and ensure delivery to those customers. Customers develop a lasting relationship with the organisation and appreciate the individual approach from the company.

The business of such segmentation relies on a successful interaction between people and the organisation via its systems.

No doubt segment of one marketing can enhance a competitive advantage for the organisation (Winger & Edelman 1989- Boston Group).

Segmentation by objectives. The segmentation here focuses on what the customer wants. The organisation needs to assess customers needs which in time will determine the inability for a particular segment.

Segmentation by customers coverage

The organisation is able to service customers in line with its available resources.

The organisation has to confirm its marketing costs and to be able to penetrate as much of the market as possible.

Over time, moreover, there is need to re look at segmentation for a fresh approach.

### **2.13 VALUE CHAIN :**

A company's value chain is made up of several activities required to produce an acceptable product for the customer. Beside the activities, the chain embodies an information flow amongst the Co, its suppliers, its distributors and its customers. Both the activities and the information are separate components but because of their integration managers don't see the importance of information as a majority contributor towards competitive advantage ( Evans & Wurster 1977:105 ).

The changing economics of information threatens to undermine established value chains in many sectors of the economy, requiring virtually every company to rethink its strategy (Evans & Wurster (1977 – 111).

Technology like the emergence of the internet has the potential to deconstruct any value chain.

Existing value chains will fragment into multiple businesses, each of which will have its own sources of competitive advantage (Evans & Wurster - Boston Group 1977 – 117).

It is important to analyse the organization's value chain. It may offer new opportunities which may necessitate a reconstruction of the chain (L.E. Shulman 1977 – 158).

### **Value chain strategies**

The product offering has to be supported with many other value chain strategies – like services, marketing, distributions and logistics, manufacturing technology etc. These need to be coordinated with platform and product line strategy to deliver and support product offerings. Koch (2000) asks that each link in the value chain seek competition advantage – lower cost or add more value by superior quality or differentiated features. Every strategy of the value chain is linked to the next stage and always considers the customers needs.

Mathur (2001) also refers to Porter's value chain.

A multinational company needs to choose the location and centralization or decentralization of each of these separately, but with an eye on how they are mutually linked e.g. In a software house a link may occur between research and development and service. There are a number of options which can become cumbersome.

Porter (1987) explains that at these value activity levels and not necessarily at company level the unit acquires competitive advantage. Primary activities create the product or service, deliver it and market it and provide after sale support.

These are made up of inbound logistics ,operations, outbound logistics, marketing sales and service.

Support activities provide the input and infrastructure that allow the primary activities to take place. These are company infrastructure , HR Management, technology , development and procurement.

Synergy is created when the Company transfers skills amongst similar value chains and when it shares activities e.g. Sales force shared by 2 business units. These opportunities arise when business units have similar activities. However competitive advantage would be achieved by transfer of skills only if these similarities meet the following criteria:

- Are the activities similar enough to enjoy the benefits of sharing expertise
- Are the transfer of skills benefit made on central activities
- The essence of skills transfer are advanced and beyond the capability of competitors.

This transfer process has to be managed by efficient & reliable workforce.

By using both acquisitions and internal development, companies can balance transfer of skills strategy.

Sharing Activities ( Porter 1987 )

Activities can be shared in the value chains among business units. Sharing can increase competitive advantage by lowering costs or raising differentiation. However, resistance to change has been experienced at various levels. Sharing can transform an activity so much that a competitive advantage is realized. The latest technology merged with electronics and information systems encourages the link between businesses.

## **2.14 CORPORATE STRATEGY**

Can huge corporate centres control and influence business units to render the ultimate value sought continually by stakeholders. Koch (2000) does not think so.

Goold, Campbell and Alexander of the Ashridge Strategic Management Centre (1994) states “that while a few successful parents create value in multi-business companies, the large majority are value destroyers.”

But then what is the difference between a senior manager at headquarters and a senior manager at the business unit?

The Centre certainly has muscle and can rescue business units from pitfalls like emergence of a competitors detailed knowledge of a strategy. Certain centres have joined forces and exploited potential advantages becoming conglomerates in their fields. These giants maintain efficient R & D divisions and could spread these costs over masses of products throughout the world. Industries may have a history of corporate strategy which has evolved over time. Corporate strategy can be an armour-plated umbrella which houses and guides individual units to produce high quality

products appealing to its customer base. During crises situations e.g. losses etc the centre has to thoroughly analyse the activities of business units and diagnose areas that require attention. It needs to take a calculated decision one way or the other.

Koch (2000) explains that successful companies display “strong and constructive cultures, stress teamwork and service to customers.....” These resources inter alia are dispersed between the centre and its business units.

Why do some organisations perform better than others? They may possess more or varied resources. But it is common knowledge that resources similar or otherwise can easily be acquired by rival organisations. They also seek to capture the market ahead of competitors. An organisation’s competitive edge or winning resource cannot be easily identified by its competitors. Therein lies the potential, the gem that becomes the enabler for an organisation. My belief is that an individual because of his uniqueness retains an unexplored versatility. This together with his ‘experience curve’ provides an organisation not only with resources but also determines a winning formula. Factors like scientific research, technology and global reach contribute further to sharpening the organisation’s wit.

Mathur (2001) explains that any organisation at a given point owns a number of resources. Amidst these resources are embedded like diamonds a few ‘winning resources.’ These capabilities assist individual offerings to acquire and generate value. Secondary resources are seen to be important in glorifying the diamonds. Companies own different resources. Winning resources contribute towards a major offering or produce offerings at a lower cost. Therefore every successful company maintains an advantage over others.

Management resources are needed for the daily functioning of the organisation.

However, such resources are not enough for a competitive or a corporate strategy.

According to Mathur (2001) any competitive strategy needs to beat the cost of capital.

Value – building has to continue long enough, has to be sustained over a period.

Mathur (2001) believes that a winning resource needs to embrace “Peteraf’s (1993) four cornerstones’ distinctive, bargain, matchless and inseparable. By possessing different resources, successful companies remain aloof from its customers.

Mathur (2001) then refers to a contradiction in two implied assumptions in the model of efficient markets.

- That competing company's resources are homogeneous
- Those resources are tradable- others will replicate best resources.

But we know that organisations make varied profit margins, have separate groups of resources resulting in different levels of efficiency.

Porter (1987) considers the essence of corporate strategy as being where the corporate whole adds up to more than the sum of its business parts. Every concept can succeed provided it aligns itself with corporate role and objectives, possess skills required and blends in with the chosen strategy. A Company can choose a corporate strategy by:

- Identifying the interrelationship among existing units
- Selecting the core business
- Cross-unit collaboration
- Allow shared activities
- Strategy of restructuring
- Paying dividends

#### **2.14.1 Directors Responsibility for Corporate Strategy**

R. Andrews (1998 ) got right to the heart of it when he stated “ A responsible and effective board should require of its management a unique and dependable corporate strategy, review it periodically for its validity, use it as the reference point for all other Board decisions, and share with management the risks associated with its adoption.” Andrews recommends an informal gathering of 2/3 days strategy meeting amongst all concerned parties i.e. staff, management CEO and Board. The systematic presentation of comparative results with discrepancy highlights is “ accompanied by a one to two year plan which is then considered against a long range plan. This gathering allows participants especially at the informal versions to evaluate their concepts of the company audits and its future in an uninhibited way.

Everyone is exposed to people they might not meet otherwise- directors, managers, staff managers and spouses.



This wider acquaintance leads to:

- Greater knowledge of the Company and its people.
- Greater trust in individual's competence and goodwill.
- Understanding of the unevenness of management strength and the opportunity for management development.
- Relation of the outside directors and the chief executive officers and
- Keener interest in future opportunities.

However the time consuming nature of the task leads us to believe that the CEO should not be the Chairman of the Board.

Boards of directors are generally not tasked with formulating strategy. Their watchfulness, however, and quest for new opportunities can stimulate the overall response for creative strategies.

### Strategies

Once customers needs have been established the company has to try and meet them. It is important that key success factors be strengthened to maintain an edge over competitors. Companies at times require certain organisational changes. - Sharing resources.

## 2.15 STRATEGIC ANALYSIS

Strategic analysis involves understanding the organisation in terms of its internal resources and capabilities, its external environment and the involvement of all stakeholders (Johnson & Scholes 1999).

Business must be allowed to get on with what its there to do: make money.

There are many external influences and these impact all the time on the organisation.

What is the status of the market currently?

What is the states future involvement and how soon would it be able to put any plans into action. There are many factors to consider within the organisation as well.

These are :

- Structure and culture of the organisation
- Management systems
- Workability of members of management with staff

The workability of any strategy is dependent on its being part of a co-ordinated effort by all concerned players – from senior management to the lowest level worker.

## TOOLS FOR STRATEGIC ANALYSIS

Tools are considered effective in any evaluation process.

### 2.16.1 Pest Analysis

The analysis is based on a photo-shoot of the external macro- environment in which the firm operates. Factors which impact on the organisation are the following:

#### Issues for Consideration in a PEST Analysis

<b>P: POLITICAL</b>	<b>E: ECONOMIC</b>	<b>S: SOCIAL</b>	<b>T: TECHNOLOGY</b>
Tax policy Employment laws Environmental regulations Trade restrictions and tariffs Political stability	Economic growth Interest rates Exchange rates Inflation rate	Health Population growth Age distribution Career attitudes Emphasis on safety	R and D activity Automation Technology incentive Rate of technology change

QuickMBA - (Internet 13)

**TABLE 2.9**

### 2.16.2 Porters Five Forces

This model provides a framework for competitive insights needed to build a successful organisation (Thompson and Strickland 2001:93)

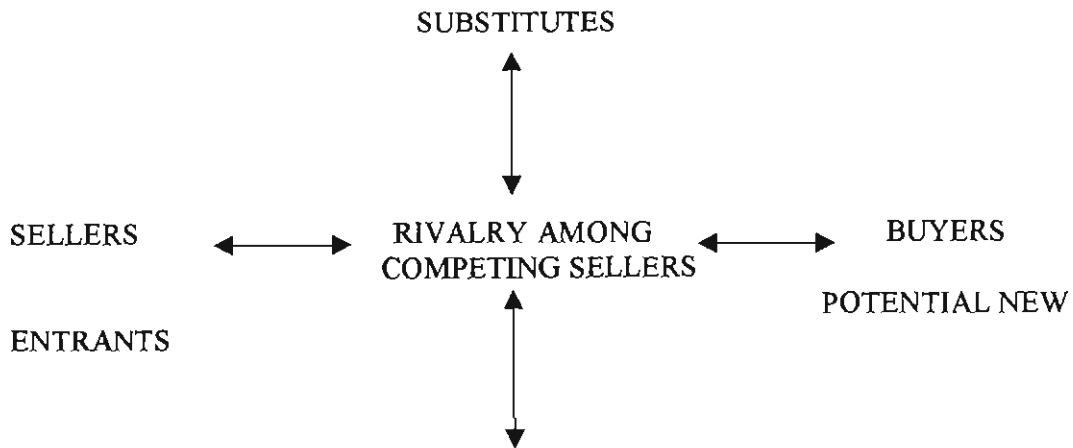
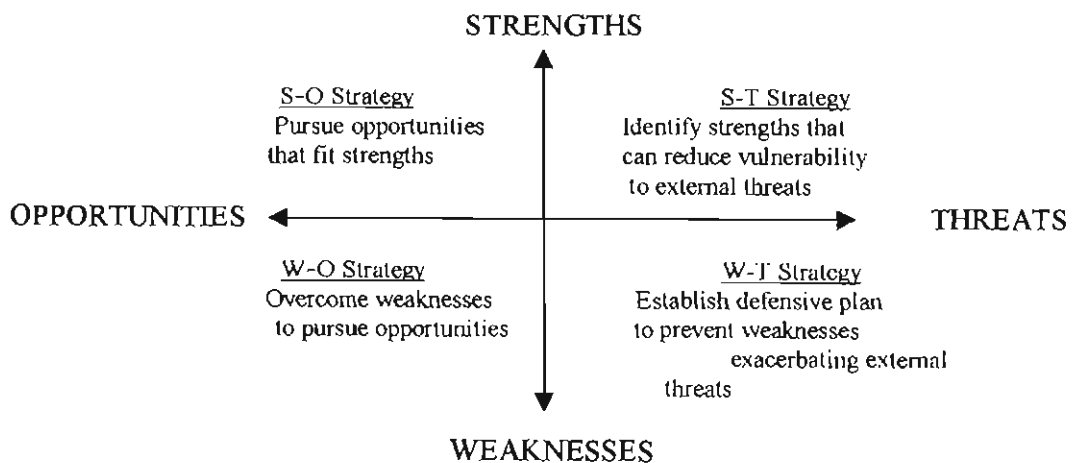


FIGURE 2.10

### 2.16.3 Swot Analysis

The analysis provides a view of the internal and external environment which impacts on the firms viability. It matches the organisation's "resources and capabilities to the competitive environment" and is involved in strategy formulation and selection.

(Internet 14)



**FIGURE 2.11**

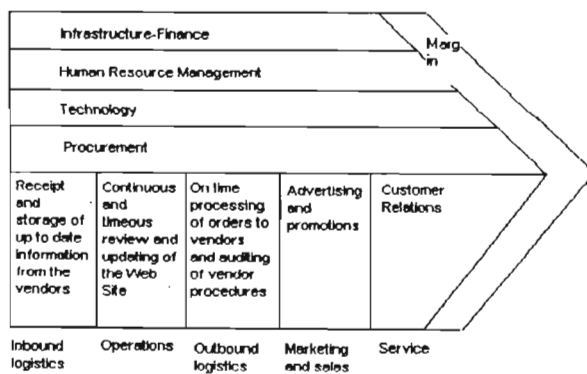
### 2.16.4 Life Cycle Analysis

The analysis assessors whether a strategy is likely to be appropriate given the stage of the product life cycle. The stage is determined in two dimensions, the market situation and the firms competitive situation (Johnson and Scholes 1999:356).

### 2.16.5 The Value Chain Analysis

Every business conducts activities from designing, producing, marketing, delivering and supporting its product or service. The combined cost of each activity defines the Company's internal cost structure. Strategic cost analysis compares activities of one firm against rivals to ascertain cost advantages and disadvantages.

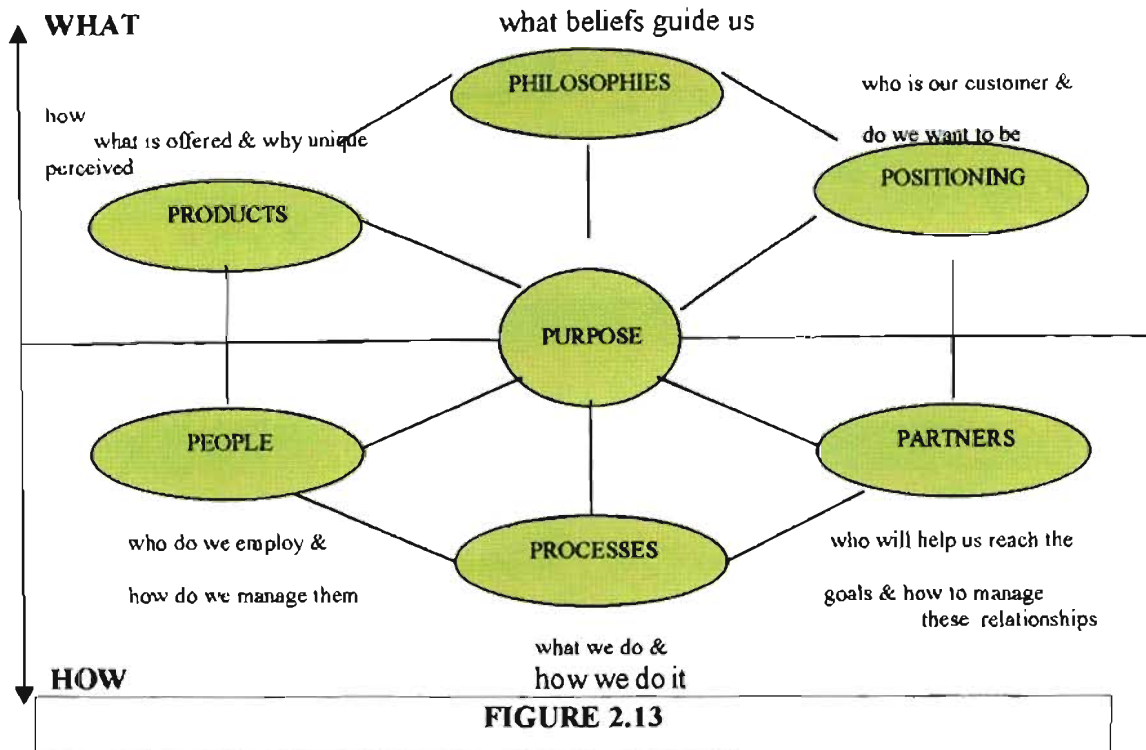
The value chain identifies links between activities. The nature and strategies of value chains in different organisations make cost analysis of these rivals difficult (Thompson & Strickland 2001: 129).



**FIGURE 2.12**

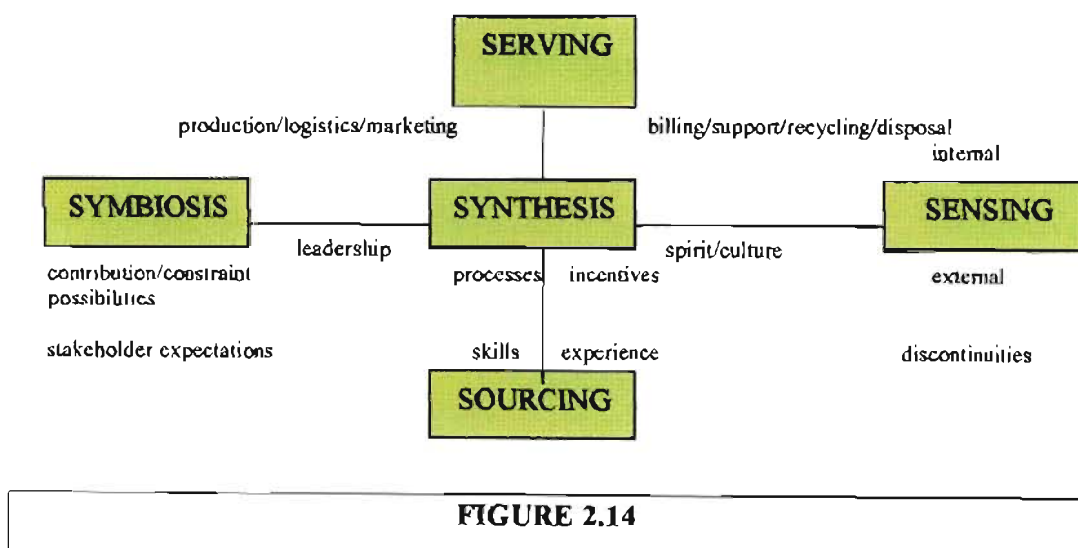
### 2.16.6 The 7 P's Framework

The model provides for a diagnosis of the organisation from various view points. All P's link together and complement another resulting in an integrated whole. The model needs to be looked at periodically and adjusted accordingly to circumstances prevailing at any given point in time (Manning 2000).



**2.16.7 The 5 S's framework**

This model explores the value needs of customers and how an organisation can provide total value. It is similar to the value chain where value is created by a set of activities. The 5 S's framework provides a 'synthesis' of these activities (Manning 2002).



## 2.17 THE FOCUS AND APPLICATION OF TOOLS

‘A clear focus is the starting point for successful strategy’

Manning (2002) list 3 basic principles of competition

- focusing your resources where you will get the most from them.
- Continually drawing up your customer’s perception of value and
- Simultaneously driving down the cost of doing it.

Manning (2002) advocates that a real connection with the customer is the need to the right attitudes, values and principles in a core team.

STRATEGY	FOCUS	TOOLS/ACTIONS
Purpose	Assess mission, vision	7Ps framework(Manning)
	Objectives, goals in context of future environment	
	Products offered	
	Who is our customer	
External	Political changes	Pest
Environmental analysis	External stakeholder	O & T from SWOT
	Technology	7Ps framework
	Social effects	5Ss framework
	Demographics	
	Life styles	
	Opportunity/Threats	
Micro : Environmental analysis	Service and customers satisfaction	Porters forces
Industry and competitor	Competitor analysis	Benchmarking
	Industry	Swot analysis O & T
	Changes in regulations	7 Ps framework (Manning 2000)
	Opportunity /threats- customers	5 Ss (Manning 2002)
		Lifecycle analysis
Internal analysis	Resources and capabilities	Value chain analysis
	Core competencies	Swot analysis- strength and weakness
	Strengths/Weakness	7 Ps framework (Manning 2000)
		5 Ss (Manning 2002)

SOURCES : Manning 2000, 2002, Thompson & Strickland (2001)  
Ambrosini (1998), Johnson and Scholes, J Kay (1993)  
Mathur & Kenyon (2001), Porter (1980)

**TABLE 2.15**

Ohmae ( 1982 ) advises against devising the 'perfect strategy' To him even a strategy with marginal superiority can be effective provided the timing for it is appropriate. Market forces alter all the time so that the organisation can gain competitive edge.

'The commander who stands a top hill over the battle ground, putting the last touches on a flawless scheme for victory while his troops are being driven from their positions, is as much of an incompetent as the officer who loses a battle through flagrant miscalculation" (Ohmae:1982: 81).

'Without competitors there is no need for strategy, for the sole purpose of strategic planning is to enable the company to gain as efficiently as possible, a sustainable edge over its competitors' (Ohmae 1982).

## 2.18 EVALUATION OF STRATEGY

Suitability is a broad assessment of whether strategy address the circumstances in which the organisation is operating.

Various analysis are used to test a strategy like life cycle, value chain etc.

The merits of strategies can be compared through screening before more detailed analysis.

The acceptability of the strategy relates to three issues : the expected return from the strategy, the level of risk and the likely reaction of stakeholders.

**Feasibility is concerned with whether the organisation has the resources and competences to deliver a strategy.**

The role of analysis and evaluation is to assess risks and to prepare for alternatives. It also allows discussion and debate amongst a wider group before decisions are made (Johnson & Scholes - 1999).

ASSESSING OUTCOMES AGAINST KEY CRITERIA OF SUITABILITY  
FEASIBILITY AND ACCEPTABILITY (JOHNSON AND SCHOLES- 1998)

CRITERIA	ASSESSMENT	OUTCOME
SUITABILITY	Life cycle analysis Positioning Value chain analysis Portfolio analysis Business profile analysis Ranking Decision tree	position within life cycle and competitive status. viability(uniqueness of product/service synergy created by reconfiguration balance of business units comparison with performance parameters. analysing options analysing options
ACCEPTABILITY	Profitability analysis Cost benefit analysis S/holder value analysis Liquidity ratios Sensitivity analysis	return of investment cost/benefits impact on strategy on s/holder value risk assumptions
FEASIBILITY	Funds flow analysis Break-even analysis Resource Deployment analysis	to determine whether organisation has resources to deliver strategy competition to deliver can strategy meet targets of return (profit) method of company options

**TABLE 2.16**

**2.19. GAP ANALYSIS:**

The “gap” is a space in between where the company is now and where it wants to get to: That gap has to be closed. The company sets only which are not achieved by current strategies leaving a gap. It then requires to harness new strategies to close the gap.



Stalemate

J.S Clarkeson 1984 from the Boston Consulting Group introduces “stalemate” as where no competitor is able to secure a sustainable advantage over the rest. In such a situation profits are low and organisation await a resurgence of demand to achieve better price levels and to counter excess capacity.

The situation can be overhauled by halting ‘ heavy future investment and to curb overheads created in anticipation of future growth. The second response would be to consider a ‘a higher return alternative.’ The third response needs to question the factors that lead to stalemate.

Restore Competitive Advantage – Here a strategy could be developed to enhance an activity to achieve new business opportunities.

Differentiate – one can unravel the special requirements of the customer and design a product to suit this need thereby achieving keen prices.

Develop Proprietary Technology – Here a breakthrough development takes place in anticipation of a positive future in the industry.

## **2.20 IMPLEMENTATION**

Although a multi pronged implementation effort may seem attractive that temptation should be resisted. Investment of capital to the critical areas remains priority.

This involves what must be done to put the strategy in place, carry it out ably and to produce good results. Good strategy execution involves creating a strong “fit” between the way things are done internally and what it will take for the strategy to succeed. Important fits are:

- Between strategy and the company’s organisational capabilities.
- Between strategy and the reward structure.
- Between strategy and the internal support systems.
- Between strategy and the organisation’s culture.

The action agenda would emerge from a careful assessment of what the organisation needs to do differently or better.

### **2.21. ASSESSMENT AND CONTROL:**

A company's strategy is the game plan, management is using to stake out a market position, conduct its operations, attract and please customers, complete successfully and achieve organisational objectives (Thompson & Strickland 2001:03).

Strategy connects the purpose and values of your organisation with those of its customers and other stake holders (Manning 2002).

“Strategic management is conversation. It informs, focus attention and effort, triggers insights, lights up the inauguration, energises people and inspires performance” (Manning 2002:13).

M.J. Silverstein (1995:14 ) recommends three methods to explore innovation strategies:-

- \* expand your business definition and map it exhaustively
- \* get inside the customer experience and tap core dissatisfactions
- \* don't delegate responsibility for insight

These methods advise on brainstorming existing definitions. It advocates interaction directly with the customer to discover the customer experience.

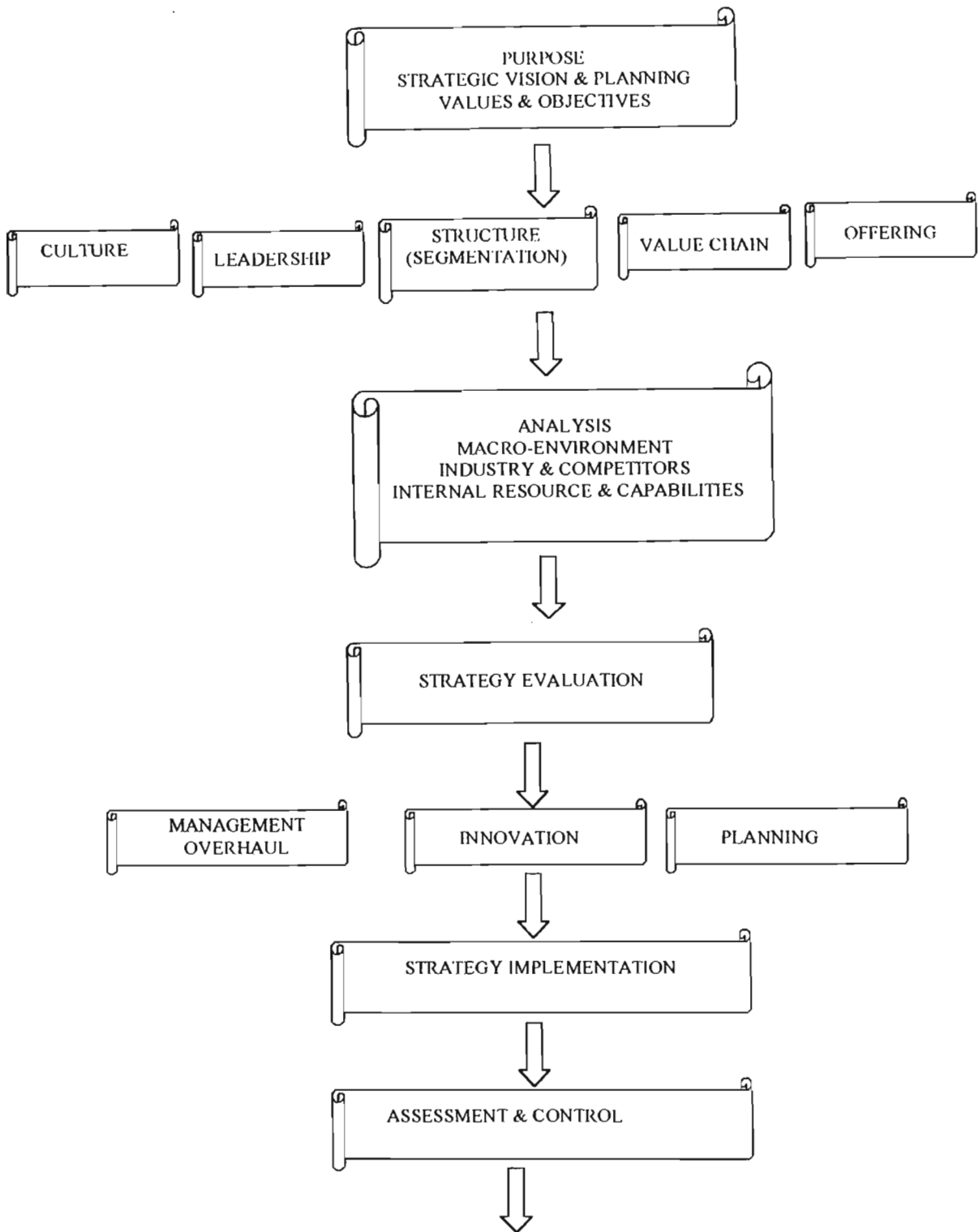
Product strategies per se cannot achieve company goals. It needs to be a part of a greater whole incorporating other strategies. These include inter alia supply-chain strategies, customer relationship strategies, budget planning etc.

“strategic integration in its ultimate form.... determines the organisation's overall direction, focusing on the..... long term initiatives that are critical to business success and allocating the organisations resources accordingly.

Companies are generally complex and operate in unstable competitive environments. “among its other functions, strategic integration keeps the horse in front of the cart; it ensure that strategy precedes execution, whatever pressures and distractions an organisation happens to be facing ( Kaplan & Norton 2001:357 ).

Ohmae (1982) lists the following as business opportunities:

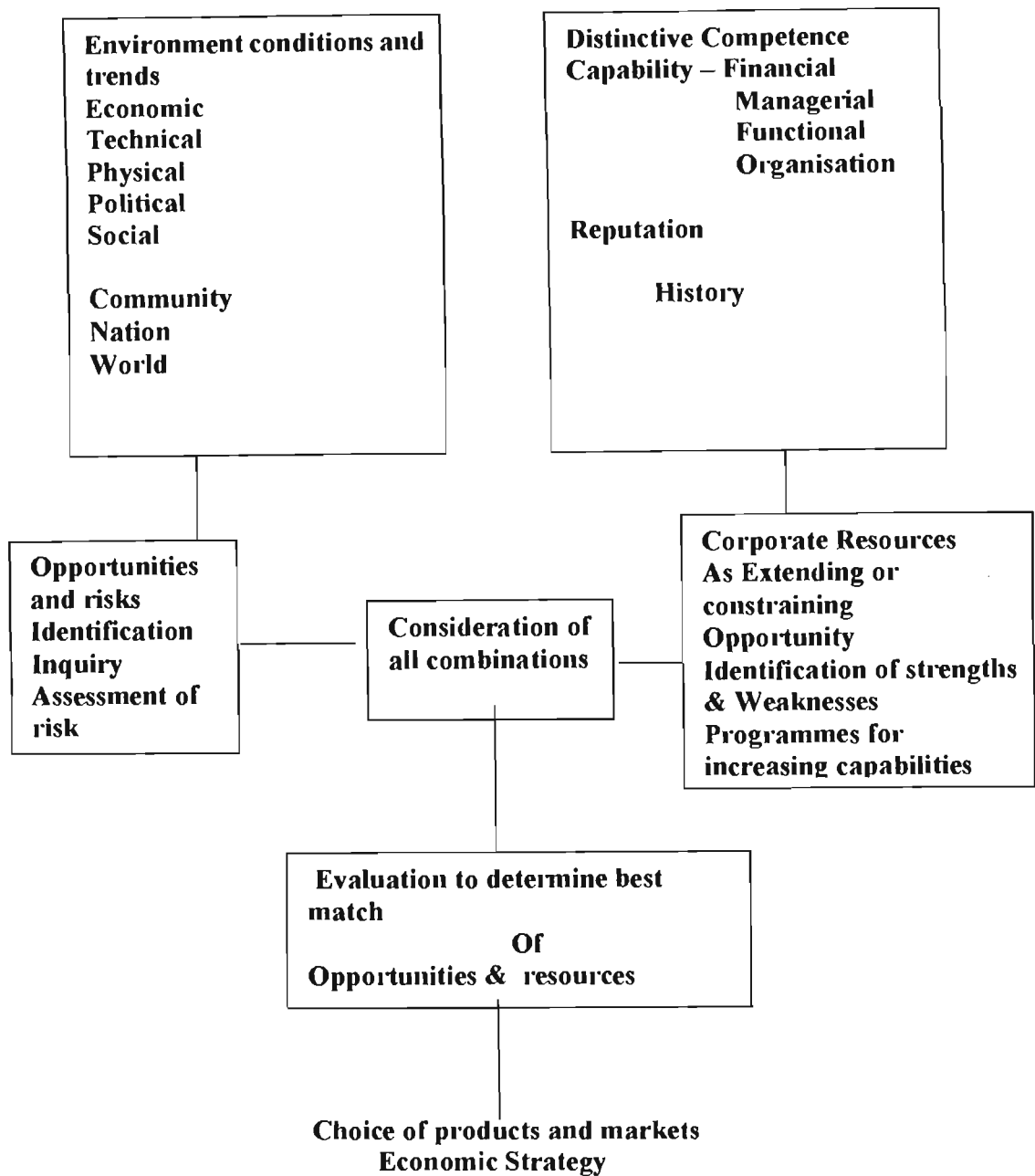
- the strategist does not need to analyse the whole market. He could concentrate on a specific target segment, the segment which portrays a unique area of need. A thorough understanding of those needs would assist in identifying opportunities to improve benefits.
- Creating a new system in a service industry normally requires a massive fixed cost investment, hence, taking advantage of the existing system and offering 'additional' services is normally the best (and lowest risk ) way to succeed. Once an additional benefit has been identified and the price has been brought to an acceptable level, then an expansion strategy could be considered.
- Understand the basic reasons why the existing systems are currently accepted and then challenge these assumptions.



MODEL FOR STRATEGIC MANAGEMENT

FIGURE 2.17

**SCHEMATIC DEVELOPMENT OF ECONOMIC STRATEGY**



**FIGURE 2.18**

SOURCE : Kenneth and Andrews: The Concept of Corporate Strategy, Harvard Business Review – Seeking and Securing Competitive Advantage

### 2.2.2 CONCLUSION:

Effective strategy cannot be finalised unless the mindset of senior executives change in line with new concepts. The many years of experience builds behaviour and beliefs which become rooted in an organisation. Executives become reluctant to change of even when new strategies are introduced. The formulation and acceptance of strategy require to revolve around the entire organisation.

The design of a successful strategy is never ending. The organisation needs to continually revisit the strategy to ensure its correct path and if need be to flexible enough to adjust that strategy. The changing industry conditions, customers needs or preferences, competitor moves and an organisation's evolving competencies are factors that certainly demand a re-consideration of existing strategies (Thompson and Strickland 2001: ).

Today strategists are labouring over self same problems of 50 years ago. They seek to be different from competitors, achieving "skills and positions" beyond any competitor- striving via better technology for improved product or service or a low cost position. Need to synthesize what is available-consider trade off between different approaches.

Charter:

1. Business success requires a differentiated strategy-different competitors do things they cannot do or can't do as well-select position in market and skills.
2. Operating managers are people that make strategy "happen".
3. Corporate centres should do less.
4. Different and incompatible Corporate Centre strategies.
5. Be pragmatic in formulating strategy.
6. Don't over plan-experiment/analysis and intuition-open-ended.  
-strategy should evolve-deeper (Koch- 2000).

## CHAPTER THREE : CASE STUDY

### 3.1 INTRODUCTION

An extract of the theories as discussed in Chapter 2, has been used to construct a model based on the practicalities of trading processes at the Teachers centre. The framework would embody an 'as is' scenario of the case study. The model would consider the following theories:

- Strategic vision and planning which deals with the purpose of the organisation.
- Environment and competitive analysis with industry analysis looks at the external environment's impact on the organisation.
- The direction of directors, leadership, the organisation structure and culture, its value chain and its strategies would be major contributors on an Internal Analysis of the company's processes, resources and its capabilities.



**THE TEACHERS CENTRE**

### **3.2. A HISTORY OF THE CENTRE**

The Teachers Centre as the name suggests was born out of the initiative of Indian teachers. The purchase of this property initially, was for the headquarters of the Teachers Association of South Africa . This bold initiative on the part of NITS ( Natal Indian Teachers Society ) and a great deal of the subsequent success and growth was due not only to the Society acquiring a home, but in the process stimulating its members to acquire a sense of personal pride and loyalty to the organisation (Henning : 1992: 21).

It is a 15 storey office block with five ground floor shops. It is serviced by three lifts and has a centralised air condition plant. The building was built in 1977. It comprises three large floors above ground with a tower block of 12 floors of sub-divisible office space.

### **3.3 PURPOSE: STRATEGIC VISION AND PLANNING:**

**Culture:**

During the early years, individual leaders all of them educationists met with the Indian teaching fraternity and decided on the formation of a teachers body incorporating the Teachers centre with a enterprising bent. The formation of such a structure was based on sound moral values, the future of its members in the educational field and a motivated need to utilise its management skills to administer the centre for profit.

One of the pioneer leaders and long standing Director always spoke out against any business at the centre which threatened the company's image and moral standing e.g. a bottle-store or a butchery was considered unsavoury and preference was given to e.g. a retail clothing or footwear concern with little or no nuisance value. That kind of thinking, unfortunately, still persists at Board level.

Long drawn out meetings full of debate started at initial teacher versus Department thinking. That kind of unionism called for such vibrant continuous discussions.



With the completion of the Teachers centre in 1978, a dichotomy materialised between the Teachers Association of South Africa as a teachers watchdog and Nits Investments Limited as a business enterprise, with teachers as shareholders.

Company monthly Board meetings have limited itself to a set 4 to 5 hour period.

However, the culture and pattern of the earlier years to a large extent still remain and has been evident in a number of issues unresolved in a singular meeting.

A top-down approach has been practised by the Board with a certain leverage given to the Company secretary in a number of matters. Of the 7 Directors which have reduced over the years ( Initially 26 ) 5 are retired school principals and the other 2 having left teaching to go into business.

Great sacrifices were made by directors in the 'fledgling years.' Long leave was taken by certain directors to sell shares. Directors did not accept any remuneration since inception. It was only in 2002 that a token amount was paid to directors.

Viability Report 1977:

At the point of completion, with a capital expenditure of R2 000 000 and with two mortgage bonds the company was constrained to speedily solicit tenants for the building.

The report projected losses up to 1980 when full occupancy was to be realised. It further projected that during the initial years the short fall would create the need for substantial subsidisation.

### **3.4 MACRO AND MICRO ENVIRONMENTAL ANALYSIS:**

This section analyses the effect of the environment and the internal processes of the case study

#### **3.4.1 Exodus from the Centre:**

Due to adverse economic conditions in 1994 advice had been received to delay any sale.

- The Grey Street traders were hard hit by the prevailing conditions and the Teachers Centre was related to that sector.
- The present office and business premises letting was weak and the potential would take that into account.

An alternate view was to sectionalise the property.

The movement of the customer away from the central area was evidenced by the property sales in 1994 of the Garlickes and the John Ross buildings.

Between 1995 and 2000 the vacancy figures hovered from 30% to 20%. The area was plagued by high crime and high interest rates. Buildings like Metal Industries House, Liberty House and Escoval House were not able to be sold because of high vacancies. The expected returns from investors of 13% to 14% militated against the feasibility of selling.

In 2001 the strain on the CBD was evident with low prices being realised for buildings like Escoval House and SA Perm Building.

Many traditional department stores and large supermarkets have shifted their operations to suburban shopping malls. This, along with the changing profile of shoppers in the city centre- both the result of victimisation and fear, has resulted in a loss of earnings and investment in the city centre. Traders against crime in Durban- a joint crime prevention initiative by informal traders and local shop owners- arose from both party concerns about street crime and shop-lifting Contributory factors towards insecurity and crime :

- Poor design which restrict surveillance of public open spaces from buildings.
- The presence of undeveloped and derelict open lots and
- Building designed with blind facades e.g. Workshop shopping centre, Durban Exhibition centre, Point area (Internet 15).

Reports are that each month, at least 140 acts of crime, including armed robbers and murder, are reported to the police. Many businessmen have given up saying its not worth losing their lives. Some have re-located to large shopping centres on the outskirts of town, such as the Pavilion Shopping centre and Musgrave shopping centre whilst others moved to Overport and surrounding areas where it was relatively safer. Traditional customers are now shopping at malls where they felt safer (Internet 16).

#### **3.4.2 Informal Trading:**

The streets of the city has been transformed by the growth of informal trading. Proper and adequate legislation has to be crystallised to accommodate the many implications and effect on the formal sector and other stakeholders in the city.

“ The struggles that eventuate are seen in the multiple attempts by all players to assert control. E.g. use of violence by informal traders to drive out migrant traders off the streets and property owners use improvement districts to steer informal traders to areas distant from their properties. CBD’s are areas of contestation because there are so many overlapping interests operating with different logics” (Internet 17).

### **3.4.3 Criminal Elements**

An extract from minutes: 23 may 1996

A break-in in shop number 2. On the sixth floor, a part of the partition and the door of the suite had been damaged. On the 13<sup>th</sup> floor, the Company’s security guard had been fatally wounded with a firearm under mysterious circumstances. A ‘friend’ who had been with him that night had been shot and was in hospital.

Access control:

During the day any person had free access to the building. Apart from tenants and their associates a number of vendors and outsiders were frequenting the building.

During the night with access allowed to tenants, the building attracted a number of outsiders. Apart from office work by some , others indulged in partying etc creating ideal conditions for criminal elements. In a number of cases main door had been left open with floor lights left on ( Extract minutes may 1996 ).

Presently a day access control security guard exists with the building being closed off at night. The fitting of shutter gates to the entrance and the installation of a response unit alarm system at night provides additional security. Recently infra red passives had been installed in the floor foyer and passages.

### **3.4.4 Absence of Parking**

The absence of parking is a major obstacle for the centre and affects its viability. Feasibilities have been conducted over the last few years to create parking facilities within the centre. However, the structure of the building and limited space on the south and north wings do not allow a cost effective structure. The possibility of a mammoth financial undertaking would not be in the interest of the company.

A move towards rejuvenation in South Africa:

Moves have started throughout the country to revitalise urban areas.

Central Johannesburg Partnership. The tripartite relationship was created between business community and the local authority. In 1997 the Inner City Business Coalition was created to monitor a 'city revitalisation' programme. The CPJ carried out expensive research into practical solutions of urban decay and urban management. By the end of 99, a strategy based on northern America was used to establish 5 business improvement districts.

#### CCTV

The CPJ investigated the use of funding an organisation necessary for the installation of CCTV within the inner SAPS. It looked at its applications in the UK and arranged for an expert to visit the city in 1996. It was hoped to have the unit operational by August 2002 whereas the inner city will be monitored by strategically located CCTV cameras (Internet 18).

East London:

The relocation of the company into suburban areas has prompted the setting up of a steering committee to revive the city. The business improvement district provides 'add on services' including full-time security presence, cleaning, management of informal trades and environmental maintenance. It has been accepted that BID's success in major cities in United States and Europe (Internet 19).

### **3.4.5 CBD'S: A Comparative Analysis of some of the major CBD'S in South Africa**

#### **Johannesburg**

More than 200 closed circuit cameras co-sponsored by Business against crime have been installed in the inner city and reports indicate that in the recent past crime fell by 80%.

There has been co-operation with Johannesburg Metro Police department's undertaking to respond to a crime report within 60 seconds.

A better building programme aimed at stopping the degeneration of the City's buildings while projects or buyers are identified.

Selected streets have been pedestrianised to create safe, clean markets for hawkers who used to be preyed upon by thieves and thugs demanding protection money.

R710 million development has been earmarked comprising a new constitutional court, office park and a hotel with further ongoing development.

Population: 8 million accounting for 38% of national GDP.

Main industry: Manufacturing and mining.

Office vacancies: 25% over the past 2 years made up of B-grade of 36.2% and A-grade of 20.2%. Property economist F. Viruly advises that persistent high B-grade vacancy levels could trigger another wave of urban decay. Many B-grade offices have been hit by narrowing of the gap between rent for A and B grade offices. Many people switch from B-grade to A-grade because of cost implications being minimal. The over-supply of space in the decentralised areas of Johannesburg have pulled down A-grade building rentals.

### **Pretoria**

- Establishment of many Central Improvement Districts (CIDS)
- Closed circuit TV (CCTV) surveillance project
- Project to solve rates and taxes arrears of sectional complexes.
- Plans to establish markets for informal traders
- Conversion of vacant office blocks into residential apartments.

The A and B grade office vacancies increased to 17.4%. However, most vacant offices are C and D grade.

### **Cape Town**

Projects including markets, station plazas and a play park were completed in the city in 2001. More than 100 small projects are presently under way.

Since 1999 investments of R9 billion have poured into the CBD. Demand is increasing for retail space.

M. Farr of Cape Town Partnership says interest is very high in stimulating inner city residential living and the catalyst is the implementation of an effective city transportation system. From April 03, 36-seater buses will operate 18 hours a day in the CBD and surrounding areas at 15 minute intervals and for 12 hours on a Sunday.

People will be able to move around because all bus-stops will be covered by closed-circuit cameras. This can lead to retailers extending trading hours, and creating jobs in the process.

He was delighted that the Compu-ticket and the Vat refund offices were opening in the CBD.

Office rentals: After 2/3 years of stagnation the industrial property market was showing signs of renewal. Rental on existing properties were averaging between R15/m<sup>2</sup> and R18/m<sup>2</sup>.

### **Durban:**

In 2002, a significant investment of R1.5 billion had been made at the Sun Coast Casino. The City's vision of a golden tourism triangle is the Casino, International Convention Centre and U Shaka Island marine park.

After Gauteng, Durban is the second largest industrial hub in South Africa.

The migration of business from CBD and increased unemployment has resulted

In young graduates leaving the City for jobs in Gauteng and overseas. Presently, reports indicate almost 200 people leaving each month.

Over past 5 years, R360m drawn from EV, City Council and National Government which has been spent to develop infrastructure and residential areas.

Durban Harbour remains South Africa's busiest port.

i Trump has been involved in improving cleanliness & security.

Professional firms which decided to remain in CBD are now taking a more active interest in the area.

Grindrod last year bought its third building in the City.

Vacancies decreased to 21,4% with a major problem being in retaining tenants. That has been an improvement from a year ago, when vacancies stood at 24%. The city is advantaged being close to the harbour and to industries in South of Durban. There has been the emergence of UIP's (urban improve precincts) with plans to extend these.

i Trump invested about R37m in Warwick Junction which provides space for 7000 traders and attracts 400 000 people each day.

Population 3 million

Contribution to GDP in 2000 – 7.77%

Main industries : manufacturing., communication services, ports

## **Braamfontein:**

Despite an oversupply of office space, rising vacancies and the exodus from the CBD, Braamfontein has a low vacancy rate of 11.93% (Jan 2003). Apex Hi Properties CEO G Leisaer, says public-private partnerships initiative to maintain and regenerate property values have created a stable environment.

E.g. Apex Hi – owned Total House (corner of Rissik and Smit Street)

Two years ago it lost major tenants leaving it to 70% vacant.

Broll manager, J Laws states, that it was able to secure tenants because Braamfontein had successfully reinvented itself and was able to attract quality tenants. Total House, two years later is 98% let because of its excellent positioning, easy access to city transport, competitive rental and a secure and clean environment (Internet 20).

Emergence of Business Improvement Districts and Central Improvement Districts (BIDS / CIDS): for example:-

Sandton has highly visible safety and sec officers & cleaning & main personnel .

Between two improvement Districts there are 38 safety & sec officers (16 on motor bikes)

Four rapid response vehicles with six armed officers. Twenty-four cleaning & maintenance workers operate daily with sixteen ambassadors attached to hotels dressed in uniforms, reflecting a visible physical presence. Following an international trend, property owners choose CID's model to maintain and improve public amenities , aim to beautify traffic islands and upgrade informal trading and taxi facilities.

Supplementary services include safety, pavement cleaning, litter collection, maintenance of public space, removal of illegal posters etc.

Complementary services include bus attraction , bus retention, marketing the CID precinct area to bring more people into the CID area.

A number of CID's in America provide low interest funds to upgrade shopfronts, plant trees, replacement pavements, supply street furniture.

BIDS are commercial organisations voluntarily formed to promote bus development and improve quality of life in neighbourhoods across the City.

There are about 1000 BIDS in US & Canada.

Forerunner of SA BIDS established in Jo'burg in 1993 - an area covering 12 city blocks. Services included security, cleaners and maintenance and upgrading facilities for informal traders in the BID.

Legislation in SA for City improvement District Act No. 12 1997 became effective in 1999.

CIDS are found in number of areas in Transvaal and Cape Town.

In Durban UIP's (Urban Improvement Precincts) have substituted CIDS.

#### **3.4.6 Tenancies at the centre:**

The centre has over the years maintained an average of 60 to 80 tenants at the centre. From a predominant Indian tenancy situation the trend has changed progressively to a more African orientation. The situation is understandable because of the changes in the demographic nature of the CBD and the environmental metamorphosis over the years.

The tenancy mix initially comprised many professional suites e.g. attorneys and accountants. Today, the tenancies comprise mainly trade union organisations, taxi associations and small manufacturing entities. Obviously the centre is now more vibrant with more usage of its space and facilities. The company has had to adapt to the customers new lifestyles and culture which has impacted on its marketing, rentals, policies and rent collection.

#### **3.4.7 Pest Analysis**

Four aspects related to a Pest Analysis. These are Political, Economic, Societal and technological. These aspects are discussed in relation to the activities at the Teachers Centre.

Political Considerations:

- How the state finds the city has a significance on the development of the area. Obviously the city officials supplement that finding with its own municipal rates and other related finances. The discussion of the city's development currently and in the future is contained in this chapter.



- The complete revision and subsequent changes to the Labour Relations Act affects staff working relationship with the employer.
- The new Skills Development Act seeks to further improve the capability of workers. However this tends to benefit major groups where the benefits easily discernable.
- The Judiciary system's recent extended leverage to tenants makes the business of letting more problematic in terms of rent recoveries and notices.
- The Public Protection Act of e.g. no smoking in public places assists and protects the general tenancy population.
- Conflict with political parties: every party wants to represent the CBD population.
- Vacant Government land is undeveloped.
- Attitude of Government towards the city.

#### Economic Considerations:

- The financial struggle of businessmen and entrepreneurs with generally low disposable income, high interest rates, high inflation, high fuel costs.
- The HIV/AIDS dilemma affecting businesses and production.
- The absence of adequate investment in the city.
- High electricity and water costs in the city.

#### Social Considerations

- High unemployment amongst the masses. In an inactive CBD, The company is reliant upon the masses, the disadvantaged.
- Changed demographic profile in the CBD with many white and Indian businessmen opting for decentralised areas.
- Incidence of HIV/AIDS having impact on customers and staff.
- Building is closed off at night and restricted access during weekends. This prevents customers from working after hours should a need arise.
- Absence of parking and high crime keep the public away from the CBD. People fear to visit the centre.
- Police protection in the city is virtually non-existent.
- Customers and concerned stakeholders have undergone life style changes.

Technological considerations:

- Technological improvements in electronic media, advent of computers and cell phones, fax etc enable customers to better equip themselves to deal with pressures of business.
- Separate electricity line facilities, security alarms, passives and armed response units have assisted the company.

A number of shareholders, suppliers and customers communicate via e-mail

### **3.4.8 Porters five forces**

Rivalry among competing sellers: In view of the oversupply of shops and offices in the CBD, companies are making concerted efforts in attracting customers. Customers on the one hand, have to contend with old problems like crime and parking, adjustment to the incidence of informal traders and on the other, new up to date buildings offering a better image.

Competitors therefore are offering a wide range of incentives e.g. 1-3 months rent free premises, lower rents. With shops and offices 'to let' signs virtually everywhere, competitors are advertising more frequently, and making stout efforts to accommodate the customers e.g. customised partitioning

Customers costs of switching is low because shops and office space is fairly standardised. This has led to absconding and a continuous problem with the retention of tenants. Even where tenants sign leases there are appeals to release them.

With a sizable outlay of capital in creating these fixed assets it is not easy to opt out especially when the CBD remains unattractive to the investor and market valuations are extremely low.

The potential entry of new competitors: The spate of development of shops and offices away from the CBD is a duplication of customers outside the CBD. This decentralisation process has been instrumental to a large extent in accommodating a number of customers away from the CBD. Developers away from the CBD would have gained with lower property prices and were able to attract customers who were prepared to pay premium prices for their safety, convenience and well-being.

The company has management and staff who have accumulated valuable learning and experience curve effects over the years. New firms would have to engage the services of qualified people.

Many customers are attracted to the centre because of its brand and location. Tenants in turn have clients coming from other parts of the country and find it convenient to get to the Teachers centre. The transport links to the centre makes it more attractive than places in the central city area.

Competitive pressures from substitute products: Apart from the duplication process referred to in 2, the only other alternative would be for customers to relocate their offices to a home base which have proved to be disastrous for many.

Supplier power: Supplier power is not a factor because of the company's need to buy minimal repair and maintenance items.

Buyer power: Buyer bargaining power can create competitive pressures for the company. In the CBD low switching costs create the ideal conditions for prices to be negotiated by customers. Many customers are starting businesses and for them the suites are more commodity items which can be purchased at several points in the city centre.

It is not easy securing tenants and therefore the company has to accommodate tenants in down-sizing or holding rentals. The company can create high switching costs by locking in a customer with differentiated suites and new facilities referred to in this chapter.

Strategies need to be devised to protect the company as much as possible from the five competitive forces.

### 3.4.9 Retention of Tenants:

Analysis of Tenancies entry and exit

#### **NITS INVESTMENTS LIMITED**

**28 FEBRUARY 2003**

#### **SUMMARY OF STATISTICAL INFORMATION**

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1. The percentage of occupation has increased by 6 % as at 28 February 2003 as compared to the percentage occupation of 60 % at February 2002.

2. The increases in the occupancy is as follows:

FLOOR	% INCREASE	RATE PER SQ M (R)
1	9	20
2	4	26
7	41	27
9	28	28
10	1	28
11	50	17
12	20	24
15	12	27

3. The decrease in the occupancy was as follows:

FLOOR	% DECREASE	RATE PER SQ M (R)
4	14	29
6	29	22
8	19	25

4. The total rent received has decreased by R 42 189 from that of the previous year. This represents a decrease of 4.64 %.
5. In 2003, there were 49 new tenants compared to the 50 of 2002. However the rand value of new tenants in 2003 decreased by R 8 337 as compared to the new tenants in 2002.
6. In 2003, 34 tenants vacated their premises as compared to the 52 of 2002. However the rand value of the vacated tenants only decreased by R 5 481.

**NITS INVESTMENTS LIMITED**  
**YEAR ENDED 28 FEBRUARY 2003**  
**REVENUE STATE**

Lettable Area	As At Feb 03		As At Feb 02		Difference in %	RATE
	Area	%	Area	%		
Ground	326.76	100%	326.26	100%	0%	90
1	381.53	217.18	171.36	47%	31%	25
2	274.95	102.14	152.23	50%	41%	25
3	457.03	0%	-	0%	0%	0
4	107.85	106.59	132.67	75%	14%	23
5	188.40	101.59	103.59	55%	0%	25
6	184.21	135.59	184.21	71%	23%	22
7	183.52	183.52	108.10	59%	41%	27
8	184.05	115.56	153.48	83%	19%	23
9	185.69	185.69	132.70	72%	28%	28
10	176.34	143.96	142.21	81%	1%	28
11	212.00	105.03	0%	0%	50%	17
12	186.99	186.98	151.61	80%	20%	24
13	195.12	195.12	195.12	100%	0%	26
14	212.00	212.00	212.00	100%	0%	23
15	192.61	55.52	42.88	22%	12%	27
	<b>3,711.57</b>	<b>2,439.81</b>	<b>2,268.81</b>	<b>66%</b>	<b>6%</b>	

Fig. in Rupees Lakhs

	As At Feb 03	
	No	Amount
Mar	3	1,090.00
Apr	4	1,710.19
May	4	2,351.00
Jun	2	950.00
Jul	10	4,703.00
Aug	2	920.00
Sep	1	270.00
Oct	2	950.00
Nov	3	1,051.00
Dec	0	11,282.00
Jan	1	900.00
Feb	8	750.00
	<b>49</b>	<b>27,587.89</b>

	As At Feb 02	
	No	Amount
Mar	3	2,334.85
Apr	3	6,545.24
May	1	238.33
Jun	0	2,532.25
Jul	5	8,240.00
Aug	0	3,300.22
Sep	4	1,809.00
Oct	2	4,420.00
Nov	4	1,785.00
Dec	3	1,300.00
Jan	1	500.00
Feb	3	2,150.19
	<b>50</b>	<b>35,904.26</b>

	As At Feb 03	
	No	Amount
Mar	4	2,548.00
Apr	2	850.19
May	3	1,228.00
Jun	7	1,997.35
Jul	6	4,255.98
Aug	5	2,355.84
Sep	0	-
Oct	1	1,205.00
Nov	1	380.00
Dec	0	-
Jan	1	1,718.00
Feb	4	1,425.20
	<b>34</b>	<b>34,337.34</b>

	As At Feb 02	
	No	Amount
Mar	0	0.491724
Apr	4	1,670.61
May	2	851.50
Jun	0	0.23208
Jul	3	2,645.00
Aug	0	3,511.88
Sep	2	1,488.42
Oct	0	2,585.00
Nov	0	2,821.42
Dec	1	1,100.00
Jan	2	880.19
Feb	0	1,225.00
	<b>62</b>	<b>30,818.76</b>

	As At Feb 02	
	No	Amount
Mar	0	0.491724
Apr	4	1,670.61
May	2	851.50
Jun	0	0.23208
Jul	3	2,645.00
Aug	0	3,511.88
Sep	2	1,488.42
Oct	0	2,585.00
Nov	0	2,821.42
Dec	1	1,100.00
Jan	2	880.19
Feb	0	1,225.00
	<b>62</b>	<b>30,818.76</b>

**TABLE 3.1**

The analysis reveals that the Company has a tenancy retention problem. Reasons for this occurrence may be attributed to :

- Absence of a healthy sustained relationship with tenants
- The rate of rent charged
- The suitability and upkeep of the premises offered
- The calibre of tenants recruited

It is important to note that 'satisfied customers also defect. For example, US vehicle manufacturers have high customer scores (90-95%) but low customer retention (30-35%) (Boardroom 1998:08)

### **3.5 INTERNAL ANALYSIS:**

This section considers the internal workings of the company.

#### **3.5.1 Background:**

The day to day management of the centre is co-ordinated by the company secretary who ensures its smooth operation which involves liaison with tenants, cleaning the centre, attending to shareholders enquiries, accounting and rent collection.

With a small staff the processes are shared on the different days with certain aspects of the work being carried out on common days.

#### **3.5.2 Important events and processes in past year:**

Shareholders records:

Originally these records were held in huge guard books which acted as shareholders ledgers. The initial employees were obviously untrained in keeping accounts and related entry matters probably with insufficient supervision. Consequently, a number of incorrect entries and duplications were found and continued to surface up to the present day.

The original records were transferred to a Datafind Cardex system at a sizable cost and effort. The exercise revealed a number of duplications and related problems, facilitated a more user friendly feel and updated shareholder records. However, the loose nature of cards always presented a risk especially with cards being periodically

removed from the system. Obviously, any attempt at reconciliation procedures proved to be disastrous.

These records were transferred to a computer system in 1986/7. This resulted in a faster, more structured update system, simpler retrieval etc. The process was subject to the usual flaws like absence of training, planning, direction and an absence of reconciliation.

The DOS version of the software were updated and the records were used to pay out dividends later on.

However, the Company needs to implement a windows based database system to maintain an accurate and detailed recording system.

#### Allotment of Bonus Shares

‘That the company issue fully paid up shares of R20 ‘as bonus’ to all existing shareholders, pro rata to their shareholdings in the company as at 28 February 1973 (i.e. one bonus share for each fully paid share) (Extract from minutes-extraordinary meeting 28:02:1973).

#### Joint Venture:

In order to acquire a higher yield other avenues were investigated to supplement the rental of the company. A feasibility study had been conducted by the Teachers Association of SA.

Discussions between the Teachers Association of SA and the company led to the formation of The Teachers bookshop, a Joint Venture on an equal basis.

Considerable difficulty had been experienced in getting the company off the ground because of the Associated Booksellers of SA’s delay in granting the company membership. The venture was further stifled by the Education Department with a protest by major booksellers. The matter was referred to the James Commission to lead evidence into gross irregularities pertaining to book allocation by the department. Due to the Department’s new tender marketing system for allocation, the company was forced to close down.

### Spalling at the centre

In 1987/8 after detailed investigation and tests by an engineering firm it had been established that the building was in the early stages of spalling which warranted remedial action.

Spalling was the incidence where corrosion had caused the steel in certain areas of the building to rust ( usually where the steel had been placed too close to the surface) and consequently for the concrete to blow and in places to fall off.

Should appropriate remedial action not be taken in time the ongoing process of contamination reduces the overall effective area of concrete to such an extent that the structure is no longer stable.

The remedial action set the company at a disadvantage of over R600000 in 1990.

### New Republic Bank:

In terms of its policy of investing at the highest possible rate of interest offered by commercial banks the company held R560000 in The New Republic bank as at 1999. However, a ' run on its deposits' caused the Minister to appoint a curator who froze the company's investment at end January 1999.

In terms of a scheme of arrangement over 72% of the company's capital has been paid as at February 2003. However, interest at a simple rate of 11% per annum carried in the books of all depositors became ' a mere academic exercise.' This was divulged to the company when enquiries into the liquidity of the interest was made recently.

### **3.5.3 Resources and capabilities:**

Board of Directors and staff. The management of trading operations have been entrusted by over 4000 shareholders to a Board of Directors who oversee a staff of Five. The staff comprises a company secretary, an assistant, a supervisor/handyman and two cleaners. The staff have been long serving and represent largely a dedicated team.

The Board of Directors very recently changed its meetings from a monthly one to once in two months. This came about after the implementation of a portfolio system of managing the Teachers Centre. Basically the chairman and the secretary would liaise

with a portfolio director or committee whenever the need arose.



The Teachers Centre lies on the peripheral boundaries of the CBD. Somehow , this has become a blessing in disguise in the midst of major building of the CBD remaining ghost-like structures. The vicinity of the centre is boarded by two adjoining taxi termini in front of the building and by a bus and taxi terminus on the south and north sides. The Durban Railway Station about a kilometre away and on bus routes further enhance the easy transport mode to and from the centre. Despite setbacks referred to earlier, the management ensured full payment of its mortgaged bond and consequently today is freehold.

#### ASSESSMENT OF COMPANY'S RESOURCES AND CAPABILITIES

<b>HIGH NEGATIVE IMPACT</b>	<b>NEGATIVE IMPACT</b>	<b>POSITIVE IMPACT</b>	<b>HIGH POSITIVE IMPACT</b>
Aesthetics	Old ablution facilities	Vodacom base station	New air condition plant
	Entrance foyer	Two entrances to 1 <sup>st</sup> floor	Security system
	Lack of staff training	Small areas to let	Staff experience
	Admin costs		
	Service to customers		

#### Environmental Effects

<b>NEGATIVE</b>	<b>POSITIVE</b>
Informal traders	Location
Parking	Visibility
Tenancy mix	Transport links

**TABLE 3.2**

#### 3.5.4 Replacements, Repairs and Maintenance:

The Chiller unit of the central air-condition plant had to be replaced after 22 years due to its inefficiency and the discontinuance of F11 refrigerant in terms of the Montreal Protocol to protect the ozone layer.

The new chiller unit and a new PVC water cooling unit was replaced costing R511000 excl in 2000.

The expenditure on the air-conditioning was considered a necessity and a marketing tool in a all year Durban summer.

#### Lifts:

At a meeting in July 1997 the company negotiated a revised price for the servicing and maintenance of its three elevators. The costs had been reduced from R4441 to R2500 on a contract for 10 years.

A sub meter has been installed in the air condition room to monitor the extent of electricity usage from the company's central air conditioning plant. It had subsequently emerged that of the total bill of electricity which amounts to 180000 per annum, over 70% can be attributed to air condition usage.

The matter of installation of separate meters on each floor was tabled and discussed at company's meeting in January 1994. The investigation revealed that the exercise would cost the company in the region of R15000. The matter was postponed.

#### Plumbing:

The galvanised piping used throughout the building has and would continue to necessitate conversion to the more durable copper.

### **3.5.5 Legal Matters:**

The Company handed over arrear rental to attorneys for collection. This was an ongoing process and many matters had been litigated. Meetings and consultations with attorneys and senior Counsel had been held.

The Company adopted a policy to spread collection matters to a few attorneys.

Debtors Policy: On default letters would be sent to tenants on the 7<sup>th</sup> of each month.

On the 15<sup>th</sup> of the month letters of demand would be sent.

At the beginning of the second month legal action would be instituted.

### **3.5.6 Segments:**

The ground floor provides 5 shops with electricity separately metered catering for small retail business sector.

Floors 1,2 and 3 are the base floors above which rests a tower block comprising 10 floors. ( 5<sup>th</sup> to 15<sup>th</sup> )

Floor 1 in terms of precedence has become a semi industrial floor with light repair and small manufacturing businesses.

Floor 2 : Almost half of this floor has been taken up by the central air condition plant and administration offices. The other half has been let as offices.

Floor 3 has operated as a restaurant with half of it used as a massive kitchen area. However, the floor has remained vacant for some time and has been used in the interim as a storage facility for the Company.

Floors 5 to 15 have been partitioned and let as offices.

The 16<sup>th</sup> level is boarded with parapet walls and houses on the one part & water tanks and on the other air conditioning components. The area does allow for some kind of future development.

### **3.5.7 Financial Position:**

Due to the fall in tenancies, the rental income decreased by 6% between 2001 to 2002 and by 4.64% between 2002 and 2003. The Company increased its budget on advertising to bolster occupancy levels. Advertisements are spread in the weekly newspapers. Updated vacancy lists are circulated to Estate Agents on a monthly basis and meetings have been held with a few. Additional signage has been installed to attract tenants. Areas for storage has been created to boost turnover.

Advice had been received for a more 'flexible letting policy,' although the company has been allowing certain relief measures like one month's concession on rent, deposit in two or three instalments and low rent rates.

The company policy directed the handing over of arrear rent after two months.

'that the account of each debtor be reviewed regularly and overdue rentals collected before these become long outstanding- that defaulters be handed over for collection.'

The rent roll was being maintained on a monthly basis. Every tenant at the centre was accorded equal status.

#### **Revenue from Signage**

Meetings have been held to authorise a company to market signage on the Centre. In addition to revenue from the base station installed on the fourth floor, further revenue would accrue to the company should a signage deal take place.

#### **Banking costs**

Tenants are being phased in to direct deposit rentals into the company's bank account. This move would ensure further savings in the short term.

Whilst the company is continuously looking at its cost structure, it realises that since most costs are fixed rather than variable, there is a need to utilise its entire capacity. One of the main objectives has been the securing of tenancies. Aggressive marketing may mean creating additional incentives to lure in tenants.

	2003	2002	2001
ELECTRICITY & WATER	184274	168137	159196
RATES	134505	122042	111861
REPAIRS & MAINTENANCE	148670	57964	622393
SALARIES & WAGES	205981	193913	176179
	673430	5422056	1069629
	69%	73%	84%
	OF TOTAL EXPENDITURE		

**TABLE 3.3**

Reduction of company expenses:

The administration has been instrumental in a number of cost savings for the company. The records will show that negotiations on prices, quality, and the extent of work required have been to the benefit to the company. These have included elevator maintenance, cleaning, air condition maintenance, building maintenance and refuse removal.

**RATES AND RATEABLE VALUE:**

The building was completed in 1978/9 at a cost of R1.64 million. In 1988 land and building was revalued by a sworn appraiser at R5756000.

While the company's record reflected a value of R5.7 million the municipality had increased its value to a massive R11 million in the 1999 year.

The company appealed against its land and building valuation for the 2000/2001 year. However various excuses for not addressing the appeal timeously, had been given by the real estates department. The company subsequently pursued this matter at various levels including the Mayoral office.

Summary of Appeal			
Valuation appealed against		valuation claimed	
Land	building	land	building
444000	10706600	374600	7000000

**TABLE 3.4**

As a result of the company's efforts correspondence has been received from the city estates department, with further inspections and subsequently a reduced valuation. The matter was being pursued further.

### **3.5.8 Property Administration:**

The administration of the centre is presently managed by the board of directors who employ a complement of staff on the following basis:

- A company secretary ( 3 days a week-Mondays, Tuesdays and Wednesdays )
- An assistant ( 3 days a week-Tuesdays, Wednesdays and Thursdays)
- A full time Supervisor
- Two full time cleaners

The secretary and his assistant form the core of full time administration. A reduction in time and remuneration for administration staff was taken after debate and discussion on the company's high administration costs.

The core functions of administration are as follows :

- Rent collection
- Repairs and maintenance
- Letting
- Accounting
- Preparation for board meetings
- Maintenance of shareholder records/dividends

Board of directors:

The board comprises seven members and meet once in two months. It operates on a portfolio system which was introduced in 1997. Each director is allocated a portfolio of activities at the centre e.g. Repairs and Maintenance which he manages through the assistance of the administration staff. He liaises with the company secretary and reports to each board meeting.

Letting:

The supervisor maintains a list of vacancies which is used to show suites to prospective tenants. A consultation/ interview is conducted through office personnel and a decision on the application is taken almost immediately. A deposit of two months rental is taken and the normal formalities is processes. Storage areas are let out on a temporary basis at half of office rentals. A lease of 1 to 3 years or a monthly tenancy is offered.

### **3.5.9 Growth and future:**

In 1997 the chairman analysed the growth and expenditure patterns of the company over the past 5 years. The purpose of such a presentation was to provoke inputs from members on strategies for increased income etc. The extent of vacancies at the centre seemed to suggest that the company's product offering was not marketable at the expected market rates.

The company's expenses had to considered carefully and a plan to increase the occupancy was required.

## **3 .6 FINANCIAL ANALYSIS:**

Detailed Income statement for 2000 to 2003

**N I T S INVESTMENTS LIMITED**

**DETAILED INCOME STATEMENT  
FOR THE YEAR ENDED 28 FEBRUARY 2001**

	NOTE	2001 R	2000 R
<b>INCOME</b>			
Rent received		987 781	974 811
Interest received		85 457	82 607
Accounting and secretarial fee		180	162
Bad debts recovered		5 232	8 077
Other expenses recovered		2 179	1991
Storage income		3 218	
		<u>1 065 048</u>	<u>1 067 648</u>
<b>EXPENSES</b>			
		<u>1 280 582</u>	<u>657 346</u>
Accounting and secretarial fees		118 134	107 310
Advertising		5 778	831
Audit fee		10 062	10 063
Bad debts		14 981	5 203
Bank charges		22 045	7 651
Cleaning		17 333	16 700
Computer support/training		470	645
Deposit written off		1 000	
Depreciation		10 098	9 918
Electricity and water		159 196	141 926
Insurance		21 790	18 302
Interest		49	6 519
Legal fees		1 497	4 525
Licences and Levies		2 768	1 975
Printing, postage and stationery		17 531	10 206
Refuse removal		6 557	5 817
Repairs and maintenance		622 393	74 075
Rates		111 861	105 744
Retirement Fund		6 723	6 349
Security services		36 996	38 435
Staff development		825	6 057
Sundry		4 898	3 489
Teas and refreshments		8 988	6 278
Telephone		8 341	6 424
Travelling		12 246	3 848
Wages and salaries		58 045	59 048
<b>NET (LOSS)INCOME FOR THE YEAR BEFORE TAXATION</b>		<u>(215 534)</u>	<u>410 302</u>

**TABLE 3.5**

**NETS INVESTMENTS LIMITED**  
**DETAILED INCOME STATEMENT**  
for the year ended 28 February 2003

	2003 R	2002 R
<b>Gross revenue</b>		
Rent received	867,367	969,551
<b>Other income</b>	46,705	59,201
Bad debts recovered	4,752	1,023
Interest received	40,093	53,619
Accounting & Secretarial Fees	171	236
Other Expenses Recovered	663	3,442
Storage Income	996	883
<b>Total income</b>	914,967	968,752
<b>Expenditure</b>	982,066	738,565
Advertising	7,632	4,850
Auditors' remuneration	11,860	10,062
Bad debts	29,059	5,377
Bank charges	22,071	12,315
Cleaning	22,079	19,802
Computer expenses	1,431	2,701
Depreciation	9,933	10,787
Directors' emoluments	-	14,000
Electricity and water	184,274	168,127
Insurance	23,232	22,494
Legal expenses	6,355	499
Licences & Levies	3,902	3,768
Printing, Postage & Stationery	22,035	17,300
Rates	134,505	122,012
Refreshments	6,400	6,554
Refuse Removal	8,056	6,888
Repairs and maintenance	138,670	57,964
Reversal of prior year interest	71,727	-
Salaries & Wages	205,981	193,914
Security	35,936	38,407
Sundry Expenses	3,098	1,794
Telephone and fax	10,426	8,477
Travelling	11,024	10,696
<b>Operating (loss)/profit before taxation</b>	(67,099)	230,187
Taxation	-	29,423
<b>(Loss)/profit after taxation</b>	(67,099)	200,763

**TABLE 3.6**



Quick review of past records

The detailed income statement between 2000 and 2003 indicate a problematic trading record. The company is bound to be adversely affected by competition. The statement show uneven shifts in the financial position from areas of profit to loss.

Quick review of current year and last years profits

The industry is in a state of flux within the CBD especially with built up urban decay caused mainly by the movement of businesses and customers away and the absence of maintenance and upliftment programmes.

The rental income has decreased from R909551 to R867362. Expenses have catapulted from R738565 to R982066. With many basic expenses in the centre being fixed, increasing revenues have to be sought to counter these expenses. With an increase in expenses and a decrease in income, the situation becomes precarious.

Reversal of prior year interest:

Accrued income from New Republic Bank, which is under receivership, has been reflected in the company books as an asset. A recent advice of the bank not being able to honour the interest payment has further aggravated the company's loss situation.

Balance sheet:

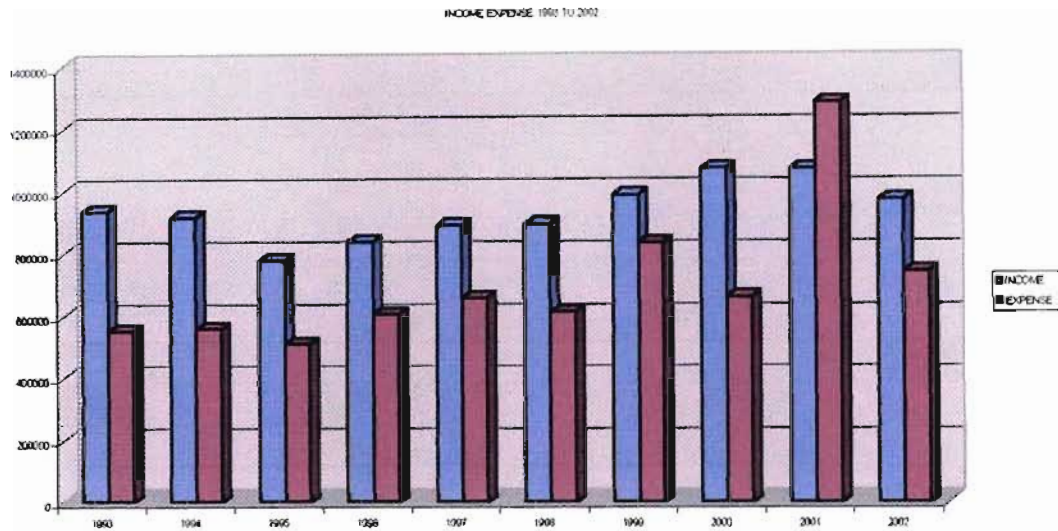
The company, fortunately, has no gearing and the centre is freehold.

The company's liquidity as evidenced is presently in an acceptable position.

However, a mortgage bond or a gearing situation may have the company clutching at straws. The company needs to, as a matter of some urgency, take drastic measures to ensure a turnaround. Any loss of further revenue would seriously affect the company's cash flow.

The cash resources of the company reduced from R469783 to R372615.

The debtors books has not seen any dramatic movements. However continuous attention has to be given to the recoverability of outstanding rents.



**GRAPH 3.7**

### 3.7 MARKETING :

The administration advertises the premises in the daily newspapers, e-mail's adverts to estate agents and uses bill boards. A fair amount of suites have been let by mere word of mouth and tenant referrals. Large premises have been partitioned into smaller to accommodate the changed needs of tenants.

### 3.8 SWOT ANALYSIS:

#### **STRENGTHS**

Experienced and capable workforce.  
 Excellent transport link to and from the centre.  
 central air conditioning system  
 Boarded by busy arterial links and  
 Easily visible as a landmark.  
 value chain with weak links  
 Good brand name image: Teachers Centre

#### **WEAKNESSES**

Absence of parking  
 no segmentation of premises  
 Ideally located near taxi termini, Railway station and bus terminus.  
 absence of customer surveys  
 Small floors and office space  
 Accommodating small tenants.  
 absence of clear strategic direction  
 Higher expenditure than normal  
 Lots of under utilised capacity  
 Low product attributes  
 Not attracting sufficient new customers

## OPPORTUNITIES

## THREATS

<p>Close proximity to Convention Centre and hotels .</p> <p>Conversion to accommodation</p> <p>And contact with tourist authorities could Enhance status and create new opportunities.</p> <p>Fourth floor undeveloped balcony area.</p> <p>Building signage and advertising</p> <p>Movement of small industrial firms to CBD</p> <p>Govt initiative to restore and upgrade area.</p> <p>General expansion of company's product</p> <p>Line to meet broader range of customers needs</p> <p>Utilise existing company skills to enter new Product lines or new businesses.</p>	<p>development of AK block to the north may provide new competition with a creation of further office buildings.</p> <p>Stigma of CBD as a crime ridden area.</p> <p>Further decentralisation of industry.</p> <p>Effect of uncontrolled informal trading on the formal sector.</p> <p>Entry of new competitors</p> <p>Through a number of sales of CBD buildings</p> <p>Further slowdown in market growth.</p> <p>New regulatory requirements</p> <p>Growing bargaining power of customers.</p> <p>Further demographic changes in CBD</p>
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**TABLE 3.8**

### **3.9 CONCLUSION:**

The study investigated the company's activities, resources and their impact on the model which was influenced by external factors. Tools have been used to access the situation.

The next chapter would conduct an evaluation, of the company's activities in terms of the proposed model.

## CHAPTER FOUR : EVALUATION

### 4.1 INTRODUCTION

The chapter considers critically the company's processes in terms of the chosen model and attempts to weigh the positive and negative aspects with a view to improving the situation.

The key success factors of the Teachers Centre is full utilization of its 5 shops and 15 floors of space and to provide these at attractive rates of rental. The differentiated nature of the suites, fostering a long term relationship with customers and a vigorous marketing plan would assist in better capacity utilization.

The centre is positioned in a convenient location with a favourable image amongst customers.

The place is clean and well maintained with excellent security.

### 4.2 VISION AND PURPOSE

It is the role of the board to determine ' what business they are in', set the values, mission and vision.

Values underpin the mission, vision and operations of any organisation.

What is the reason for the existence of the business?

Vision is about where the company is going? - say in 5 years

Draw out a strategic plan annually, supported by an operating plan and budget for the following year. Who is responsible for a particular activity?

The operating plan and budget should include the following:

- Objective against which performance will be measured
- Activities
- Accounting persons
- Resources required
- Time frames

An effective board regularly reviews how the company is progressing in relation to its operating plan and budget. It objectively and regularly evaluates the performance of their CEO.

(Boardroom November 2001: 06)

A number of astute and visionary leaders were at the forefront of the Teachers Association of South Africa and were automatically given the reins of the Teachers Centre building. These dedicated leaders created eras of their own, held on to the task at hand and proceeded to turn dreams into reality. However, these dreams necessitated many terms in office resulting in a ' blinkered strategy.'

These stalwarts arose from the pressures of apartheid structures and became a formidable force as a minority group. However the promotion, enlistment and development of the teacher was paramount. The Teachers Centre was the culmination of a cherished dream, a home for teachers. Many a teacher, earning a pittance, bought the minimum of 1 to 5 shares on a stop order basis merely to become part of an ideal. The stalwarts drove and nurtured that sentiment among the masses of Indian teachers. Today over 4000 shareholders mainly from the teaching fraternity hold shares in the company.

Times have since changed. Younger shareholders are asking for dividends.

The leadership now needs to co-ordinate and structure its many profit-orientated efforts into a vision. Setting objectives and recording its mission statement in realising such a vision has to be made in tandem with the turbulent environment and its internal resources.

Any strategic planning or analysis has to consider firstly, what is the reason for the creation of the company and in turn the business. The company cannot exist in a vacuum.

As cited in the *Harvard Business Review* (1997:77) in an interview with British Petroleum's J. Brown :-

“A clear purpose allows a company to focus its learning efforts in order to increase its competitive advantage.”

What does the company want to achieve? What is it prepared to do or not to do to achieve it.

J. Sawhill from Natures Conservancy as cited in *Harvard Business Review* 1995:188 reminds us of adopting “ the right focus on the company mission.”

“ It is a common problem in organisations that the mundane triumphs over the strategic.”

A suggested outline of the company's mission and vision:

**Mission:** to provide shops and office space at the Teachers Centre to the satisfaction of customers at competitive rentals.

Customers are required by the company to conduct legal business, to abide by company rules and policies and to assist in maintaining the image and standards of the centre.

**Vision:** to be able to fully let out the centre with minimal expenses (close to industry norms) within five years so that the company is able to generate reasonable after tax profits.

### **4.3 MACRO & MICRO ENVIRONMENTAL ANALYSIS**

This section evaluates the companies environment and its internal operations.

#### **4.3.1 Informal trading:**

Informal trading forms an important part of any growing economy. There is a need to ensure that the activity is undertaken in an orderly and sustainable fashion. The major symptoms of informal trading which cause major problems are:

- Obstruction to public and other businesses.
- Health hazard and safety violations
- Environmental hazard
- Generally disorganised
- Aesthetically unsavoury and a nuisance
- No obstruction of formal businesses
- Stagnating growth due to lack of proper facilities and access to markets
- Management difficult due to uncontrolled proliferation of informal trading.

Certain types of activities have implications on the environment, safety and health of people and their surroundings. These activities must be identified and solutions found. The city needs to create an enabling environment for the informal sector to operate, expand and graduate into the mainstream economy (Draft City of Cape Town - Informal Trading policy 03/2000).

With the Teachers Centre being over 25 years old some sort of maintenance and upgrading plan becomes necessary. Up to now, whenever a repair replacement or maintenance item was required, the Board was eager to attend to these promptly and through reputable firms. It was agreed that as laymen members were not competent to examine completed work especially that of a specialised nature. Even if the price was attractive, an initial perceived saving may end up being an expense. The simple solution was to trust the reputation of the firm.

With this 15 storey structure, standing tall and proud, a loner against the sea and its fellow elements the effects of corrosion, rain, wind and the like are forever present. Nevertheless, it stands out like a beacon, a constant reminder of the dedication and commitment of a large band of Indian teachers.

#### 4.3.2 Comparative rates of rental charged in similar buildings in the vicinity:

BUILDINGS	RATE M <sup>2</sup>	RECOVERIES	ESC
Kara Centre	25	--	10
Salisbury Centre	25	ELECT/REFUSE/WATER	11
Poynton House	24	--	6
Queen City	17/20	ELECTRICITY	12
Nedbank House	25	ELECT/RATES	--
Sangro House	20/25	ELECT/WATER	10

**TABLE 4.1**

Most buildings offer air conditioning and minimal partitioning. Parking is not offered and minimal agreements are for a year.

The company charges R25 per square meter inclusive of all charges excluding VAT. This appears to be consistent with the marketplace. However, the all inclusive rental can appear very misleading for the company's management. It is clear that only the basic charges prevalent at a specific time, can be included in the rental charge. Major expense fluctuations like electricity and water which is affected both by consumption and price increases makes a mockery of built-in charges.

Recoveries are levied once a year on a common date and rents are escalated once a year at an average rate of 10%. These recoveries and escalations are vital as an administration task to contain escalating costs and maintain the bottom line.

#### 4.3.3 Parking

The absence of parking is a vital component that the company sorely misses in the City centre. A feasibility study conducted about 2 years ago, revealed that the structure of the centre prevented the company from converting certain floors into parking space at an acceptable cost. The possibility of a mammoth financial undertaking would not be in the interest of the company. An alternate piece of land in the vicinity may serve the company's purpose.

Kay ( 1993:51) explains that the rent bill is the largest single payment which many firms make to any supplier. The contract is important to both tenant and landlord. Vacancies may lead to

significant loss of income. Both sides to the bargain value the certainty provided by a long-term relationship.

Another reason is when the company moves into an office, it will print stationery with its address. It may buy furniture to fit. It will install a telephone and computer system. In all these ways it incurs substantial expenses which are specific to that office and that address. Before the firm moves in, it probably has the choice of many equally good properties. But after it moves in, the property selected will be much preferred to any likely alternative. That gives the landlord a strong bargaining position. This long term relationship benefits both the tenant and the landlord. The landlord will incur costs if the tenant moves out abruptly and incur agent's fees to find a new tenant and loss of rent in the interim.

#### **4.3.4 Rates appeal:**

The company has performed incredibly well in obtaining a reduction in its rates. It demonstrates the involvement and direction of the board in pursuing that matter.



#### 4.3.5 Upgrading of CBD:

##### A SUMMARY OF DEVELOPMENT IN MAJOR CITIES IN SOUTH AFRICA

CITY	CRIME	INFRASTRUCTURE	MONEY SPENT	OFFICE VACANCIES
JOHANNESBURG	Cccv cameras. Work with police	Creation of informal Trading building Programme	R710 million Towards new Development	B grade:36.2% A grade:20.2%
PRETORIA	Cctv surveillance	CIDS. Markets for Informal traders. Conversion to residential		17.4%
CAPE TOWN	Cctv to be fitted at bus-stops	No of projects completed. Transport Improvement 100 more projects	Plus R9 million Since 1999	Rental R17to R18 m/2
DURBAN		Tourism triangle. Infrastructure & res. Areas. UIPS	Recent R1.5 billion. Further R360 million expected	21.4%
BRAAMFONTEIN	Secure/stable	Easy access to transport. Clean environment.	Public/Private initiative.	11.93%
SANDTON	Visible safety	Informal upgrading. Transport.Cleaning. Public improvement		

**TABLE 4.2**

It seems evident that cities are making efforts to ensure the safety of citizens and in turn business. Braamfontein has shown that it is possible to improve the city with the correct approach. Durban requires to beef up its anti crime campaign, e.g. more visible policing. ( Information: Sapoa Online Pty Ltd –as referred to in Chapter 3)

#### 4.3.6 Customer focus:

A recent QI International survey revealed that:

- 15% of customers defect because of price
- 15% defect because of quality problems
- 70% defect because of problems with the relationship

A satisfied customer becomes a loyal customer whose long term support can lead to increased sales and profits. However, satisfaction does not guarantee loyalty, purchases and profit.

Customer relationships are seen as assets and need to be nurtured and strengthened. This can lead to a competitive advantage (Boardroom 1998:08).

How do you deliver a 'unique' value to your customer. Manning (2002) suggests that you first decide what you are going to do for customers that they will value and hopefully pay a premium for. Then off course, you have to deliver it.

He elaborates on the merits of the value chain, which is made up of a number of activities. A 'synthesis' of these activities is vital to its 'effective execution'.

For example: a prospective tenant just out of the airport looking for 600m square of space walks into the centre. A quickly assembled team sees the potential of the tenant and markets the Teachers Centre. The prospective tenant is impressed and wants to view a typical floor. That morning, unfortunately for the company, one of three elevators was being repaired and the other had just malfunctioned. It took us an eternity to get a lift. To the tenant this became a major obstacle, as he quickly explained, that in his line of business, turnaround time was critical. It became evident there and then that we had lost the deal.

These are difficult times and it is important for the company's staff to be vigilant and constructive at all times.

It is imperative that staff and management work as a well-oiled team. There is a need to create opportunities and when these present themselves to readily pounce and take advantage of new business.

For example: the Supervisor needs to keep contact with the office at all times. Recently a prospective tenant wished to view premises and discuss details on a big suite. The unavailability of the supervisor or the lack of timely contact may have lost that valuable client to the company.

Unfortunately much office space in the CBD has become commodity items and customers are using price as a negotiating mechanism. Recently, a prospective tenant saw bigger premises than he required and was prepared to sign documents if the rent was reduced to his budgeted figure. In

terms of the difference, the tenant was prepared to take a long term lease and to commit himself immediately to tenancy. The company saw fit to secure the tenant immediately.

In the circumstances the company finds itself in i. e. high vacancies, there is a need to increase turnover in the short term and for the company to consider positively a discounted rental structure. These tenancies could secure long term benefits in terms of higher escalation and stabilisation of the tenant, resulting in a more cordial relationship.

Conduct customer forums. Improve current products and services. Identify services required and plan to develop these over the long term. Management need to tap into customer complaints, suggestions and compliments. A complaint may present an opportunity to build or create relationships and consequently to hold onto customers at the teachers centre.

British Airway's C. Marshall 2000 ( Harvard Business Review ) explains the virtues of customer service.

“Even in a cut-throat, mass market business such as air-travel, many people will pay a premium for good service- even those who travel economy.”

These are the people we should try and attract and retain as customers, plenty of customers in the lower end of the market who are willing to pay a bit more. There are two sides of the business equation : cost and revenues. Any business that focuses on one at the expense of the other are going to pay heavily.

You cannot stop investing and you cannot stop providing a quality service. There is a need to go beyond a commodity mind set towards an ‘orchestrated’ experience.

The company manages its offerings i.e. shops and offices but more than that it offers its service on those offerings to customers. In the eyes of the customer there is a difference in its perception between suites in one building from another.

It is difficult to please everyone. The company should endeavour to attract and retain customers that care and value its service.

Management must enquire into and assess the purchasing behaviour, lifestyles and value needs of a satisfied customer and use that information to define and select customers for the centre.

The relationship exercise would include:

- speed of delivery and satisfaction
- extent of differentiation
- pricing
- lifestyle of customer
- access to the Teachers centre
- importance of location
- comfort, upkeep and workability of suites
- assistance and performance of handyman ( electricity, partitioning, painting etc)
- marketing personnel
- interviewing and legal formalities

Many a customer has called to the company's offices with complaints about a staff's attitude, problems in their suite or facilities at the centre. These do not appear to be isolated incidents but a part of systemic problem. Management need to realise that " A service business is dealing with peoples impressions and feelings"(Marshall 2000 Harvard Business Review).

It is more expensive to attract new customers than it is to retain existing customers. The average business spends six times more money attracting new customers than it spends retaining customers (Saxby 2001:25-Boardroom).

Staff need to be trained on providing superior service and to be able to deal with customer problems. They should be allowed to act within specified boundaries. Business is a dynamic process and quick decisions have to be made to get positive results. Some board member, preferably the chairman, should be given authority to respond decisively when contacted by the secretary. The company's service should be ' orchestrated' into a meaningful experience for the customer. That orchestration could then become the brand of the Teachers centre.

An exploratory survey on customer satisfaction at the Teachers centre:

A convenient sample of 40 out of 80 tenants were spoken to.

The following comments were received:

- Twenty-five indicated that although their stay at the centre was a pleasant one, they preferred to be consulted on the many decisions taken by the landlord.
- Ten were not happy with the service offered.
- Ten did not wish to comment.
- The majority requested a lowering of their rent.

- Thirty indicated their preference for new club facilities etc.
- The majority were happy with the security at the centre.
- Twenty-five were not happy with the level of business in the CBD.
- A few requested that they be allowed to work on weekends without having to seek special permission.
- A suggestion for toilets to be cleaned more than once a day was made.

The exercise revealed the need for management to communicate with tenants. Service inadequacy should not be tolerated. The matter needed to be explored further. Something has to be done urgently to attract tenants into the CBD. Tenants indicated their preference for something different. The company has to develop a caring attitude towards customers.

#### **4.4 INTERNAL ANALYSIS:**

This section evaluates the companies internal processes.

##### **4.4.1 Scenario at a glance:**

- The company's sales have been 'jogging on the spot.' The financials for 2003 indicate a frightening decrease.
- Statistics of the movement of customers show that new customers are limited and that there is a problem in retaining customers.
- The company's profit margins are mediocre with these dwindling to loss positions in certain years.
- Company's expenses exceed the norm of 30 to 40% of income.
- The company requires to evaluate and improve its internal performance.
- Shareholders have always looked at the company positively. However the results over the years have caused frustration and 'a don't care attitude'
- It is imperative that the company create and sustain an image and reputation with customers at the centre.
- Objectives and targets need to be set for the company secretary within properly defined parameters, who can then devise secondary targets for the rest of the staff
- Performance appraisals need to be conducted at least once a year.
- Develop a system/pattern of training, management skills from senior levels permeating to all staff members.

#### **4.4.2 Repairs & maintenance:**

##### **Spalling:**

Based on advice from legal counsel the company erred in not pursuing its claim timeously against the original building contractors.

Directors constitute the “controlling mind” of the company and require to exercise care, diligence and skill (Van Der Merwe et al 1995).

But then any person (with certain restrictions) can become a director. Is such an ordinary person expected to notice a mere crack in the plaster as abnormal and to inspect a 15 storey building for these abnormalities and to quickly pursue litigation to prevent the contracting company against its defence of prescription. The company, indeed was dealt a bitter blow.

Maybe such an occurrence reminds us to be aware of changing times and demands made upon us. The vigilance of management and its responsibility are onerous.

“Corrosive processes operate under conditions of high humidity and Durban is well known to have one of the most corrosive atmospheres in the whole of South Africa if not the world. A piece of steel will corrode over 10 times faster in Durban than it would in Pretoria” (Shepherd & Shepherd Report 1988).

##### **Plumbing:**

The building was completed in 1978. One of the determinant factors in installing galvanised piping would have been a cost saving. Advices may have been received on the pros and cons of such a decision and discussions would have been held at board level. However, a more careful planning exercise with consultants taking account of the severity of corrosion in the vicinity, may have dissuaded the use of galvanised material, saving the company thousands of rands in future plumbing costs. But then, one is continually affected by budgetary constraints especially in a development of this magnitude. Nevertheless, it is the vision and forward planning that produces a competitive edge in time (for example, Microsoft ‘s vision of the future need for software).

	Repair/Maintenance	Rent income	%	Total expenses	%
1990	75274	567974	13	458763	16
1	496075	672010	74	916960	54
2	73839	765123	10	537939	14
3	76497	902997	8	549081	14
4	101129	885017	11	555743	18
5	89391	745028	12	507006	18
6	81051	771332	11	603789	13
7	132977	837050	16	655161	20
8	75150	791254	10	610074	12
9	88692	873915	10	831825	11
2000	74075	974811	8	657346	11
1	622393	967781	64	1280582	49
2	57964	909551	6	738566	8

**TABLE 4.3**

It is apparent that the company's repair and maintenance bill is high compared to its total income and expenses. By their very nature the bulk of these expenses constitute fixed expenses irrespective of the rental income and the occupancy levels.

Therefore in 1991,1997,2001 and 2003 with sizable increases in the repairs and maintenance bill the income fluctuated does not warrant or cannot carry such amounts. An analysis of the annual expenses shows the basic makeup as:

Repairs and maintenance (buildings)

Repairs and maintenance (lifts)

Repairs and maintenance (air-conditioning)

Whilst the lift and air-conditioning maintenance is carried out by specialist firms the building repairs and maintenance which is sizable needs to be looked at closely. The company can save a substantial amount especially in the long term by investing in a suitable maintenance/handyman person. Instead of outsourcing these repairs the company may gain by providing this facility in house. With the building over 25 years old the repairs amount expense is expected to become an upward expense item in the financial statements each year.

That kind of person could become the key in differentiating or customising offices as an extended marketing arm. The repairs and maintenance (building) presently comprise of almost 50% of the total repair and maintenance expenses. Recovery on expenses over and above the basic repairs and maintenance need to be passed onto tenants on a regular basis or else the increment of expenses continue to invade the company's profits. In an alliance where the company could be administering a number of buildings, specialised handymen would save the company substantial amounts in the long term.

#### **4.4.3 Directors and Staff**

The Iod London's 1990 Development of the Board showed that over 90% of directors have no training for their job other than a vaguely defined 'experience.' It is more of a shock that most organisations have no time or money budgeted for board training and development. (Boardroom Journal 1998: 12)

Three elements make up an effective board:-

An effective board knows what they are there to do.

They know that there are other parties who have a stake in the financial success of the company:

- Employees
- Unions and professional associations
- Suppliers to the entity
- Purchasers of the entity's goods and services
- Banks and financiers



- Local communities
- Government, who receives taxes

Good corporate governance can result in easier access to capital markets, reduced cost of capital to the company and lower risk ratings. An effective board knows the difference between management and directing. Managing is about today and action while directing is about ensuring conformance today and performance tomorrow. Performance concerns visioning- where is the company going and how is it going to get there? Directors need to ensure that balance is maintained between the proper and effective operation of the company to create shareholder wealth and meeting all legal obligations of the company. An effective board knows and sets its board functions.

An effective board measures its own performance.

Continuous improvement of their own performance is primary. In striving for improved performance, evaluation of the board as a whole is a growing practice, as an effective board knows that to review the board is to ensure it is 'adding value'.

An effective board has a balanced composition

An ideal board is greater than 3 and less than 9 directors. It should comprise people with different profiles and ages. They must be competent and have useful skills and experience. There should be a mix of executive and non-executive directors. Non-executive or independent directors bring wider experience of strategy, an objective view of performance, independence and a professionalism in the interest of the company. Board members need to recognise that their first duty is to the company- not to the shareholders (Boardroom Nov 2001: 05-08).

Staff activity:

Supervisor: The Supervisor require to work according to a plan detailed by the secretary, where as part of a team, he endeavours to foster relationship building with tenants, keeps track on the activities in the building , monitor and attend to repairs and maintenance and to be able to provide a useful link to the company secretary's office at the centre.

Secretarial Assistant: The assistant requires to be an active part of the management team and should assist the secretary in concentrating on the core activities of the centre.

Company secretary: The secretary need to provide motivation, training and expertise to staff and the board so that the plans and objectives which are broken down in manageable pieces, are able to be pursued as a team.

The Board: The board must decide whether it wants to manage or direct the company. Presently it manages but has not found direction. There is a need to create a vision for the company and to develop a mission for the daily processes to fulfil planned objectives.

Without direction the company is aimlessly performing activities in a mundane fashion.

Activities need to be prioritised with emphasis on core items.

With the recent reduction in administration time, the board needs to ensure that there is coordination and that vital processes are maintained.

Performance appraisals and targeted budgets will show variances over time. These variances will indicate to the company whether particular strategies are working.

If an ideal situation can be reached in one building, then such a structure could be introduced in any alliance or merger.

In a new communication regime management must inculcate a team morale in the company.

Staff need to be involved at every level of thinking. People have to accord respect and listen to each other. With a small staff complement at the company, why are the board and staff not one close-knit family working towards an ideal?

Manning (2001) explains that strategic conversation begins with the assumption that every individual can make a difference....when those conversations are managed badly, people are sure to under-perform. When they are managed well, magic happens.

Although staff committees have been appointed from time to time and documents have been drawn and presented, no implementation has taken place. Staff conditions of service, remuneration and other related policies have been adopted on an ad hoc basis.

e.g. The secretary requested that the company consider reimbursement of fees toward work related studies. The meeting advised that the secretary present a recommendation paper in that regard (Extract Minute September 1998).

It is priority for staff to be motivated, mentored, trained, rewarded and communicated to continuously.

Manning (2001) cited J Welch from GE:

“You have to repeat your message so many times you gag on it.” J. Welch made shareholders wealthy by shunning complexity, keeping things brilliantly simple, challenging and killing sacred cows, leading from the front and repeating himself endlessly.

Most ideas are re-hashes of earlier thinking (Manning 2001).

The Board operates in a non executive level and as such they become observers and mainly take an interest from the ‘outside looking in’. The company secretary has worked in a discretionary capacity with the board having to make decisions on a number of matters. Considering that the board meeting now takes place once in two months, the secretary can be stifled by not having proper channels of communication or board consensus on important matters. For example, matters not completed at one meeting can be delayed for another two months. This interferes with the smooth and functional operations of the business. To the tenant, such delays indicate poor management and a break in the relationship.

### Company Competence

Directors and staff have served the Company for well over 20 years and have built up valuable experience and organisational capabilities. That combination of varied skills tangible and intangible make up the company’s competencies. Customers are forever consulting with company staff on all levels.

### OWNER MANAGER

### OUTSOURCING

<p>Liberty Property group MD J Mclean believes in “maximising the value of assets under its management” and that we can’t achieve that satisfaction if we hired someone else to manage our property”</p> <p>His belief : Tenants can be kept happy by owner managers.</p> <p>Investec MD S Leon believes it would focus on areas of direct interest – won’t follow Gensecs’ lead.</p>	<p>JHI director A Teixeira “wave of outsourcing will catch up with institutions – future of business is in specialising.</p> <p>“We are in the business of managing. He believes that specialisation gives his company a competitive advantage over in-house service providers.</p> <p>Gensec recently decided to outsource its property management portfolio.</p> <p>Gensec MD G Van Zyl says “consolidation is necessary because property management is a low margin and therefore volume-driven business”</p>
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**TABLE 4.4**

Consolidation of property management Company are on the increase. However, the big 4 of JHI (R5.6 billion), Marriot, Colliers (R6 billion) and Broll (R16 billion) are expected to remain intact.

According to JHI A Teixeira “further consolidation would comprise competition” (Sapoa on line Pty Ltd.).

#### **4.4.4 Rent collection:**

With the company’s tenancy mix and a recent transfer of rent payments to direct deposits, the company has to be aggressively vigilant in collecting its monthly rent. Timeous payment is important to maintain cash flows. Efforts are being made daily to hasten the payment of rent. However, there are always pockets of tenants that have to be continually chased or handed over. In terms of relationship building and achieving an ideal situation in time, the company has to become more selective and service tenants that are beneficial to the company. Much valuable time is spent in hounding tenants.

Legal matters:

It has become a nightmare for the company to engage attorneys that work diligently for the benefit of the company. It is clear that the size of company collections is a contributory factor. However, the huge firms with built-in collection departments have always failed to impress. Many matters have been kept in the company’s books without clear channels for recovery. The company needs to weigh the merits of handing over a matter. It has to adopt a pre-emptive strategy to monitor tenant’s payments stringently. The policy of handing over after two months has lost relevance. Should a tenant not pay by the 7<sup>th</sup> of the month when rental is due, immediate steps to recover should be taken. This kind of aggressive tactic should reap benefits and ensure a quicker collection period. A plan has to be devised to better manage the tenants at the centre.

#### **4.4.5 Current Offerings:**

The company’s approach seems to indicate its lack-lustre offerings of low cost products to a broad spectrum of segments. A specific type of customer is not targeted. The centre offers large or small suites and the customer selects one of those shown. The company would then normally paint, attend to electrical fittings and clean the suite. The initial attraction to the customer is not there. The first impression is not customer friendly.

To remain competitive the company must change from its commodity offerings and its “one size fits all” theory. As Henderson (1998) from the Boston Consulting Group advises that the unique advantage of differentiation has to be created and managed in the long term.

The creation of a value package is suggested as a means to achieve a stronger relationship. Evens (2002:134) as cited in Boardroom, defines value as the relation between the benefit perceived by the customer and the perceived cost incurred in order to enjoy that benefit.

The centre could create a common entertainment facility for members only. This privilege would come at a nominal price but would create the need to be part of the centre. Another creation could be a specific unique and hygienic shower facility at a price. How many businessmen are in the field during the day exposed to the elements and need to quickly prepared for a meeting, consultation or gathering and require to freshen up.

Other facilities could include Boardroom facilities, a game room, or a mini-restaurant serving tenants specifically.

The tenant spends many hours at his/her place of work and if the place provides some appeal relating to their lifestyle then that differentiation can create a long term tenant.

Everyday new occurrences impact on the market and peoples needs change or are influenced by a combination of factors. The company need to quickly adapt or prepare to disintegrate (Mintzberg 1999).

Like Stalk, Evens and Shulman (1992:90) says that a company's key processes can be transformed into strategic capabilities. Such a strategy should contain speed, agility, consistency, acuity and innovativeness.

People are wary of where they shop or seek advice, as the tendency is to become selective as lifestyles and needs change.

Social responsibility: We have a new kind of customer that is acting more like an ethical watchdog than a hungry consumer. These and a growing number of people who are choosing not to buy certain products made in sweat shops or from child labour (Roddick- boardroom November 2002).

#### **4.4.6 Short term controls:**

Resistance to change is difficult to accept. When a decision to close off the centre was adopted by the board, it was still prepared to consider exceptions for access after hours. Fortunately, with time, and a realisation of the merits of closure, the company accepted that no tenant would be allowed after hours.

That kind of decision should have been taken some time ago. The closure prevents unnecessary repairs and maintenance, preserves the company's major asset, saves electricity and water and prevents the unsavoury atmosphere of after hours work. Tenants also realise and appreciate the safety aspect created. Tenants are, however, granted permission to work on weekends by special application.

Short term controls remain important in strategising the way forward. The company has been mindful of electricity and water usage. These are ordinary utility items that could threaten the company's profitability if those controls are not enforced and maintained periodically, e.g. The air-condition plant is reliant on water reticulation for its efficient functioning. The amount of water required is facilitated by valves and air-condition components. A malfunction of a valve may mean the wastage of many kilo-litres of water. With the building's plumbing still having galvanised piping, the danger of water loss is always there. The company needs to secure itself by investigating the costs and availability of water insurance.

#### **4.4.7 Value Chain**

It seems clear that the company has no marketing plan for a very stereo-typed commodity item of shops and offices. The value chain at the centre contains certain weak links with coordination and contact being lost periodically.

- Company staff work on different days and as a result, communication and marketing of space is performed at different levels. Co-ordination of activities like landlord, tenant liaison becomes weak.
- Staff training is virtually non-existent. Without a proper staff appraisal system it is not possible to adequately address company matters.
- Staff incentives can be created to boost occupancy levels.
- Price and differentiation incentives would improve customer appreciation of their tenancies.
- Relationship marketing can assist in retention of tenants.
- Rent collection and credit has to be co-ordinated and attended to timeously.

#### **4.4.8 Legal matters**

It is evident that in many matters after much preparation and related costs the due process of the law entailed a number of delays and frustration with hardly much of a positive outcome.

e.g. On a major matter:

“the defence of the opposition was simply that when their lease had expired their tenancy was converted to a monthly tenancy. In common law it would become the landlord’s duty to repair the premises when the tenant left. However, that defence was weak. The company’s contention was that upon expiry of the original lease, the tenant had remained on the same premises and traded as before. Therefore in terms of a “tacit relocation” the tenant would be governed and bound by the conditions of the original lease. The Supreme court could be approached to adjudicate on that specific point” ( Extract minute January 1996).

The tenant had eventually been sequestrated with minor returns to the Company.

**4.4.9 Gap analysis:**

A measure of the potential in the market and the company’s 2003 letting is as follows:

Lettable space	3384 square meters @ R25 per square meter	.....	R84600 per mth
Amount let	<u>2590 square meters @ R25 per square meter</u>	.....	<u>R64750 per mth</u>
	<u>794</u>	gap	<u>19850</u>

**TABLE 4.5**

The gap could be addressed in the following ways :

- Natural changes
- New use for the space/ or new user segments
- Innovative suite differentiation

Management requires to:

Redefine its objectives: Check whether the lettable area can be segmented into new customer requirements- for example

The third floor has been designed as a restaurant where half the floor contains a massive kitchen area and the other half used as a restaurant/ bar facility.

The areas could be split at a manageable cost to let out the restaurant area only. The new tenant could incorporate a preparation area within the restaurant. The kitchen area could also be considered on its own in terms of changes etc at any stage.

The letting of part of the third floor then becomes a more realistic and achievable objective.

Analyse the strategy options available and implement.

#### **4.5 MARKETING & CUSTOMER IMPORTANCE**

Marketing concept: “Providing goods and services for which there is a known customer demand as opposed to selling what the company likes to produce.”

The key to the success of a market- orientated company is to ensure that it focuses on the needs of the customer and value adding. Management must organise and focus around markets.

Pillars of marketing concept:

Customer focus: involves obtaining information from customers about their needs and preferences.

Coordinated marketing is where the entire organisation is involved in implementing the marketing concept.

Profitability: measures the results of past performance.

The management of an organisation needs to adapt to market needs.

The customer evaluates items like reliability, durability, performance, delivery, training, maintenance, corporate image and cost. Customers who are highly satisfied do not readily change to another organisation. High satisfaction creates an emotional affinity with the brand, the result being customer loyalty.

The challenge for the company is to create a company culture in which everyone in the company aims to delight the customer. The company’s value chain is a key instrument in its becoming more market-orientated. What are the value chains of its suppliers, distributors and customers? Another way of becoming more market-orientated is to build long term relationship with customers, suppliers and distributors. Market orientation ensures a company makes money by satisfying customer needs better than its competitors- known as customer orientation.

(Boardroom).

Market orientation leads to greater customer satisfaction and repeat business (Kotler 1988).

A high defection rate lead to lower barriers to entry into the industry. A service business with the ability to retain a large part of its customer base makes it difficult for competitors to gain market share at its expense (Boardroom Pg 18).



#### **4.8 CONCLUSION:**

The chapter has evaluated relevant aspects of the company's trading operations amidst a changing external environment and has considered various aspects which could improve the company's workings and show better direction in the interest of all stakeholders.

The next chapter looks at suggestions and recommendations which management should seriously consider and implement even for a trial period. Management will have to cater for changing needs in the face of a changing environment . This would necessitate evolving and new strategies.

## CHAPTER FIVE : RECOMMENDATIONS & CONCLUSION

### **5.1. INTRODUCTION:**

Chapter one introduced the study by detailing the background information to the company's management dilemma. It further explained the motivation and value of the study. It then developed the problem statement. The management dilemma relates to the company's inability to attract sufficient and quality tenants in a stagnant CBD which is seen to be a major contributory factor towards its financial woes. The objectives of the study are set out with details of its limitations. Chapter two considers theory relevant to the problem and extracts a model on which the methodology is based. Chapter three details the "as is" case scenario applying the theory and using appropriate tools. Chapter four evaluated the case analysis. Chapter five uses information from previous chapters and presents findings, a selection of strategies and concludes the study. It also considers the theories of suitability, acceptability and feasibility to the selected strategy.

### **5.2. Strategy Selection:**

The company requires to follow a focused strategy, and achieve targets which are consistent with the opportunities in the CBD. That focused strategy need to be directed at the fastest growing segments in the industry. The company has to identify such a segment and concentrate its efforts thereon. Such an effort can become a competitive advantage for the company.

The company could also, by creating new segments, reach out to new customers and overcome the stigma of competing firms.

Thirdly, the company can drive down its costs by outsourcing, improving its value chain by pruning certain activities, redesign of business processes and reducing storage areas.

The company has to be mindful of the gradual improvement expected and rush into major improvements or innovation immediately.

Ohmae (1982) believes that the company needs to take advantage of its existing system and create additional services for customers. Once an additional benefit is identified, then an expansion strategy could be considered.

### **5.3. SHORT RANGE STRATEGIES:**

These strategies are of vital importance in the short term.

#### **5.3.1 Establish purpose and vision:**

The board of directors require to take time and apply themselves to:

- Devise a clear mission statement towards a structured realistic vision.
- To draw a strategic annual plan, supported by a management operating schedule and budget.
- Clear responsibilities and objectives need to be set out.
- Clear activities, resources required and a planned time frame.
- Regular performance appraisals need to monitor the company's progress in relation to its operating plan and budget.

Given the circumstances that the company is placed in, this recommendation is suitable, feasible and acceptable.

#### **5.3.2 Structured segmentation approach (focused approach)**

Over the years the need of customers have undergone a number of substantial changes. This is as a result of changing lifestyles, the recognition of multicultural business and the transformation of the management of the city.

As a consequence clear target segments can be created. These are as follows:

**SHOPS:** The shops remain the anchor of the centre and is the cash cow for the company. It should continue to serve the small to medium sized Entrepreneur.

**FLOOR 1:** The floor was initially designed for a supermarket with two entrances i.e. one via the main entrance and the other leading via a stairway to Beatrice Street.

The recommendation for this floor to be converted to residential suites have already been discussed in this chapter.

**FLOORS 2 & 3:** These floors are part of the base floors and are therefore bigger.

They would create an ideal environment for the small manufacturer e.g. clothing. The goods hoist serving the third floor would facilitate the movement of goods etc.

**FLOOR 4:** The fourth floor area can be integrated in to the creation of the podium area which has already been discussed.

FLOORS 5 to 15: Retain as office space.

FLOORS 11to 15: Create exclusive upmarket space for showrooms, suites and conference rooms.

### **5.3.3 Staff Resources:**

It seems that the board is not in tune what is required of staff. It also is short sighted and has glossed over staff conditions of service, packages and welfare.

Without this fundamental resource the company cannot expect to turn the business around. With this weaknesses in the marketplace the company is vulnerable.

Hence, the company requires to give urgent attention to all aspects relating to staff of the company.

### **5.3.4 Board purpose:**

The board has to decide whether it is still prepared to manage and direct or just direct the company. An evaluation of the board has become necessary in present times, so that their work consistently 'adds value' to the company.

### **5.3.5 Strengthening the company's value chain:**

- The company requires to co ordinate staff activity towards common objectives.
- Create staff incentives towards better performance.
- Accord staff training in relevant aspects of their tasks'
- Allow staff to consider with management, differentiation and price changes in the company's offerings.
- Senior management to inculcate and promote relationship marketing among tenants.
- Devise a plan for rent collection with a monitoring of performance..
- Improve the flow of financial changes by disseminating information more often to all staff.

### **5.3.6 Marketing:**

Target specific customer segments and market vigorously. In a very competitive market, the services of a paid agent based on performance, may improve occupancy levels. Such a person could be employed on a trial basis.

The company has to devise a marketing plan which can be revised or changed periodically. Marketing should be coordinated by senior management and this is where the company's value chain is so important.

#### **5.3.7 Customer focus:**

Senior management has to motivate staff on an ongoing basis on customer management. The company needs to maintain a complaints and suggestion book which should be reviewed by management for replies, meetings and forward planning. Staff should:

- Listen to customers For their needs, complaints, suggestions etc.
- Provide customers with what they specifically require in terms of the suites and service.
- Pay courtesy calls to tenants.
- Customise and differentiate suites.
- Deliver with speed and satisfaction.
- Provide competitively priced suites.
- 'orchestrate' the company's product and service into an experience for the customer.

#### **5.3.8 Short term savings and controls:**

Appoint this responsibility to a senior member of staff. Maintain a savings and control register. Analyse the register every six months to draw a meaning conclusion on the long term effects of these savings and controls.

#### **8. Communication regime:**

Establish a new communication link with staff and tenants at the centre. This will promote staff involvement at various levels of the company's activities. Senior management would have to work at developing and managing an acceptable communication regime.

#### **5.4. OTHER CONSIDERATIONS:**

These aspects are important contributions to the main strategies

##### **5.4.1 Decisions And Meetings:**

Decisions taken should be short, precise and practical. Any elaboration of these decisions should occur at the portfolio level or with the chairman or vice chairman

outside a meeting. Invariably, the decision that needs to be taken gets distorted in lengthy debates and discussions.

Time limits should be placed on all Board meetings preferably with a time limits on each portfolio. Weighty matters in each portfolio should be discussed first.

A discussion of targets and accountability is usually more productive. Minutes should be circulated to all members before the meetings.

The above recommendations are suitable, feasible and acceptable for the company at this stage. These changes could act as an effective platform for the long range suggestions.

#### **5.4.2 Shareholders Records:**

It is pleasing to note the progress made with the company's shareholders records.

However such information is a basic requirement in terms of the companies act, and the company needs to invest in a recognised database which could be updated and managed with ease. After all, shareholders require prompt and accurate information whenever requested.

**5.4.3 Portfolio System:** The system seems an excellent one in principle. However such systems need to be driven with clear objectives in terms of an acceptable plan. The fulfilment of such objectives would indirectly satisfy the company's long term vision.

As a matter of fact, from financial evidence shown, the portfolio system is seen to have fallen on its face.

The Board has to seriously discuss its practicality and effectiveness in being able to generate value.

**5.4.4 Parking:** This important facility is pivotal to the company's business. Stout efforts in securing parking, even through an investment, would accrue sizable gains to the company's business.

**5.4.5 Utility Costs:** The costs of electricity is one of the major expense items of the business. It represents an average of 20% of expenses. It is not easy to build the costs of electricity into a basic rent when such a commodity is subject to continual

fluctuations. With separate monitoring, even with floor controls, the company would be better equipped to collect or to distribute the costs.

An expenditure of a mere R15 000 in 1994 as referred to in Chapter 3 would have saved the company thousands of rands.

Dependent on the structure of segmentation it may be an idea to seal off air-conditioning in those floors with low rental. That may reduce the electricity consumption. However, the matter has to be further investigated with the air-condition specialists.

## **5.5. LONG RANGE STRATEGIES: ( Including diversification and innovation)**

These would counter competition and attract new customers.

### **5.5.1 Anticipated Real City Project in Durban:**

The Company should consider positively the merits of an invitation to be part of a new concept towards removal of urban decay from the City of Durban. The offer was made by a company supported by big business towards a Real City Project. The concept cannot necessarily be a stand alone attempt. It has to blend in with the upliftment and development programmes as discussed in Chapters 3 and 4.

#### **Real City Project in Johannesburg**

The company floats striking images on the facades of buildings. This is achieved by stretching an advertisement printed on PVC. The advertisement covers an aluminium frame, which is in turn bolted to the wall of the building. The frame is covered and therefore invisible, and it appears as if the advertising is magically suspended.

The resulting adverts create a colourful picture amidst a gritty urban environment.

The overnight appearance of a building-sized advert gives the impression that something dramatic has happened to the city, with a space of 24 hours.

Wall advertising produces a real synergy between the urban landscape and outdoor advertising. Another vital benefit of wall advertising is its ability to light up the city, with light reflecting permanently onto what are currently poorly illuminated pavement areas.

The Durban CBD buzzes with multi-cultural life 24 hours a day. Wall advertising could bring immense benefits to the city, creating a light, colourful and modern central business district.

The R6.5-million makeover is a massive outdoor advertising campaign by cellular network Cell C called “ For the City” and will run for a year.

Nothing like this has been done before and permission had to be obtained from the municipality as well as individual building owners. Cell C's head of corporate communications says "It is a great opportunity to use art and colour to show the city does not have to be drab and empty and which says there is vibrant life here- and there is optimism about the future. Our customers and potential customers live here or pass through every day and we want to be part of a process which beautifies and reclaims the city" (Saturday Star August 12 2002)

The financial gain to the Company is expected to exceed 20% of its annual turnover. The feature is bound to create ripple effects on the Centre with increased customer appeal. All links of the Company's value chain is expected to benefit.

Hopefully, such a project will include non-profit social development of communities and their surrounding environments. An integral part of the campaign is to clean and add colour to brighten some of the present dull areas of the CBD. Landlords have been approached to have selected areas of their buildings painted for free.



**PICTURE 5.1  
THE REAL CITY PROJECT :  
JOHANNESBURG**



Suitability:

Life Cycle Analysis: Competitive Position : Tenable

Mature Industry : Turnaround focus

In a mature industry, considering the nature of the environment, the emergence of this new phenomenon can result in a turnaround situation.

Value Chain Analysis: The project will enhance the advertising aspect-the brand of the centre. The location with excellent visibility will ensure maximum kudos for the company and the sponsor.

Business Profile: Without any expenditure the company is expected to earn a substantial sum per annum.

The signage is expected to attract many new customers which can address under utilised capacity.

The signage will be visible through excellent transport links.

The strategy is suitable.

Acceptability:

- No investment required.
- Improvement to turnover and profit margins.

Risk: acceptability by city council.

Does not increase financial risk of business.

High degree of confidence of increasing market demand.

The strategy is acceptable.

Feasibility:

No resources and competences are required.

The strategy is feasible

**5.5.2 Repairs and maintenance plan:**

The implementation of such a plan would ensure that the major asset of the company retains its value as well as prepare certain areas for further development. The new projects would provide new offerings aimed at different target groups of customers.

The new developments can be phased in over a five year period and would provide additional value to stakeholders.

Essentially in an aging building as referred to in chapter 4, the idea of engaging the services of an experienced handyman/supervisor has far reaching merits. 'Fire fighting' has been insufficient in achieving company goals. There is a need for ongoing maintenance and repairs which a full time person can get to grips with under correct and adequate supervision. The costs of engaging such a service would obviously be more but in the long term would accrue savings to the company. In a building where there is activity every day with 70 to 80 tenants and staff and usage of facilities, wear and tare, replacements and repairs are normal. For example, Fluorescent light bulbs have to be continually replaced. The company had decided to stop replacing 'ballasts'( heavy contraption like the battery of the fitting) because of the minimal guarantee period and of its inferior durability. The new complete five feet fittings were used as a viable alternative for the long term. On malfunction, all these required were little inexpensive starters or tubes instead of the expensive ballasts.

Cost of ballast	R80.00
Labour	R60.00

Alternative:

Complete light fitting	R120.00
Labour	60.00

Considering the existence of 800 to 1000 light fittings in the building, an in house electrician would prove invaluable.

The versatility of the handyman would assist the company in a coordinated savings especially in the future. For example:

Partitioning is a fundamental requirement in offering suites to prospective tenants. Invariably, tenants require customised partitioning. When the building was constructed standard partitioning was erected which catered mainly for large suites. The environment has now changed where the need is for smaller affordable suites especially by the influx of disadvantaged businessmen entering the CBD. There is a need ,therefore, to re-partition large suites into smaller and to provide new

partitioning in open plan floors. In terms of quality standards adopted initially, aluminium framework with gypsum boards papered with a durable renolit has been used. New partitioning has to match the existing in many areas. The costs, however, for this facility is formidable. For example:

A quotation received for partitioning part of the first floor creating a passage area with three small classrooms amounted to R25000. Costs like these prevent the company from developing and marketing available space which contains the basic structure.

A handyman with carpentry experience would enable the company to undertake all types of partitioning whenever the need arose at a lower cost. With a staff member, management is able to explore cost effective partitioning etc because of the time available and a common purpose shared in the interest of the company. This kind of team spirit would engender the objectivity and goals of the company in the service offered to customers.

“Establishing sufficient autonomy to allow the full use of each persons talents yet inspiring all to work together towards the overall objectives of the organisation is the core human challenge of running a company” (Cohen 1993: 07).

Assistance for the handyman could be obtained whenever needed.

Brief outline of repairs and maintenance over a five year period:

**Painting:** All piping especially those exposed to the elements- to be de-rusted and painted annually. Interior, mortar finish staircases and floor foyer and passages, wooden doors to be prepared and varnished throughout the building ( to be carried out in phases over the period ). The outside of the building to be rendered aesthetically pleasing. The floor foyer to be made attractive for all stakeholders.

**Electrical:** All ballast fittings in the building to be replaced with new whenever necessary over the period. Main lights to be timed off at night. Lights and plugs in tenants suites to be checked periodically for wear or replacement.

Plumbing: Galvanised pipes to be replaced with copper in stages during the 5 year period. All taps in toilet and kitchenettes to be checked and maintained periodically.

Carpentry: The handyman can attend to new partitioning needs, alterations and the upkeep of existing partitioning. Check on the wear and tare on locks and door handles as well as door closers on the main door on each floor.

Floors: Ensure floor tiles are intact throughout the building, replace whenever necessary. Ensure sufficient stocks to match existing.

Windows: Replace defective clips and openers.

Employment of a full time specialised maintenance person.

#### Suitability:

The building is aged and require continuous repairs and maintenance. The company would gain by cutting expenses which presently are given out to subcontractors. Apart from the cost saving aspects the company would perform more efficiently e.g. quick and custom designed alterations to existing partitioning would be able to accommodate smaller tenants which has become an emerging trend. It certainly maintains an added control to all other activities. The strategy is suitable.

#### Acceptability:

Risk: need to employ the right person to deliver.

The employment of such a person would enhance the service offered to customers. The customer may in turn be happy to pay a premium for a noticeable differentiation in his suite.

Expense: Incumbent's salary may not quite be offset by the existing building repair budget.

Interferes with liquidity of business

#### Feasibility:

The company does not have funds presently to implement the strategy. A breakeven situation may occur after 2 years or earlier dependent on sales and customers requirements for smaller suites.

The strategy is suitable, acceptable and feasible in the near future.

## 5.6. OTHER LONG TERM CONSIDERATIONS:

These are useful in attracting customers and maintaining of the building.

### 5.6.1 Major repairs:

- Seek expert opinion on replacing rusted window spirals. The are contained in windows from the 5<sup>th</sup> to the 15<sup>th</sup> floors. With an average of 60 windows per floor, the undertaking, especially with specialised knowledge, could be a very expensive exercise. For example, 30 defective windows per floor @ R200 to repair each would cost R6000. For ten floors, the total cost could exceed R60000. The task could be spread over 2 x 5 year periods.
- All existing urinals to be changed from the antiquated intermittent free flow system to a modern controlled system.
- A refurbishing of the entrance foyer area.
- To install electricity metres on each floor. In terms of the possibility of segmenting each floor for a variety of offerings either by price or differentiation the company's competitive strategy would require the electricity costing per floor to be determined. This would further assist in determining the input and output of each floor and its contributory value in the centre.

### Major Repairs

- |                                   |   |
|-----------------------------------|---|
| • Rusted window spirals.          | Not suitable at this stage                |
| • Refurbishing of urinals.        | Not suitable at this stage                |
| • Refurbishing of entrance foyer. | Suitable but not acceptable at this stage |
| • Elect metres on each floor.     | Suitable, feasible and acceptable.        |

## **5.7. DIVERSIFICATION & INNOVATION IN THE LONG TERM:**

These strategies would attract new customer segments., adding value to the company.

### **5.7.1 Development of Podium area on 4th floor**

Area:

Existing vacant area around the floor premises on the 4<sup>th</sup> floor. The slabbed area faces Albert Street in front and Beatrice Street and Fountain Lane on the other sides.

Beatrice wing:	15M x 5M	-	75 square meters
Fountain lane:	15M x 5M	-	75 square meters
Albert Street :	26Mx 5M	-	130 square meters
			280 square meters

The whole area has sufficient space and height to be developed into an exotic encased habitable area. The space should be incorporated into existing partitioning space on the 4<sup>th</sup> floor and could be let as residential or to businesses requiring the elegance of something different e.g. restaurant, club facilities, exquisite office suites, showrooms etc.

The space allows for 9x 30 square meters of additional space which could blend in with existing suites or be let out separately.

The company charges an average of R 80 per square meter for shops and an average of R25 per square meter for office space. With this differentiated development at R120 per square meter the additional turnover would be in the region of R34000 Per month. The capital expenditure of an estimated R800000 should be recouped in 2 years creating a huge earning potential of over R480000 per annum. The creation would be tantamount to the development of further shops at the centre with increased earning potential but catering for a new breed of customers.

### **5.7.2 Development of the first floor into residential accommodation**

Need: According to residents and Estate Agents in the Beatrice Street area, flats have a waiting list in the area. There is no doubt that with the emergence of new businesses mainly by previously disadvantaged persons in to the city centre, the need for accommodation has increased. People want to be in close proximity to their place of work.

The development of the company's external environment as tabled in Chapter 4 brings a new dimension in the company's thinking.

It needs to blend in its internal resources and expertise with upliftment and development programmes within the city centre. With an attack on urban decay, the company has to prepare itself and be able to merge with the city precinct programme which in the long term would offer a better 'live and let live' scenario.

The obvious downside to a partial conversion is the disruption between office tenants, security and various other aspects of control. However a small start has to be made so as not to disturb the equilibrium but at the same time to place a foot into the changing environment and to forge ahead when the opportunities present themselves.

The expansion plans for the convention centre, which is about a kilometre away, indicate the positive nature of changing patterns and development close by.

Recent development of residential property in the economic downturn have proved to be more viable compared to shops and office premises.

With the development of accommodation on the first floor, tenants require to be re-housed on other floors. This would assist in reducing the company vacancies and would add value to the bottom line.

First floor: The space on the first floor is two and a half times bigger than that on the tower block. The structural gem in favour of the company is a stairway exclusive to the first floor leading out onto Beatrice Street. Such an accommodation endeavour on the first floor would not interfere at all with the rest of the tenants, especially if the main entrance to the first floor via the elevators was sealed off.

With a sizable vacancy on the first floor the present rent income is in the region of R4000 per month (200 square meters)

The plan is to create a residential unit comprising 2 bedrooms, lounge, kitchen toilet and bath. Approximating 60 square meters.

With a superficial letting area of 500 square meters, partitioning would transform the space into 6 units.

Each unit charged out at R2000exl per month – R12000 per month.

The exercise would realise an additional R8000 per month and R96000 per annum.

With a capital costing of about R100000 the project should earning value after a year.

The air condition unit would require to be sealed off.

### **5.7.3 Premises on ground floor – Beatrice Street wing**

The area outside shop number 1 which is presently used as pavement property can be developed and incorporated in to existing shop bringing additional revenue to the company.

The area is roughly 3Mx 10M - 30 square meters.

The area could be developed and extended into the existing shop or sealed off and used by the shop as storage.

30 square meters @ R80 per square meter- R2400 per month i.e. R28800 per annum.

Or

30 square meters @ R40 per square meter (storage) – R1200 p.m. i.e. R14400 per annum.

Value would accrue to the company after approximately a year and a half.

### **5.8. CONCLUSION:**

The study has attempted to find solutions to the problems faced by the company, Nits Investments Limited. The objectives of the study as set out in chapter one have been addressed.

The changing nature of the company's environment, especially with the involvement of Government, has prompted a rethink in many property owners minds and their future plans.

For the company, a change in management thinking along with a strategic process development plan is imperative to blend in with the proposed changes.

Many other buildings like the Teachers Centre would be similarly affected.

Browne (1995/2000- Harvard Business Review) re-iterates that "Learning is the heart of a company's ability to adapt to a rapidly changing environment. It is key to being able to identify opportunities that others may not see and exploit rapidly and fully.

Every time we do something again, we should do it better than the last time.



The study undertaken is by no means conclusive, but if used as an exploratory exercise, can generate new thinking towards a turnaround and a revival of the old vibrancy of the city centre.

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