An Investigation into the

Introduction of Branded Goods

In order to Reposition Store Image.

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DECLARATION

I, Reena Makan declare that the work presented in this dissertation is my own and has not been submitted previously to any other university or technikon. Any work done by other persons has been duly acknowledged.

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i

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LIST OF FIGURES

LIST OF TABLES

CONTENTS   **PAGE**

TABLE OF CONTENTS

CONTENTS   **PAGE**

CHAPTER 3

1.1. INTRODUCTION

The Woolworths brand represents clear value, and they have always maintained the quality of their products. Consumers have come to see this brand as a product of quality and consistency. So when Woolworths decided to introduce approximately 300-dealer brand items into their stores, it was not viewed as a threat. In fact Woolworth's feel that they endorse those dealer brand products as being worthy of being on their Woolworths shelves. There is definitely a certain amount of brand equity transferal that takes place here.

Woolworths communicates an unambiguous message to its consumers and a message of quality and peace of mind is what is being conveyed. Customers are aware that they are purchasing a product of quality with the freshest and most nutritional ingredients that have been prepared in the safest, most healthiest and hygienic way possible. This will enable them to still maintain a healthy lifestyle whilst enjoying good quality, innovative food.

Woolworths - the brand differentiates its offering. This is helpful as consumers often choose not to choose when they are faced with excessive choice, unless there is a vehicle available to facilitate what they believe is an informed choice. Often that vehicle is simply a brand name, which is a strong one like Woolworths, one a consumer has learnt to trust.

A brand is a promise offered by the manufacturer to the consumer and the product or service is nothing more or less than the evidence of the truthfulness of that promise. If a brand breaks faith with the consumer just once, its ability to make promises over time is all but eliminated. Woolworths maintains this through their full refund policy on Woolworths and dealer brand goods whilst still ensuring customer quality and satisfaction in all that they sell. Woolworth's customers are loyal to the brand because of its trusted value and quality. This loyalty not only impacts on their products but also ensures repeat and continued business/sales. Woolworths mission statement is to build life long relationships, after all. The Woolworths brand's clearest strength is its ability to maintain its vitality after over 70 years. This strength allows the brand to survive well past the product to which it was initially attached. This is evident with the trusted value and quality of all its merchandise that it sells.

1.2. BACKGROUND

In South Africa, the name Woolworths is synonymous with superior craftsmanship, meticulous attention to detail and value for money in all the merchandise that they sell. Woolworths has grown into a retail organisation that is able to provide its customers with an ever-growing range of high quality merchandise. Armed with carefully researched customer requirements, teams of experienced buyers develop ranges of food, clothing and home ware throughout the year. To keep abreast of world trends, they regularly source new ideas from overseas and then interpret these into ranges that are suitable for the customer. This saw the introduction of a limited range of the most wanted branded grocery and household items into Woolworths stores.

Woolworths maintains that the introduction of branded goods is purely for customer convenience and not as a repositioning strategy.

Research efforts regarding customer's perceptions and attitudes towards the introduction of branded goods into the Woolworths stores as a repositioning strategy is non existent at the moment. Currently Woolworths does not have much published material about the company as a whole, in the public domain and this has become more evident with the researchers increased exposure to various company case studies in her capacity as an MBA student. Since the researcher is currently employed with Woolworths, she have decided to take up the challenge of "filling" this gap in both their market research and the academic arena, by determining both the short and long term effects of their repositioning strategy.

The research problem shall be explored through customer questionnaires, focus group sessions and interviews with Woolworths management involved with this repositioning programme. The researcher also plans to familiarise herself with the available literature, past and current sales figures as well as any trends in customer complaints / queries and compliments over the past year and a half (May 2000 - November 2001). A non-probability sampling approach will be adopted as the

researcher needs to identify "a feel of the range of conditions" and for examples of any dramatic variations. Non probability sampling has been selected mainly because the target group is pre-determined. The target group only includes MBA students studying at University of Natal and Durban Westville.

1.3 MOTIVATION

The motivation to conduct this study comes from the researcher's involvement with Woolworths. There is a need for Woolworths to conduct a study to determine the benefits of stocking dealer brands. The lack of essential theory and background knowledge regarding trading solely as a house brand store and then introducing dealer brands is fairly limited. A knowledge and resource base pertaining to this is actually non existent in a South African context. This therefore presented a challenge to the researcher to investigate the situation and the effects and implications of such a move. Woolworths as a company was in the unique situation of only selling house brand goods. Other retailers always sold dealer brands and later introduced house brands to boost profits. Woolworths went the other way and started stocking dealer brands as of late 2000. Very few, if any, studies of this nature have been undertaken, which make this study almost unique. Having been an employee of Woolworths, I have personally experienced the varied responses of consumers towards Woolworths stocking dealer brands and realised that there definitely was a gap in research circles regarding this.

1.4. VALUE/ BENEFIT OF THE STUDY

The value of this study cannot be understated. Once the enhanced value can be quantified, Woolworths will be able to adjust its pricing strategy and product range to incorporate added value. This study will help Woolworths in Kwa Zulu Natal to better understand the value and effect of introducing dealer brands into their food markets. This study will also compare customer attitudes pre and post the introduction of dealer brand products. This should have an impact in the decisions that Woolworth's management would take on future stocking of dealer brands. The implication of/for not conducting this research is that it will not be possible to

3

evaluate the advantages and disadvantages of introducing dealer brands into Woolworth's food markets.

The repositioning of an established brand whilst still maintaining or exceeding customer expectations and standards translates into a successful strategy. Critical incidences such as a dramatic increase or decrease in sales or customer complaints have the potential to maintain, increase or decrease existing customer satisfaction levels. This research had the potential to link and merge with the ongoing Woolworth's customer satisfaction programmes whilst also measuring the long-term effects of the introduction of branded goods on customer satisfaction. The stocking of dealer brands is different from a house brand for at least four (4) reasons:-

1. Dealer brands are available at numerous outlets whilst house brands are only available at that specific retail chain's outlets.

2. Limited competition from other retailers as you have a unique product offering.

3. House brands are unique to that particular retail chain

4. Dealer brands receive national advertising coverage which allows it to occupy a primary place in the consumers mind

This study examines the feasibility of Woolworths stocking dealer brands and the effects thereof. The questions that are pertinent in this study are:

❖ What are the different problems that Woolworths could face now that they are stocking dealer brands?

❖ What strategies need to be implemented for Woolworths to maintain and grow market share?

1.5. PROBLEM STATEMENT

Woolworth's have recently introduced established dealer brands in the FMCG category within their food markets. The main aim of this was to provide the customer with a greater convenience whilst shopping in one of the Woolworth's stores. Market research has been conducted at Woolworth's head office in Cape Town regarding the mix of branded goods that they now stock. Along with this "repositioning campaign", they have re-launched themselves as *Woolworths - The Difference"* This new logo is carried through onto all of their home based Woolies products.

Information is required to establish the effectiveness of the introduction of branded goods as well as to determine whether this introduction has enhanced or diluted the trusted and established Woolworths brand. Woolworths traditionally occupied and satisfied a niche market yet the question to be asked now is: "Are they becoming just another supermarket retailer with the introduction of branded goods?" Also what are customers perceptions and attitudes towards this repositioning strategy?

1.6. OBJECTIVESOF THE STUDY

The main objective of the study was to establish what people's attitudes were towards Woolworths stocking dealer brands. This included establishing peoples perceptions on whether they believed that the stocking of dealer brands by Woolworths would allow them to enjoy a higher level of customer service or not as well as any other perceptions that they may have formed.

❖ The purpose of this research is to establish the extent to which the new repositioning campaign been successful in creating and maintaining the high quality, customer-centered retail store image that it was intended to produce.

❖ The researcher would also like to determine the influence of product and quality on the customer evaluation of competing brands.

❖ By answering the above questions, the researcher would be able to establish whether the introduction of branded goods has had a positive or negative effect on the established Woolworth's name. More specifically, the researcher intends to identify customer perceptions, interactions and acceptance levels of dealer brand goods within a Woolworth's store.

❖ This research also aims to highlight any trends in the Woolworth's customers shopping patterns as well as the influence of product and quality on customer evaluation of competing brands.

❖ The research will focus on the customer values and acceptance of the new Woolies brand - *Woolworths - The Difference*. Being applied research, this will ultimately be a fact orientated and information gathering exercise.

1.7. HYPOTHESES

❖ The introduction of branded goods as a repositioning strategy was successful in creating and/or maintaining the high quality, customer-centered, value for money image that it was intended to produce.

❖ The relationship between customer acceptance and perceptions, pre and post the introduction of branded goods as a repositioning strategy.

❖ Classical or sampling theory approach will be adopted for hypotheses testing.

1.8. RESEARCH METHODOLOGY

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

❖ The hypotheses will be tested quantitatively.

❖ Generalisations will be made based on the representativeness of the sample and reliability and validity of the research design and instrument.
It will be a field setting - normal classroom environment.

1.8.1. DATA COLLECTION METHODS

A questionnaire has been identified as the primary data collection tool and this will generate quantitative data.

1.8.2. QUESTIONNAIRE DESIGN

The questionnaire will be a pre-formulated written set of questions, (beginning with simple dichotomous {yes/no} type questions progressing to semantic differential questions, to which respondents will record their answers which will be in rather closely defined alternatives. The researcher will consider categorisation, coding, scales as well as reliability and validity as principles of measurement when designing this questionnaire. The questionnaire will be compiled with the funnel approach in mind. (See appendix A for sample questionnaire)

This customer questionnaire will be administered to MBA Students studying at University of Natal and Durban Westville. This format has been identified for it's cost and time effectiveness in securing feedback from the respondent. These

questionnaires will yield data responses that fall in the median category whilst still being quantitative in nature. An alpha numeric code will be devised to capture the data responses from the dichotomous questions whereas respondents would rate their attitudes towards a particular change/product on a five (5) point scale for the semantic differentials. This will ensure more accurate and manageable handling of the data. The alpha -numeric code will be set up with coding rules in mind namely, appropriateness, exhaustiveness, mutual exclusivity and single dimension. The preliminary codebook will be used with the pilot data and this will reveal any coding problems that may need correcting prior to the data being collected and processed.

This primary data method has been sought for its reputation in control over error and proximity to the truth.

1.8.3. PILOT TEST

A Pilot test will be carried out on approximately 25 students whilst still maintaining the same procedures and protocols. It will be conducted to detect any weaknesses in the sampling design, instruments and procedures. Should the pilot test highlight any major flaws, pre testing will be repeated to refine the questions/instruments or procedures tested. The pilot test highlighted no problems and so there was no reason to modify or alter the questionnaire in any way.

1.8.4. SAMPLE

A non-probability sample, in particular a convenience quota sample has been selected for the following reasons:

❖ Convenience: selection of target group is readily available in the form of customers.

❖ Quota: respondents characteristics are predetermined and roughly in proportion to the total market.

The target population has been predetermined and identified as MBA students. The reason behind choosing this sample is that firstly the researcher just wants to get a feel for the data as well as the fact that this will allow us to measure the difference, pre and post the introduction of branded goods.

7

1.8.5. SAMPLE SIZE

The focus will be on MBA students studying at University of Durban Westville or Natal. The focus of the questionnaire will be information gathering.

Reliability and Validity

Characteristics of a good measurement are reliability and validity.

1.8.5.1. Reliability

Internal consistency and the reliability of measures can be tested using Cronbach's Coefficient Alpha. Reliabilities less than 0,60 are generally considered to be poor whilst those in the 0,7 range are considered to be acceptable. A good score would include anything over 0,8. Basically the closer the reliability coefficient gets to 1, the more reliable the measure is. The researcher would also apply the Kuder Richardson Formula 20 (KR20) for the multi scale items (semantic differential responses).

In order to ensure that the results are reliable, the researcher would endeavour to choose the representative sample as scientifically as possible. Objectivity will be maintained at all times during the development and management of the questionnaire and focus group session. This will be obtained by involving honest observation/assessment and having no personal bias. Also all respondents' replies/answers would be unprompted/unaided allowing for no prompting bias.

1.8.5.2. Validity

Content Validity: The researcher would ensure that there was adequate coverage of the objectives of the topic under study.

Discriminant Analysis The researcher would use factor analysis to determine the construct adequacy of the measurement device. This test is used if similar/related questions are the same in their response.

External Validity: This could be seen as a threat in that a substantial number of the target group may refuse to participate in the questionnaire due to time constraints (e.g.: lunch break, rushing after work). The question that this then poses is that can these findings be generalised to the general target population if the questionnaire was only filled out by MBA students that participated in the survey.

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

The researcher would definitely use conjoint analysis, as it is powerful tool to measure customer attitudes and choices of product attributes. It could also be used to examine how competitors would react to idea of Woolworths stocking branded goods.

1.8.6. DATA ANALYSIS

The data would be analysed in order to find solutions to problems as well as fulfilling the objectives and hypotheses. Computers and Computer programmes like SPSS make it possible and easy to edit/code and enter data as well as for cross-classification analysis. Graphical techniques and visual representations will be used to represent the statistical data results. Examples of these would include frequency tables, bar or pie charts and histograms. Statistical Process Charts will be used to identify trends that may exist with the Woolworths shopper. An unknown /no answer entry will be created for answers that are not appropriate (not ticked or double ticked). The researcher will edit and capture all the data immediately/daily to avoid any backlog with capturing and editing. The researcher plans to use an optical character recognition program in conjunction with a flat bed scanner. This will be adequate for a research project of this size. This will reduce data handling as well as decrease time between data collection and analysis whilst providing more useable information.

1.8.7. NATURE AND FORM OF RESULTS

The results would be in the form of statistical conclusions, applied findings, strategic plans and recommendations.

1.8.7.1. Appropriateness of Methodology and Data Collection

The number of questionnaires that were returned by the respondents (50) provided a set of credible data because of its size. It can also be said that the sample size of 100

drawn, using the EPISTAT software, provided fairly substantial data to analyse and interpret. Random sampling ensured that all MBA students had an equal chance of being included in the sample, irrespective of the demographics. However, it should be noted that the overall purpose of the sampling method was to ensure transparency and convenience in the selection. Further research into other customer needs and perceptions is recommendations. The method used for data collection was a systematic one, which achieved its purpose i.e. that of collecting as many questionnaires as possible.

The up-to-date software technology used, SPSS facilitated data collection. The data was coded upon collection and SPSS helped the researcher formulate the descriptive statistics, and conduct the different tests as well as the multivariate analysis i.e. cluster and factor analysis. Overall methodology used sample selection and data collection was satisfactory and sufficient to draw upon the results and conclusions.

1.9. DEFINITION OF CONCEPTS

The following definitions will assist in understanding various aspects of this study:

1.9.1 Dealer Brands

Dealer brands are also known as national brands. These are readily available and advertised in a host of stores and locations. The manufacturers name or brand name will be evident on the product.

1.9.2. House Brands

House brands are also known as private labels. These can be defined as labels or brands that are unique to a specific store or retailer. The retailer's name will be evident on the packaging of the product.

1.10. STRUCTURE OF THE PROJECT / ORGANISATION OF THE STUDY

The chapters in this study are as follows:

Chapter 1: Overview

Chapter one is the introductory chapter that presents the problem to be investigated. It introduces the reader to the foundation of the study, whilst covering areas such as

the background, its purpose, its limitations as well as the manner in which the study has been structured.

Chapter 2: Theory Review

Included in this chapter is a broad theory framework starting with consumer buyer behaviour and the various roles and decision-making process that are involved there. The next area that is covered is the marketing mix, market segmentation and target market selection. This chapter rounds off with topics of brand attitudes, loyalty and customer satisfaction. All relevant literature and previous studies have been covered in this chapter.

Chapter 3: Company Overview

This chapter details the history and current operations of Woolworths Holdings Limited covering both their local and international businesses. All aspects of Woolworths business are discussed in this chapter.

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

Chapter 4 deals with the statistical results of the research, the methods of data interpretation and analysis that was used. It will feature the key factors that affected the conclusive attitude of Woolworths shoppers towards stocking branded goods. Lastly the researcher will draw on the theory and objectives of the study in discussing the research findings. This will assess the appropriateness of the methodology and data collection techniques that were used in this study. The results are consistently presented in the form of tables and figures.

Chapter 5: Recommendations and Conclusion

This chapter will draw conclusions from the results and make broad recommendations regarding the implications and effects of Woolworths stocking dealer brands.

1.11. SUMMARY / CONCLUSION

This chapter has clearly indicated the critical questions to be answered as well as the aims of the study. The main area to be researched that was highlighted is the effect of dealer brand goods into a Woolworths food market will have on the Woolworths brand name and customer.. This study was motivated by the researcher's interest in Woolworths as well as how others felt about Woolworths stocking non-Woolworths items. This study was aimed to elicit the perceptions and attitudes of Woolworth's shoppers towards Woolworths stocking dealer brands. Very few, if any, studies of this nature have been undertaken, which make this study almost unique. The point of view of this study on Woolworths stocking dealer brands is one seen from the customer's perspective and the next chapter will review the respective theory in this perspective in mind

CONSUMER BEHAVIOUR IN CONTEXT

2.1. INTRODUCTION

The purpose of this study is to identify and explore the attitudes, ideas and images that consumers and potential consumers have about Woolworths stocking branded goods as part of their repositioning strategy. This chapter will explain the fundamentals of consumer buyer behaviour theory that is relevant to the nature and objectives of this study. The discussion will commence with an examination of factors that make a consumer aware of his need, continuing onto the buying process and culminating in customer satisfaction.

The aim of any business is to acquire and keep customers. The market today has evolved to such an extent that companies are constantly competing for survival and in this type of situation, the customer is always king. "Customers are better educated than ever before, with greater spending power and mobility and they are able to shop around much more in order to buy whatever best meets their needs." (Jim Blythe 1997:2) Therefore it is imperative for marketers to understand consumer buyer behaviour in this ever-competitive world. Companies need to realise that they do not exist in isolation and in today's competitive market place, companies have to plan ahead and develop strategies for their long-term survival and growth. In other words, companies need to obtain a sustainable competitive advantage and the best way to do this is by differentiating oneself from the competition. This can be achieved through efficient use of company resources and opportunities whilst not losing sight of the long-term objectives. This process is known as strategic planning and Kotler defines it as "the process if developing and maintaining a strategic fit between the organisations goals and capabilities and its changing marketing opportunities" (Kotler and Armstrong, 1997).

2.2. MARKETING & CONSUMER BUYER BEHAVIOUR

Marketing does not just constitute of selling, advertising and promotion, rather it is "a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others" (Kotler et al, 1994). Marketing rests on the demand for a product or service by

consumers, but this is not demand in the usual sense of people insisting for goods or services. "Rather, it is the economists' term for people's ability and desire to buy goods and services, as contrasted with the supply of goods and services that are available" Edward C. Bursk (1962;47). Therefore, it can be said that marketing causes things to happen by creating a demand. It must be noted that in some cases demand is tied to demand for other products and therefore does not exist independently. This in turn leads us to the consumer and what influences them to buy a specific product. "The term consumer buyer behaviour refers to the behaviour displayed by customers when they are looking for, purchasing, using, evaluating and finally disposing of whatever products and services they anticipate will satisfy their needs" (Consumer and Buyer Behaviour CB-A: 4). Dibb, Simkin, Pride and Ferrel define consumer buyer behaviour as "the decision processes and acts of individuals involved in buying and using products."
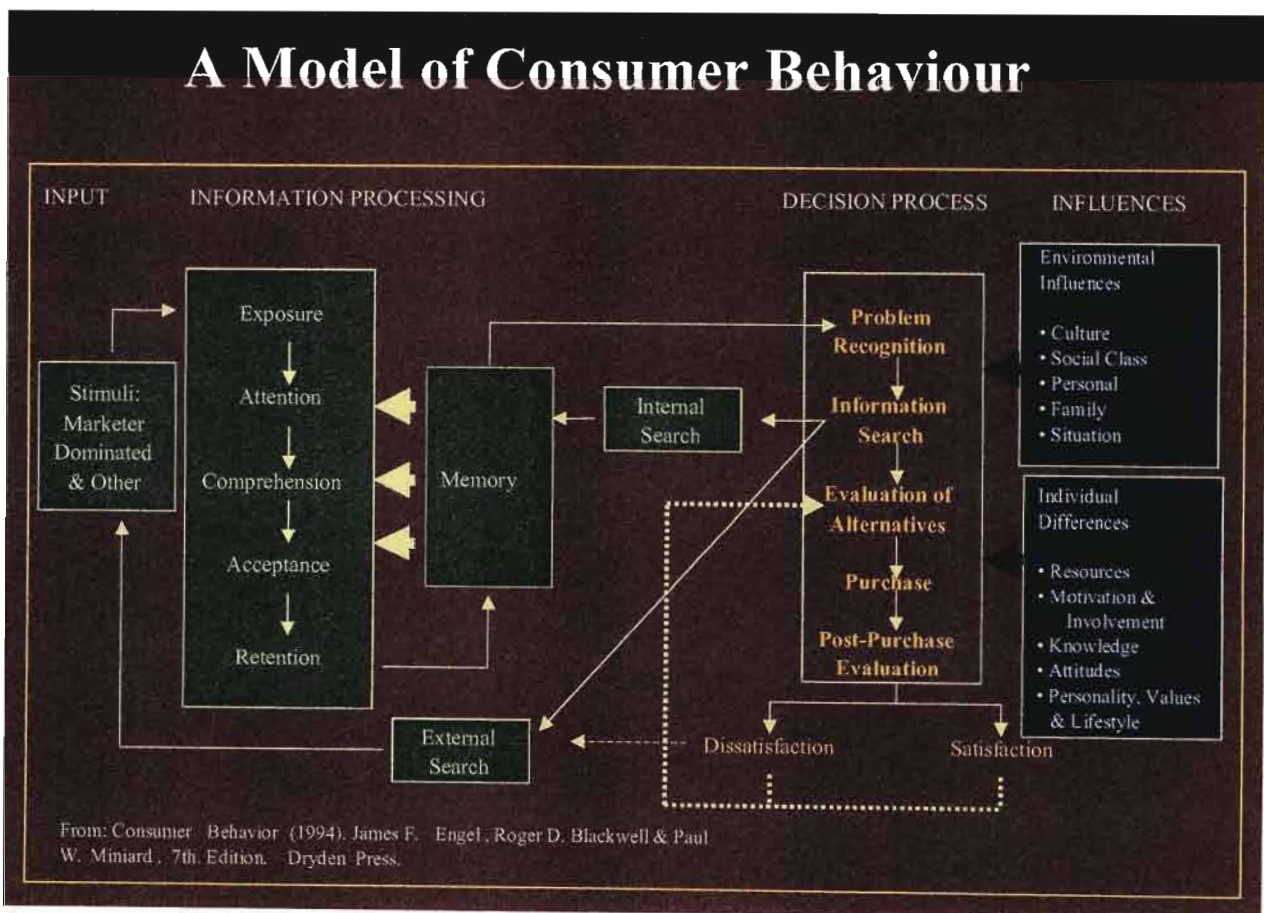
Figure 2.1: Model of Consumer Buyer Behaviour

Studying consumer buyer behaviour helps the business to develop more effective and efficient marketing mixes, identify the correct market segments, emerging markets as well as any competitive threats. It also helps them develop strategies to influence the consumers purchase probabilities. Consumer behaviour is ever changing and evolving, and is determined by what consumers think (cognition), feel (affect), do (behaviour) and influence (environment). Consumers consume goods and services for different reasons, ranging from psychological to logical, emotional, social influences or fashion. These needs may be tangible, intangible, conscious or unconscious.

Consumer buyer behaviour is the intermingling of many complex factors, which actually vary from one consumer to the next. Individual differences that influence the purchase decision process include resources, motivation and involvement, knowledge, attitudes, personality, values and lifestyles. On an external level, a consumer's buyer behaviour is influenced by four major factors; cultural, social, personal and psychological factors. Cultural factors such as a consumers culture, subculture and social class are often inherent in their values and therefore influence their decision making processes. Social factors are the 'outside' influences that others have on our purchase decisions. Social factors include groups, family, roles and status and they can either have a direct or indirect impact. Personal factors comprise of variables such as demographics, lifecycle stage, occupation, lifestyle and economic circumstances and these variables are responsible for the preference change that occurs as our situation changes. The psychological factors that affect consumer buyer behaviour and purchase decisions are motivation, perception, learning, beliefs and attitudes. It can then be said that these factors give rise to consumers developing product and brand preferences. Although these factors are not in direct control of the marketer, a thorough understanding of them and their impact will help in formulating marketing mix strategies that are applicable as well as appealing to the target groups preferences.

The marketer needs to understand who their customer is and what their roles are in the buying decision so that the marketing strategy can be appropriately developed

and targeted at the correct group of people. Kotler has classified consumer-buying roles into five groups namely:

CONSUMER BEHAVIOUR ROLES	
ROLES	DESCRIPTION
Initiator	This is the person that initially thinks of or suggests buying the particular product
Influencer	A person whose opinion or advice affects the final buying decision
Decider	The person that is ultimately responsible for the buying decision
Buyer	The person who makes the actual purchase
User	The person responsible for consuming the product or service
Source: Adapted from Philip Kotler et al, *Principles of Marketing, European Edition* (Pearson Education Limited, 2000)	

Table 2.1: Consumer Behaviour Roles

A consumers purchase decision will vary depending on their level of involvement in the actual purchase decision. Figure 2 shows that buying decisions can range from routine to limited and extensive.

Buying Decision Process Continuum

| Extended Problem Solving | Mid-Range Problem | Limited Problem Solving |
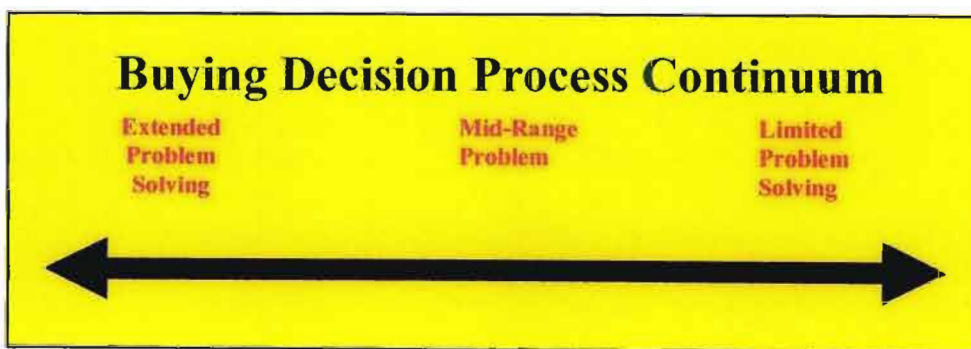
Figure 2.2: Buying Decision Continuum

A routine buying decision occurs when a consumer purchases low cost, frequently purchased products that they are familiar with. Limited problem solving would be a

result of when consumers are confronted with an unfamiliar brand in a familiar product category and extensive product solving is when buyers are purchasing unfamiliar, expensive products in an unfamiliar product group. Riskiness, personal relevance and time affect consumer's influences on the extensiveness of the buying decision process. This in turn leads to a buying decision continuum.

In order for a consumer to reach a buying decision, they normally pass through five distinct stages as illustrated in figure 3. It must be noted that consumers do not need to pass through every stage of the process and may in fact by-pass some stages on a more routine, low involvement purchase.

Figure 2.3: Simplified Model of the Decision Making Process
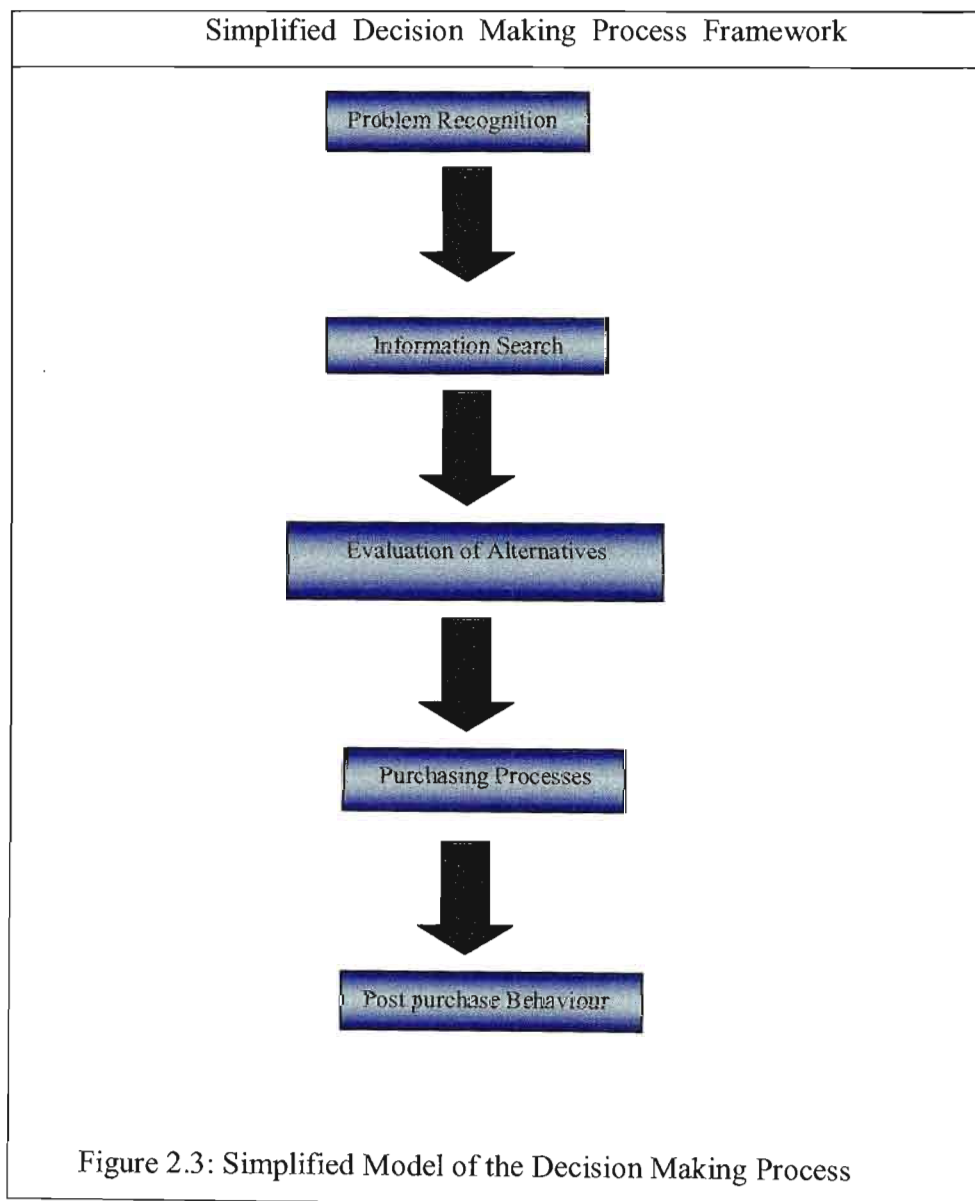
A consumer is generally hesitant when faced with making a buying decision regarding a new product. Marketers must be aware of this phenomenon and realise that consumers pass through different stages of problem recognition (awareness), information search (interest), evaluation of alternatives (evaluation), purchase (trial) and finally post purchase evaluation (adoption), as seen in figure 3. The diffusion process is adoption by a group, acceptance by a market, in other words, it has a more general approach or application. There are four theories to the diffusion process. This could be diffusion from the upper class to the lower class and this is commonly seen with haute couture fashion. Second example would be the "trickle across effect" in which all classes or market segments are simultaneously made aware of the product. Subculture diffusion is when certain products are more relevant and applicable to certain target markets. And lastly, innovative individuals such as pop stars or celebrities are another tool that is used in the diffusion process. There are five different catergories of adopters and this can be seen in table 2.2.

ADOPTERS	DESCRIPTION OF CHARACTERISTICS
Innovators	First to adopt, well educated, more disposable income
Early Adopters	More socially integrated than innovators, more important as opinion leaders
Early Majority	Slightly above average in age, income, status, education etc
Late Majority	Sceptics, older, less educated, lower social status and income
Laggards	Oldest, lowest income and social status

Table 2.2: Categories of Adopters

Figure 2.4. details the buyer decision process in the form of a model and continuum. In the case of a first purchase decision, if extended problem solving (EPS) were involved then it would imply that buyers would be more likely to notice differences amongst the brands. If the first purchase involves limited problem solving (LPS),

then the consumer will bypass the information search (IS) and evaluation of alternatives (EA) stages. The three preconditions that must be present for this to occur are constrained resources, low motivation or involvement and limited perceived differentiated by consumers of brands.

Buyer Decision Process: Model and Continuum

EPS	PR ⟶ IS ⟶ EA ⟶ P ⟶ PPE
MRPS	PR ⟶ is ⟶ ea ⟶ P ⟶ PPE
LPS	PR ⟶⟶⟶⟶⟶⟶ P ⟶ PPE
Habit	PR ⟶⟶⟶⟶⟶⟶ P ⟶ PPE

PR: Problem Recognition   **P**: Product

EPS: Extended Problem Solving   **PPE**: Post Product Evaluation

LPS: Limited Problem Solving

EA: Evaluation of Alternatives   **IS**: Information Search

MRPS: Medium Range Problem Solving
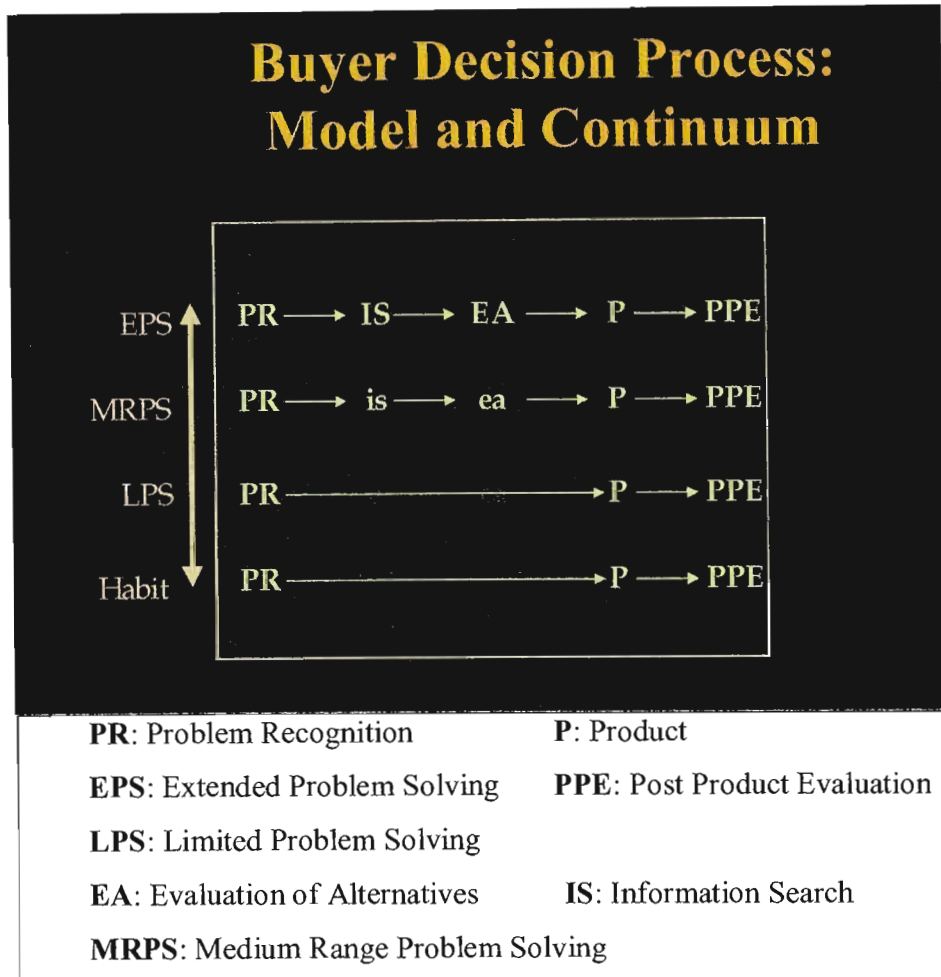
Figure 2.4: Buyer Decision Process: Model and Continuum

This would result in a limited search of known brands only and satisfaction will be derived via habitual purchases, which will be made out of inertia. With all things being equal, the tendency is for decision making to actually become habitual through repeat buying. Habitual brand loyalty can be due to brand loyalty or inertia. Brand loyalty is what most marketers strive to achieve and this would be a result of high involvement and perceived differentiation on the consumer's behalf. Inertia on the

other hand occurs when consumers begin to brand switch. Brand switching can be the result of new claims from competitors or due to increased price competition. Consumers adopt new products at varying rates and therefore marketers should focus and concentrate their efforts on early adopters as these consumers are most likely to purchase early in a products life cycle. Early adopters or consumption pioneers, as they are also known, have a long-term effect in that they influence other consumers' adoption processes and patterns. The marketing management process consists of analysing the market and the environment for opportunities, carefully segmenting the consumer market and selecting the appropriate target markets, developing an effective marketing mix to reach these customers and managing the entire marketing effort. At every stage it is important to consider the impact of the competition and their goals, objectives and strategies as well as your own companies resources and position in the industry.

	Routine Problem Solving	Limited Problem Solving	Extensive Problem Solving
Purchase Involvement Level	Low	Medium	High
Problem Recognition	Automatic		Complex
Information Search & Evaluation	Minimal	Limited	Extensive
Purchasing Orientation	Convenience	Mixed	Shopping
Post Purchase Process	Very Limited	Limited	Complex
	Habit		Loyalty if satisfied
	Brand Loyalty	Brand switching if dissatisfied	Complaint if dissatisfied

Table 2.3: Characteristics of Consumer Problem Solving Approaches

Marketers understand that they cannot appeal to all consumers or buyers in a market, hence the reason for identifying segments of the market that they can best serve. This concept is known as target marketing that has evolved from marketing. There is a three-stage process beginning with mass marketing. Mass marketing is where a company practices production, distribution and promotion on a mass scale. The term mass marketing was derived from the belief that one product would appeal to all, with low price and cost being the biggest draw card. This gave rise to product variety marketing where two or more products are developed and marketed in order to meet the varying needs of the different consumer segments. As time went on, target marketing was developed and introduced. This is a process whereby a company identifies different market segments and develops specific marketing mixes for each segment. Nowadays we see that companies have moved away from mass marketing and product variety marketing and more towards target marketing.

Figure 2.5. illustrates the range of different market forces that are responsible for shaping the marketing environment. Some of these forces have a more direct impact on a business, whilst other forces have a more indirect impact. With increasing competition and consumers demanding high quality, value for money products and services, a company can no longer expect to be successful by simply designing an offering and releasing it to the market place.
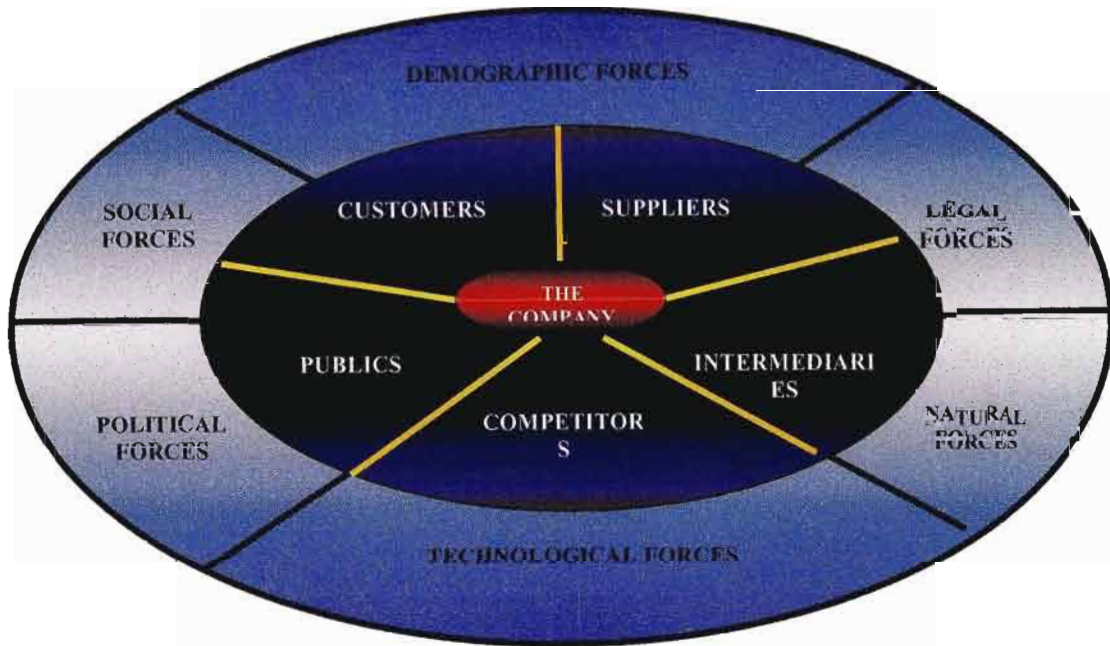
Source: Adapted from Philip Kotler, *Marketing Management* (New Jersey: Prentice Hall, 2000), P.8

Figure 2.5: The Marketing Environment

2.3. MARKET SEGMENTATION

Market segmentation can be thought of as a process where the market is broken up into smaller more defined sub-markets. The reasons for segmenting a market can be many. Two major reasons are as follows:

❖ to group buyers with similar needs into smaller sub-markets

❖ to maximise a companies resources and the likelihood of success by targeting a group of customers that are most inclined to purchase the product.

There are very few products that actually appeal to all consumers, simply because different consumers have different needs so mass markets are very rare today. Marketers will group consumers with similar needs in segments. "Market segmentation is the division of a market into distinct groups of buyers who might require different products or marketing mixes" (Kotler et al, 1994). It could be said that segmentation is the division of heterogeneous consumer and buyer markets into homogeneous markets of consumers and buyers with similar needs. Figure 5

illustrates the fact that markets are segmented on the following bases namely; geographic, demographic, psychological/psychographic, socio-cultural, user related, use-situational, benefit and hybrid segmentations.
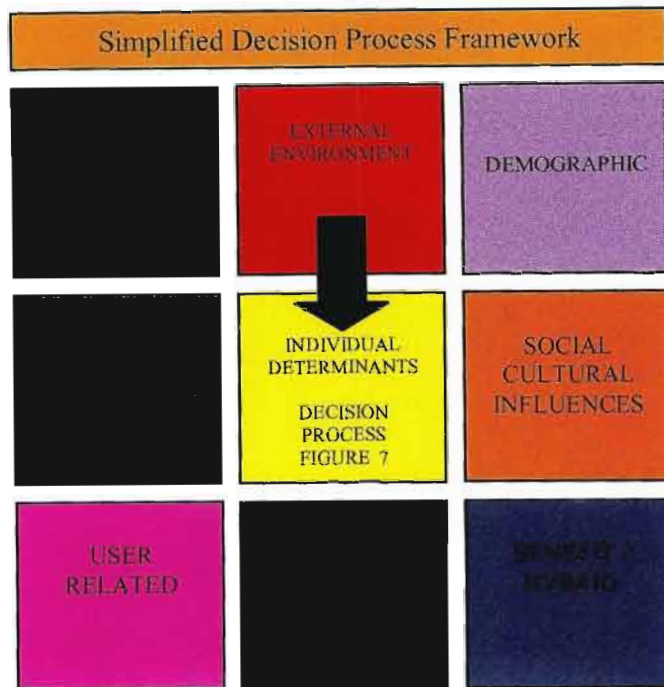
Figure 2.6: Simplified Decision Process Framework

2.3.1.Geographic segmentation

Geographic segmentation allows for the market to be divided according to location. It is believed that people in the same area have similar needs and wants yet different purchasing patterns can and do exist across different cities.

2.3.2. Demographic segmentation

Demographic segmentation uses the vital and measurable statistics of a population. This type of segmentation divides a market into groups based on variables such as age, sex, marital status, occupation, income and education. This is the most popular base for segmenting consumer markets mainly because it highlights the variance in consumer needs as well as the ease of measurement that

it allows. This type of segmentation however is not indicative of why a particular brand is preferred, rather it indicates current or ongoing trends.

2.3.2.1. Segmentation according to Age

Product needs vary according to the age of the consumer. This is noted in the marketing of magazines and breakfast cereals.

2.3.2.2. Segmentation according to Sex

Gender segmentation was a distinguishing factor in the marketing of some goods and services yet this is no longer reliable as we have a merging and blurring of roles in society. The increase of single parent families, male home makers and working women, have seen an integration of the traditional roles.

2.3.2.3. Segmentation according to Marital Status

Most marketing campaigns are developed and centred on the family with the profile of household decision-maker as focus. This is changing rapidly as one person single households in higher income groups are becoming more predominant. They tend to be higher consumers of non-supermarket items as opposed to run of the mill, mass marketed goods. Woolworths would certainly have to take cognizance of this point in their initial marketing of house brand goods as well as with the introduction of dealer brand goods.

2.3.2.4.Segmentation according to Income, Education and Occupation

Income is an important variable in determining market segments but this does not mean that people with the same earning power have the same vales, tastes, attitudes and lifestyles. This is where the other factors of education and occupation play a role. It is perceived that people with advanced educational training will have a high level occupation which in turn will produce a high income. These three variables are closely related and form a composite index known as social class.

2.3.3.Segmentation according to Psychological and Psychographic Characteristics

Psychological characteristics refer to the consumer's inner qualities. These allow for segmentation on the following basis:
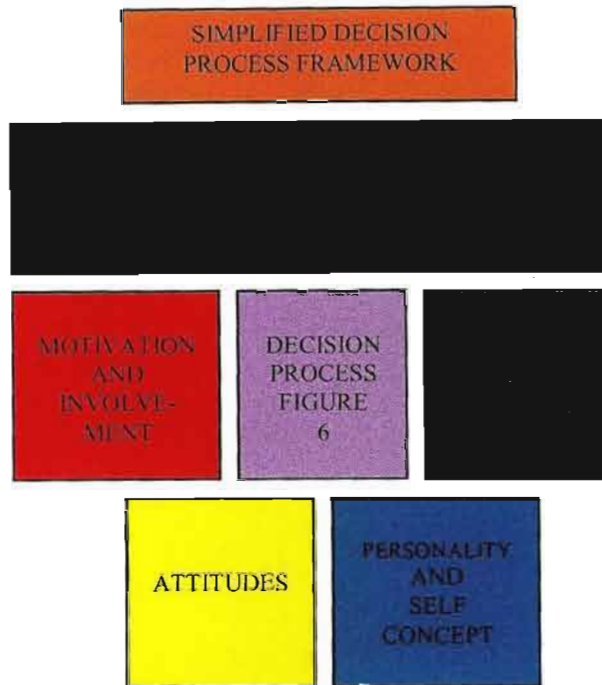
Figure 2.7: Simplified Decision Process Framework

❖ Needs

❖ Motivation

❖ Personality houses three main types of theories namely psychoanalytical, social or neo-Freudian and Trait and Factor personality theories. Id, ego, superego and defense mechanisms make up the psychoanalytical personality theories. Repression, Projection, identification and reaction formation are part of the defense mechanisms. Karen Horney is the mother of social personality theories and she claims that there are three types of orientation, namely compliant, aggressive and detached orientation. Trait theory states that we are ready or have the tendency to respond in a

25

similar fashion in different situations whilst factor theory is just an extension of the trait theory. It states that we have interrelated traits.

❖ Learning

❖ Perception is the link between the mind and its environment. In terms of advertising, vision and sound are important in above the line advertising whilst smell, touch and even taste take precedence in point of sale advertising.

❖ Attitude is made up of three factors: cognition (to learn), affect (to feel) and conation (to do). This means that we learn of an object, develop a feeling towards it and then we take action.

❖ Level of involvement

Psychographic segmentation segments a market into groups based on socioeconomic status, lifestyle analysis or personality characteristics of the consumer. This would include a study into the consumer's activities and how they spend their time, their interests in terms of preferences and priorities and their opinions. This would have provided Woolworths with valuable information regarding which branded goods to stock. The drawback of this approach is that it is complex, time consuming and very reliant on the researchers judgement and analysis.

2.3.4. Segmentation according to Socio-cultural Characteristics

Socio-cultural variables include stages in family life cycle, social class, cultural values, subcultural and cross cultural affiliations. These allow for further market segmentation. Family life cycle is based on three main factors namely age, income and employment status. The generally accepted stages in a family life cycle include young singles, honeymooners, parents, post parenthood and dissolution. It is imperative that marketers constantly reposition their product to be in line with the changing needs of their consumers.

Social class would refer to the consumer's relative status in a community. This is influenced and determined by an index of several demographic variables namely education, income and occupation. It can then be concluded that consumers in

different social classes vary in their purchasing power, usage rate, buying patterns and brand preferences.

Culture is another distinguishing factor when segmenting markets. It is believed that people of similar cultures will share the same or similar customs, beliefs and values. With larger cultures, it is necessary to segment into sub groups.

2.3.5. Use Related Segmentation

This identifies consumer groups in terms of product or brand usage. The usage rate, awareness status and degree of brand loyalty are characteristics that are use to determine this type of segmentation. Usage rate is divided into Heavy users, medium users, light uses and non-users. Non-users must always be considered, as there is a possibility that they can be converted to be users of a specific product or service.

Awareness status relates to level of product awareness that a consumer possesses and whether they need more factual information to be converted into a user. It is important for the marketer to understand the ways in which a brand user differs from a non user and then use that information to develop new products or promotion strategies to attract new users whilst still retaining brand users. Brand loyalty typifies the type of consumer that can be relied upon to loyally purchase a specific brand. Note must be made of brand switchers and non-brand loyal customers so that marketing strategies can be adapted accordingly.

2.3.6. Use- Situation Segmentation

Certain situations determine that consumers require a specific product or service, whilst others need slight persuasion. This is seen in marketing campaigns that have commercialised events like mothers' day and fathers day. Time is another factor when deciding on product choice. The advent of Internet shopping has superceded the mail order system, and this allows for speedy, safe and convenient shopping but at a fee. Depending on the product, discounts are sometimes available for advance purchase and airline tickets are a prime example in this case.

2.3.7. Segmentation according to Benefit

This is an ongoing battle that marketers and advertisers face in identifying one particular benefit that should be communicated to product users. Benefit segmentation is useful in repositioning already established products as well as discovering and introducing new and additional benefits.

2.3.8. Hybrid segmentation

This is becoming increasingly popular as marketers segment markets by combining several variables instead of only using a single segmentation base. Examples of this type of segmentation include geodemographic segmentation and Value and Lifestyle Programme (VALS 2). Geodemographic segmentation is based on the principle that people in a specific area have similar interests, lifestyles, and tastes, and therefore enjoy a similar financial status. VALS 2 on the other hand, was developed in the late 1970's and is a segmentation programme that divides the population into three (3) general consumer groups according to orientation and these consumer groups are then further subdivided into eight (8) subgroups. The general consumer groups include the principle orientated, status orientated and the action orientated. These are then further divided into the following subgroups: Principle orientated consists of the fulfilleds and the believers. The status-orientated group has the actualisers, achievers, strivers and strugglers whereas the action-orientated group has the experiencers and the makers. It must be noted that each of these consumer groups has their own attitudes, lifestyles and purchasing patterns. Their resources, in terms of psychological, demographic and socioeconomic factors, also varies and impacts on their buying decisions.

2.4. CRITERIA FOR EFFECTIVE TARGETING OF MARKET SEGMENTS

For any of the above to be effective and implemented, the target market segment needs to be:

❖ Identifiable (the size and purchasing power of the segments must be measurable and identifiable)

❖ Sufficient (Must be substantial in terms of size)

❖ Stable or growing (the segments must be large or profitable enough to be viable for the company)

❖ Accessible (It must be able to reach and serve the target market in terms of media and costs)

2.5. TARGET MARKET SELECTION

A target market can be defined as a set of buyers with common characteristics that a company has identified and decided to serve. Target markets are selected after careful evaluation of the various market segments. There are three market coverage strategies available in selecting a target market. They are undifferentiated marketing, differentiated marketing and concentrated marketing. Undifferentiated marketing is when a company ignores market differences and approaches the market as a whole with one market offer. This is a mass appeal and focuses on appealing to the largest number of buyers and their common needs as opposed to what is different. It is difficult to develop a brand or product that appeals to and satisfies all buyers' yet undifferentiated marketing provides cost economies. Differentiated marketing is when a company targets many market segments but with different marketing mixes for each segment. This form of marketing is becoming ever popular yet it is an expensive route to adopt since the marketing mix has to be modified in order to suit the different segments' needs. Concentrated marketing occurs when a company concentrates on a large share of one or more segments and is beneficial for a company with limited resources. The company resources, product viability, product life cycle stages, market viability and competitors' marketing strategies must be considered when choosing a market coverage strategy. Product and market positioning is determined by various factors that a consumer would create in his or

her mind. These factors are determined by a combination of perceptions, feelings and impressions that consumer may have for a specific product or brand compared to competing products or brands. Positioning is crucial in the success of a product as it is not always the actual attributes of a product that make it a success but the perceived attributes that is created in the consumers mind. A typical yet basic example of this would be a high quality product that is not perceived as such would not sell well as a high quality product. Positioning cannot be left to chance and it is reliant on the marketing mix to create the desired positioning in the consumer's mind.

Positioning is a key concept in marketing and it relates to the process undertaken by a marketer as he strives to obtain a favourable position in the mind of the consumer relative to the competition. A 'perceptual or mental ladder' is a good way to think of the favourable position in the mind of the consumer that marketers are trying to influence. When a consumer evaluates a variety of competing offerings, it will typically be rated against one another.

2.6. MARKETING MIX

The marketing mix comprises of four (4) demand factors, which in varying degrees and combinations will determine whether or not people will be persuaded to purchase. The four factors that make up the marketing mix are product, price, place and promotion.

2.6.1. The Product

Marketing rests on the principle of meeting the needs and wants of consumers. Therefore a product can be defined as any offering that is made to satisfy the needs of consumers. A product can take the form of a tangible good, service or even an idea. A product is a combination of the benefit it provides, its tangible features and the additional service that accompanies it. A product comprises of three levels namely the core, actual and augmented levels. The core level of a product satisfies the core benefits of a consumer actually purchasing a product. The product features, brand name, packaging, styling and quality all form part of the actual product whilst the augmented level is satisfied by the additional services and benefits that are built

around a product such as after sales service, guarantees and delivery. Products should be viewed on all three levels so that improvements and sustainable competitive advantage can be obtained. The main idea here is to align the product characteristics with what the consumer wants as closely as possible, whilst taking the size of the potential market into consideration. However most companies fail in this regard as they focus on the product characteristics instead of the consumer's characteristics. Products are classified into two main groups according to their characteristics. These two broad categories are consumer and industrial product groups. Consumer goods include convenience, shopping, specialty and unsought goods whilst industrial products include materials, parts, capital items, services and supplies. Consumers generally base their purchase decisions on tangible product attributes such as quality, features and design. Marketers, in turn, use these features to position the product in the consumer's mind. Brand names on the other hand, are intangible and these add value to a product whilst providing the consumer with information and instilling a sense of brand loyalty. Brand name is often linked with product quality and price. Brand names also make for easy comparison of different products as well as creating the belief of consistency in quality across the brands for consumers. Therefore this reduces the risk of new product failure if the brand has been previously successful. Packaging and labeling need to be standardised and maintained across the different products that carry the same brand name in order to reduce new product failure. Packaging can be used as an effective marketing and promotional tool instead of just being used for protection of the product. A group of products from one company that is directly related (all detergents) and sold through the same outlets to a similar target group and within a set price range can be defined as a product line. A product mix on the other hand, is the total number of product lines that a company has for sale. It includes the length (total number of products in each product line) and depth (total number of versions of each product) of each product line. Width of a product line describes the different products in a line or range whilst consistency is how closely related the lines are.

Companies should be constantly on the look out for new product development. There is no guarantee that a successful product will continue to be so in the long term. New product development consists of an eight-step process starting with idea generation, screening, concept development and testing, marketing strategy, business analysis, product development, test marketing and culminating in commercialisation. This will set the product on a life cycle. The first stage is the introductory stage, which commences with the launch of the product. This stage is characterised by a slow sales growth and a heavy expenditure account. The second stage is known as the growth stage in which sales start to increase and profits are maximised. The maturity stage is the third stage in which sales start to stabilise and there is a general acceptance of the product by consumers. Normally there is increased competition from competitors by this stage and this could lead to a decline in profits. The final stage is the decline stage in which profits and sales both start to decline.

2.6.2. The Price

Internal factors as well as the external environment are both determining factors in the company's pricing decision for choosing an optimal price for the product. The internal factors that affect price are the marketing objectives, the marketing mix strategy and the costs of producing, promoting and distributing the product. The marketing objectives include current profit maximisation, survival, market share maximisation, product quality leadership and sustainable competitive advantage. These must be considered when selecting the product positioning and be consistent with the image of the product. The market and demand are the two external factors that influence the maximum price that an organisation can charge for a product. The pricing strategy that a firm chooses will depend on the type of market that they are compete in. There are four main types of markets namely, pure competition, monopolistic competition, oligopolistic competition and pure monopoly. Pure competition exists when no one seller exerts pressure or influence over the price that is set and all products that are sold are identical. The customer is king in this situation as no customer would purchase from a seller that charged a higher price than his competitors. Monopolistic competition is when sellers compete on the

factors other than price and they have differentiated their product from the competition. Oligopolistic competition occurs in a market with a few sellers who are highly sensitive to each other's pricing and marketing strategies. This sort of situation usually results in long-term price cuts. A pure monopoly is when there is one seller that has control of price setting due to an absence of competitive pressure. This is controlled by the introduction of price ceilings by government or regulatory bodies to prevent price levels from rising too high. Consumers perceive certain products with a specific value. Should a product be priced above this level, consumers will not purchase it and vice versa, so it is imperative for marketers to determine the appropriate level for product pricing. Therefore the price that a company charges for its products will determine the demand for that particular good. According to economic principles, the higher the price, the less the demand for the product. Consumers also evaluate the price of a product through comparison with competitor's products. Pricing strategy in this sense is very important, as perception is that a higher price signals higher quality. Consideration should also be given to the prevailing economic conditions as well as government's political and legal policies. The actual price of the product versus the disposable income available as well as the attractiveness of other uses of money for other products and services needs to be considered at this point. "If a luxury product elicits a much better response among high income families than among low income families, then it may be inferred that the price involved is the cause of the difference." (Edward C. Bursk:1962)

There are numerous pricing methods that are employed ranging from cost based pricing, to buyer based pricing and competition based pricing. Cost plus pricing is when the seller adds a standard mark-up to the cost of the product. The advantage of this method is that it is simplistic in nature whilst the main drawback is that it ignores current demands and competitor pressures. Buyer based pricing is determined by consumers perceptions of the product and not the sellers costs of the product. Marketers use non-price variables of promotion, brand name and product features to increase the perceived value of the product. The real dilemma that marketer's face when using this method is in establishing what the consumers perceived value truly is. Going rate pricing forms part of competition based pricing

and this occurs when prices are set based on competitors prices in the market. As discussed earlier, products go through different stages in the life cycle and the introductory life stage lends itself to the market skimming and market penetration strategies. Marketing skimming involves pricing the product at a high price in order to skim the maximum profit from the target markets that are willing to pay for the high price. This method is effective if the product is consistent with superior quality and image. Market penetration is when the product is priced at a low level in order to gain market share and build brand loyalty. This method is advantageous for a low involvement, repeat purchase products that achieve economies of scale. Other pricing mechanisms that marketers use are psychological pricing, promotional pricing and geographical pricing. Psychological pricing is when prices are determined by considering the psychological impact that pricing will have on the consumer. This theory may explain why a large number of products are prices at R9, 99 and not R10, 00. Promotional pricing is utilised when companies reduce their prices in order to increase short-term sales. This is particularly useful for loss leaders. Lastly, geographical pricing is when a company alters pricing structures in order to absorb various costs such as the extra cost of shipping or delivery.

2.6.3. The Place

The location, convenience and accessibility are determining factors in the purchase of a product. Within the store, position is another factor to consider namely: end of aisle, eye level or bottom of the shelf.

2.6.4. The Promotion

Calvin P. Duncan states in the Advances of Consumer Research, Vol.17, p733-4 that consumers associate hard selling with low quality products, the most heavily advertised brands are normally among the best brands, stores that advertise a lot have overpriced merchandise and lastly that items tied to 'giveaways' are not good value. Promotion also includes the communication process (advertising) and the actual visual presentation (packaging) of the product. The communication process as seen

in figure 2.8., consists of nine elements: sender, encoding, message, media, decoding, receiver, response, feedback and noise.
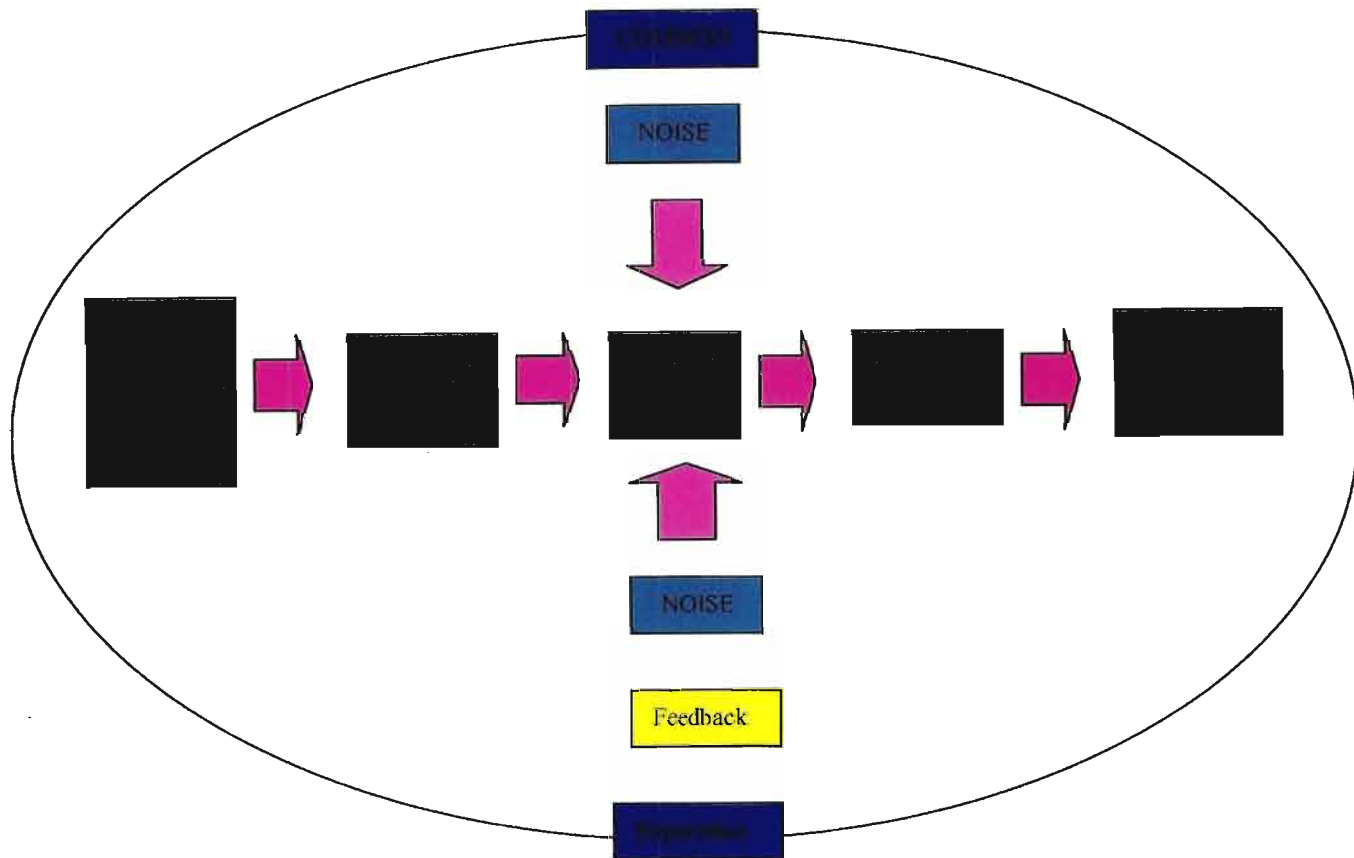
Source: Adapted from Chris Skinner, Llew Von Essen, The Handbook of Public Relations (South Africa: Southern Book Publishers, 1991), p.69

Figure 2.8: Model of the Communication Process

As seen in Figure 2.8, the sender begins the communication message, which is encoded into words or pictures to convey the intended message. The media is used to communicate this message and it is transferred to the receiver who in turn decodes the information. It is at this stage that the receiver interprets the message to different meanings depending on their past experience or reference frame. Their response is visible in them buying the product or not and this in turn provides valuable feedback to the organisation about the effectiveness of the promotion. Noise, which is a form of distortion, may be present throughout the communication process and this may

result in the receiver getting a different message from what was originally intended. The message content has three types of appeal which are rational, emotional and moral appeal. The rational appeal highlights the consumers self interest as well as the product desired benefits whilst the emotional appeal plays on a consumers emotions in order to stimulate a purchase. This type of appeal can evoke positive or negative emotions within the consumer. Lastly, moral appeal highlights to the consumer what is right and wrong in a behavioral sense. Channels of communication can be either personal or non-personal. Personal communication includes word of mouth communication as well as opinion leaders and people of influence. Non-personal communications are media messages without any direct personal contact such as TV, magazines and billboards.

Many models have been put forward to explain the communication process. William McGuire of Yale University states that for a person to be persuaded by any form of communication, there are six steps that must occur, which are:

1. Exposure	The consumer must see or hear the communication
2. Attention	The consumer must notice the communication
3. Comprehension	The consumer must understand the intended message or arguments presented in the communication message
4. Yielding	The consumer must respond favourably to the intended message
5. Intention	The consumer must plan to act in the desired manner of the communications message
6. Behaviour	The consumer must actually act in the desired manner of the communication

Source: Adapted from Kevin Lane Keller, *Strategic Brand Management*, (New Jersey: Prentice Hall, 1998) p. 219-220

Table 2.4: Table of Communication Information Processing

The major flaw with this model is that all six steps must occur without any breakdown along the way.

There are four different strategies that can be adopted in order to determine the promotional mix. These are the product and market, buyer readiness stage, push versus pull strategy and the product life cycle stage. It is obvious that different promotional tools are used for the different markets, which are either consumer or industrial in nature. The type of market must be carefully considered as product awareness and knowledge are imperative in a consumer market whereas personal selling is more suited to industrial markets. The promotional strategies employed would vary with the different stages of buyer readiness. In the initial stages the consumer would need to be made aware of the product. Thereafter promotional activities would focus on trying to win the customer over. The final stage of this process is in the customer's decision to purchase the product. Thirdly, the push versus pull strategy is made up of two parts. The pull strategy is aimed at the final consumer so that they create a demand for the product with the retailer whilst the push strategy is promoting the product through the normal channel from producer to wholesaler and retailer to consumer. This type of promotion lends itself more towards industrial products and typical examples of this are trade shows and personal selling. Pull strategy is more common in consumer markets and examples include advertising, direct marketing and consumer sales. Lastly, the product life cycle strategy is when different promotional tools are used during the different phases of the product life cycle. Generally, the introductory and growth stages will see the use of direct marketing, advertising and public relations whilst during the maturity stage, sales promotion is more important than advertising. Finally in the decline stage, sales promotion is still strong and advertising will serve purely as a reminder of the product to the customer.

Russell Colley said that "advertising does not physically impel the consumer towards the purchase of goods: its purpose is to create a state of mind conducive to purchase" Russell Colley (1961). Advertising's objectives are developed based on the target market, positioning and marketing mix. The three main objectives of advertising are to inform, persuade and remind. Informative advertising's main aim is to create and build primary demand, whilst persuasive advertising aims to persuade a consumer

that a particular brand is some how superior. Reminder advertising is to reinforce and remind a consumer that a product does exist.

In 1925, Roger Strong developed the AIDA model which helped salesmen to understand the different stages that a consumer must go through in order for them to conclude a sale. This model has four stages, which are awareness, interest, desire and action. This model was successful for two generations until Lavidge and Steiner showed us otherwise. The AIDA model is built on the premise that if advertising could get a consumer's attention, and develop and interest, they would be propelled into desire and action. IN 1961 Robert Lavidge and Gary Steiner modified this model by adding two more stages which were 'liking and preference'. This new six-stage model started with awareness, moving on to knowledge, then liking, preference, conviction and purchase.

Demand directly impacts on each of the above mentioned factors since the product is offered with certain yet specific characteristics, in a certain kind of place (outlet), at a certain price and with a certain kind of promotion. It is difficult to isolate any one variable as they all impact on one another and on demand.

There are three types of awareness sets namely inept set, inert set and evoked set. The inept set is the positively rejected whilst the inert set comprises of those that see no advantage in purchasing the product or the consumer is totally indifferent to the product. The evoked set, which is also known as the consideration set, is when the consumer has a set of alternatives to choose from. The reduction strategies that can prevent a purchase are a previous bad experience, a negative impression of the product or brand or present satisfaction with a brand or product and therefore not keen to switch brands.

Depending on the complexity of the product, a consumer may evaluate their strategies in either a compensatory or non-compensatory manner. A compensatory approach would involve an overall evaluation with the criteria being given different weights. Non-compensatory evaluation strategies include conjunctive, disjunctive, lexicographic strategies and elimination by aspects. An example of a conjunctive

strategy would be when a consumer rejects a product that fails to meet all the acceptability criteria. Disjunctive strategy is when a product is accepted as long as the critical criteria are satisfied. Lexicographic strategy ranks the criteria and a product choice is made with the top ranking criteria. The elimination by aspects is similar to lexicographic strategy but this method eliminates the contenders that do not meet the standard.

When a consumer is under pressure to make a purchase decision they may evaluate it using a shortcut; they may consider brand loyalty, market beliefs or cues in the form of price, country of origin etc.

According to Booms and Bitner the 4 p's have been expanded to include people, physical evidence and process management. Customers, service personnel and other customers fall into the people category and these three groups need to be carefully managed in order to deliver a superior service that meets and exceeds customers needs and expectations. Physical evidence can be classed as what the customers physically sense and receive in a product as well as what they perceive the product or service to be. There are two types of physical evidence, namely essential and peripheral. Essential evidence is the evidence that a consumer cannot do without for the product or service to take place whilst peripheral evidence relates to service quality that consumers evaluate and view as part of the deal. Lastly, process management deals with how the service is delivered to the consumer and strives for it to be as effective and efficient as possible in its delivery.

Models Suggest Marketing Actions

Problem Recognition	Stimulate? For what problems/uses? PROMOTION
Information Search	Stimulate Search? Provide info? What info? Where? When? How? PROMOTION; PLACE
Evaluation of Alternatives	How evaluated? Where? Against what criteria? PROMOTION; PLACE
Purchase	Where? How? When? PROMOTION; PLACE; PRODUCT
Post-Purchase Evaluation	What's important? PRODUCT; PROMOTION...

Figure 2.9: Model suggesting Marketing Actions

Source: Consumer Buyer Behaviour (1994) James F. Engel, Roger D. Blackwell & Paul W. Miniard. 7[Th] Edition. Dryden Press

According to Jim Blythe motives are "simply a reason for carrying out a particular behaviour; it is not an automatic response to a stimulus. Instincts are pre-programmed responses which are inborn in the individual, and which are involuntary (Essence of Consumer Behaviour:1997). In a directive capacity, motives define consumers basic strivings, identify their goal objects, influence their choice criteria and direct their other influences.

The reason that leads to the purchase of the product class.
These are the reasons behind buying a specific brand.
This involves reasoning or logical assessment of a consumers situation
These motives have to do with the consumers feelings about a brand
Motives that the consumer is aware of. His need for a particular product would be a conscious motive.
These are motives that operate below the conscious level.

Table 2.5: Table of Motives (Source: Adapted from Jim Blythe, The Essence of Consumer Behaviour, Europe: Prentice Hall, 1997:11)

		Internal	External
Cognitive	Preservation	1. consistency	2. Attribution
	Growth	5. Autonomy	6. Exploration

Classification of Major Motive Influences
PASSIVE

Cognitive	Preservation	3. Categorisation	4. Objectification
	Growth	7. Matching	8. Utilitarian

Table 2.6: Classification of Major Motive Influences

Table 2.6 is a graphic representation of the major motive influences. Points 1-8 discuss the cognitive influences whilst 9-16 deal with the affective influences.

1. Consistency is the motivation to maintain a coherent and organised view of our surroundings. This is explained when a consumer is dissatisfied with a shore that she shops at regularly and so she will seek an explanation for the inconsistency.

2. Attribution is their attempt to understand or infer reasons and causes for various occurrences.

3. Categorisation is our need to categorise and sort complex information so that we can deal with it more easily.

4. Objectification is when we use external information instead of internal reflection in order to draw conclusions about our own attitudes.

5. Autonomy is our need to be individuals and seek a growth in our personalities.

6. Exploration is our need and quest for new events or circumstances. This is seen when a consumer makes an impulse purchase or brand switches simply for variety.

7. Matching when we develop mental images of our ideal situations and form a match or link between these two.

8. Utilitarian motivation is when we use the external environment as a information resource to solve our problems

9. Tension Reduction is the motivation that we require to reduce to avoid tension being created due to our needs not being fulfilled or satisfied.

10. Self-expression is the motivation that we use to express ourselves, and our self-identity to others.

11. Ego-Defensive is the motivation that we require to protect ourselves from social embarrassment.

12. Reinforcement is the motivation that we use to react and behave in ways that we know have previously resulted in rewarding or positive situations

13. Assertion is the motivation that allows us to strive for power, competition and success.

14. Affiliation is our need to seek acceptance, warmth and affection.

15. Identification is the need to develop new identities in order to enhance our self-concept and image.

16. Modeling is the motivation that we use to imitate others with whom we identify.

Essentially all consumers are driven and motivated by a desire to satisfy their needs and wants. A need is not merely a perceived lack nor does recognition of this lack constitute a need. Blythe classifies needs into two broad categories namely utilitarian needs and hedonic or experiential needs. Utilitarian needs allow the consumer to consider the functional attributes of the product whereas hedonic or experiential needs are satisfied when the consumer considers "subjective, pleasurable or aesthetic aspects of the product." (Blythe 1997:12)

Formation of Goals and Actions	
Psychological Event	Explanation
Need is recognised	The feeling of lacking something is catergorised
The Drive is Generated	A desire to do something about the problem comes to mind
A relevant motive is selected	The consumer looks for something to satisfy that need
A Goal is Selected	A specific product or item is selected to satisfy the need
A pattern of action is selected to achieve the goal	The consumer decides on the method and mode of purchase

Table 2.7: Formation of Goals and Actions

(Source: Adapted from Jim Blythe, *The Essence of Consumer Behaviour*, Europe: Prentice Hall, 1997:12)
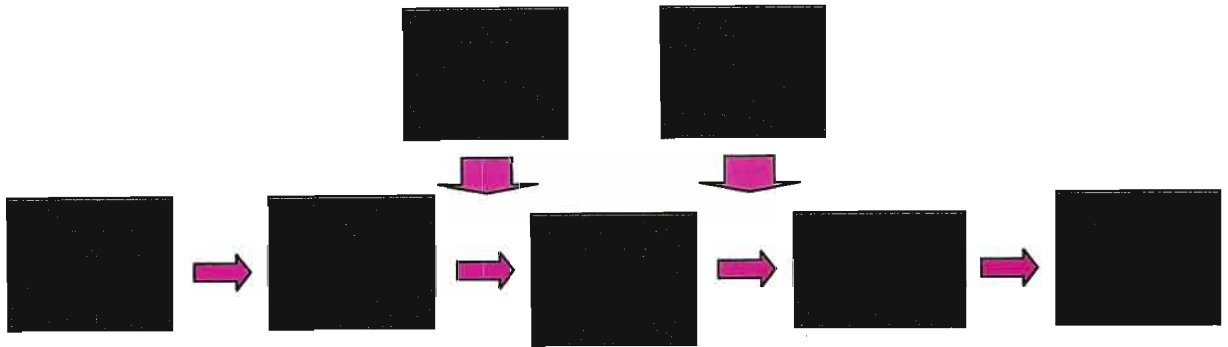
Figure 2.10: Motivation Model
(Source: Adapted from Sak Onkvisit and John J. Shaw, *Consumer Behaviour, Strategy and Analysis*, New York: Macmillian, 1994)

In figure 2.10, "the unfulfilled need leads to the development of a drive which must be fulfilled. The consumer's previous learning about what might be appropriate action leads to development of a motive or series of motives; the consumer has expectations about what will happen as a result of acting on motives, and from this formulates a goal. This in turn will lead to behaviour designed to achieve the goal. This model tends to imply a very clear, rational approach to consumer behaviour." (Jim Blythe 1997:13)

Drive can be defined as the force that makes a person respond to a need. A consumer that is more open to new suggestions and products to satisfy a need is said to be highly driven. Motives can be defined as "the reasons why people take action." (Jim Blythe 1997: 14) The desirability and ease of achieving the end goal are determining factors to which a consumer is motivated. Motivation is subjective and arises as a force to satisfy certain needs. People have various needs ranging from emotional and physical to psychological needs and these are satisfied in different ways. Henry Murray stated that humans have twenty (20) basic needs. These are succourance, nuturance, sentience, deference, abasement, defendence, infavoidance, harmavoidance, achievement, counteraction, dominance, aggression, affiliation, autonomy, order, rejection, sex, understanding, exhibition and play. (Henry A. Murray, 1938) The Abraham Maslow theory on the other hand states that peoples needs are satisfied in a specific order of importance. His "theory suggests that certain

goals, needs and values are so basic that they are shared by people across the world. Maslow further proposed that our needs can be categorised into a basic hierarchy with fulfillment of lower needs (physiological needs for food, water and sleep) being necessary before higher order needs (safety, social, egoistic and self actualisation) can be satisfied" (Hoyer and MacInnis:60).

Figure 2.11. Maslows Hierarchy of Needs (Source: Abraham Maslow, *Motivation and Personality*, New York: Harper and Row, 1954)

Maslow further purported that our needs represent basic commonalties of the human psyche, which will transcend across ethnic and cultural boundaries. This could then be used to predict a consumers lifestyle, work and purchase decisions.

It is important for a marketer to identify where the consumer is positioned on the hierarchy of needs in order to design a product that can meet those needs. It is impossible to market a product which belongs to a higher need state, if the consumer is not at that level as yet. Consumers at the lowest needs level are not in the position of choosing brands. This hierarchy of needs does not mean that each need must be satisfied in a specific order but rather that people are concerned with satisfying lower needs first.

Heylen, a modern Belgian psychoanalyst founded the theory that we are born with need states, also known as biogenetic drives (in born genes). He found that we each

45

have different ways of dealing with our need states and social pressures make consumers modify their behaviour in satisfying those need states.

BRAND   PRODUCT
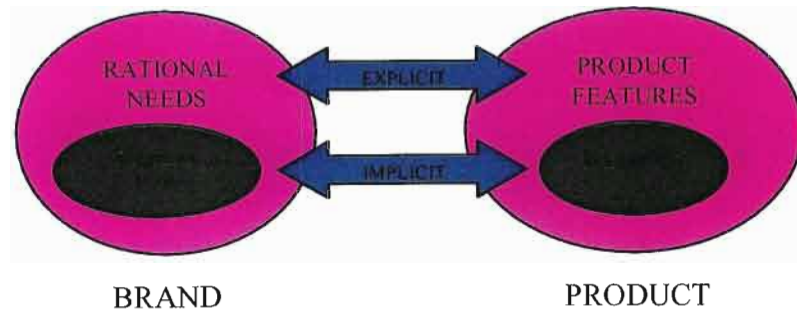
Figure 2.12. Diagram of the customer-brand relationship according to Heylen.

Figure 2.12. shows that customers have relationships with brands in the same way as they have relationships with people due to the fact that they have personalities. Biogenetic needs look for an expression in the brand personality.

Fred Herzberg was a medical researcher and his research found that some factors could be motivators whilst others could be demotivators. He renamed the demotivators as hygiene factors. These are characteristics that every consumer expects in a product on every purchase. These can be classified as core benefits of a product and not motivators to buy the product. Motivators are subjective and individual specific whilst hygiene factors would be more common to a consumer group.

Hedonic factors are the fun factors involved in owning something. This can increase brand loyalty and awareness as consumers can generally achieve core benefits from any brand.

Consumers consider risk when making buying decisions. There are 4 main types of risk, namely physical, financial, functional and psycho-social. This is an important factor to consider especially since some consumers may be brand loyal and therefore not be as willing to try the competitor or house brand of the product. Consumers will assess consumer risk in terms of the possible negative effects and the probability of those effects occurring. Consumers can reduce their risk by increasing their

knowledge of a product category whilst retailers reduce consumer risk by adopting a "no quibble" return policy. This creates a safety net for consumers when they are trying a new item (brand switching).

Heuristics are a set of values that consumers use to reduce their risk and simplify their decision making process.

Search Heuristics	Explanation
Store Selection	Go to a specific store for specific items
Sources of Information	Product updates and reviews will provide necessary information
Source Credibility	
Evaluation Heuristics	Explanation
Key Criteria	What are salient factors when comparing products or services
Negative Criteria	
Significant Differences	
Choice Heuristics	Explanation
Works best	Product choice will depend on which product you perceive as having the best level of performance
Affect referral	Choose alternative that you most prefer
Bought last	If last purchase was satisfactory, then repurchase on next shop
Important person	Choose an important persons choice e.g. spouse, child
Price Based Rule	Buy least or most expensive depending on how price sensitive you are
Promotion Rule	Choose product purely based on price discount, rebate or coupon reduction
Wait and see	Wait before making purchase
Expert Consultant	Consult an expert prior to purchase, evaluate in terms of your goals and make a purchase decision

Source: Adapted from Wayne D. Hoyer :*An examination of consumer decision making for a repeat purchase product*", Journal of Consumer Research, vol. 10 (December 1984), p. 882-9

Table 2.8: Table Detailing Heuristics, Product Choice and Purchase Behaviour

Post Purchase Dissonance occurs through misunderstanding, deception, mistake or when a consumer has second thoughts. Should a product not satisfy or meet consumer's goals, then post purchase dissonance can occur.

Classical Learning Theory

The Russian researcher, Pavlov, developed this theory and he proposed that before conditioning, the unconditioned stimuli caused an unconditioned response. During conditioning, both the unconditioned and conditioned stimuli were presented and this produced an unconditioned response whereas after conditioning, the conditioned stimulus produced a conditioned response. Generalisation is when a new stimulus that is close to the existing one evokes the same response. Products with similar brand names or packaging could evoke a purchase response. Discrimination is the process whereby consumers distinguish between stimuli, that is they are able to differentiate between brands even when the packaging or the brand name is very similar. Classical conditioning is based on the premise that consumers are passive in the buying process when in fact they play an active role which is known as operant conditioning. Operant conditioning is a concept that was developed by Burris F. Skinner and is based on the principle that consumers undergo a trail and error type behaviour before reaching an outcome. It is also based on the concept of reinforcement, which states that the greater the positive reinforcement the higher the likelihood of a repeat purchase. Practical examples of operant conditioning are customer loyalty programmes which reward customers for their loyalty and repeat purchase. A negative reinforcement is when a consumer believes that they can only purchase with the aid of a discount coupon or incentive. Cognitive theories state that consumers actively influence the outcome of their purchases and are not easily influenced by outside stimuli e.g. marketers stimuli, advertising. Cognitive learning is based on five factors namely drive, cue, response, reinforcement and retention.

Attitudes

According to Sak Onkvisit and John J. Shaw, attitude can be defined as "a learned tendency to respond to an object in a consistently favourable or unfavourable way."

Attitudes comprise of three (3) components which are affective (emotion), cognitive (knowledge) and conative or behavioural tendency (desire or purpose). Purchase of the product depends to a large extent on the consumer's attitude towards the product. Attitude includes non-verbal expression such as facial expressions or body language and it may not even be expressed at all. Attitudes are formed after the purchase in a low involvement purchase, whereas attitudes guide, influence and motivate a high involvement purchase. Marketers measure attitudes using three criteria namely direction (favourable or unfavourable), intensity (how strong the consumer's attitude is) and lastly the degree (how favourable). Opinion on the other hand "is an overt, vocalised expression of an attitude" (Jim Blythe, 1997:72).
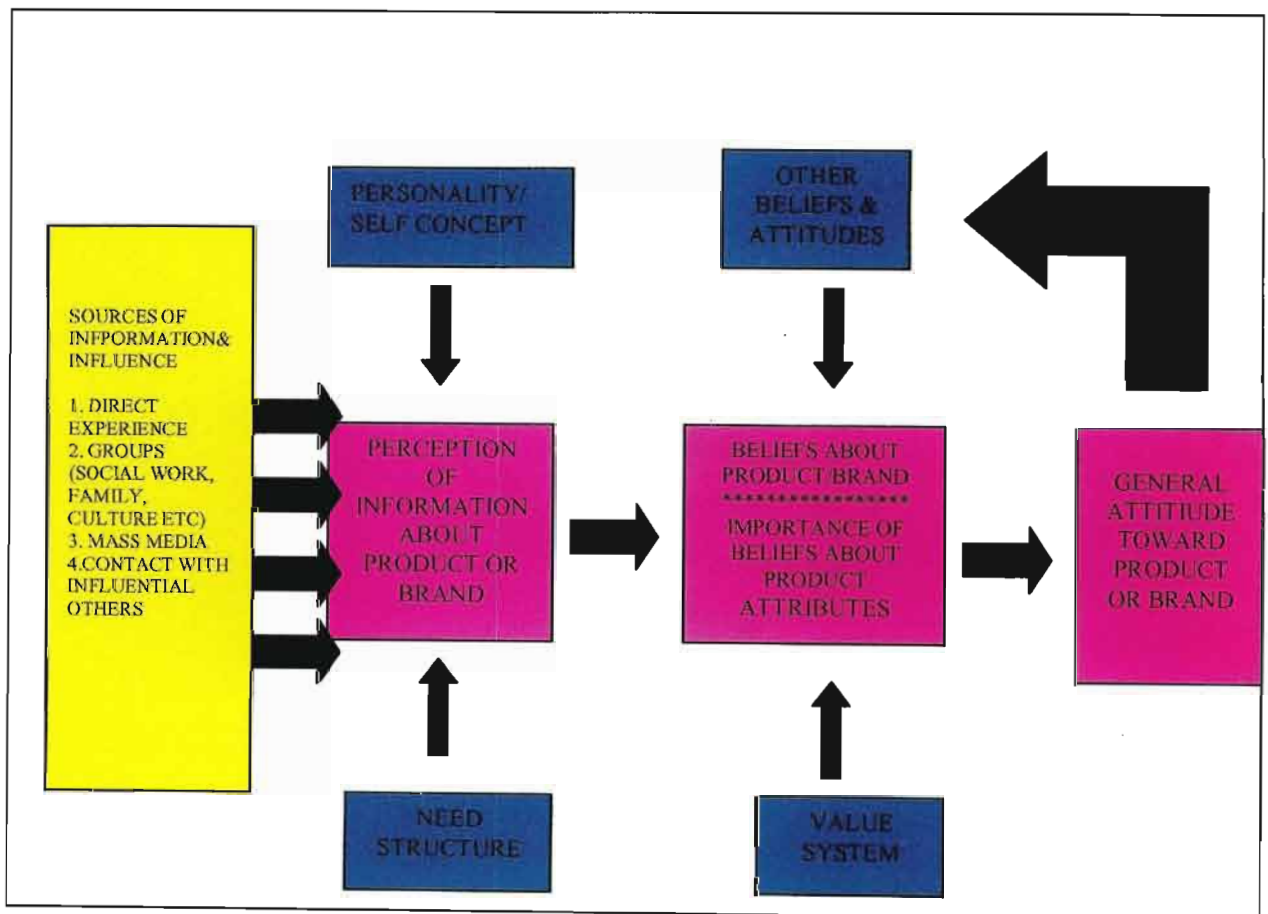
Figure 2.13: Brands

Supermarkets can be classified as companies that service consumer markets. Generally companies that sell mass consumer goods spend a great deal of time trying to establish a superior brand image, and this stands true for some supermarkets. Kevin Lane Keller defines a brand as a product "that adds other dimensions to differentiate it in some way from other products designed to satisfy the same need." He goes on to say that "these differences may be rational and tangible - related to product performance of the brand - or more symbolic, emotional, and tangible - related to what the brand represents" (Kevin Lane Keller 1998:4). A brand is a name, term, symbol or even a combination of these elements that allows a consumer to easily identify a product and differentiate it from the competition. It can be said that brands are a bundle of benefits (with an identifying name) which appeal to the mind and heart of consumers.

According to Unilever's chairman, Niall Fitzgerald, a brand is a storehouse of trust. A brands strength and image "depends on developing a superior product and packaging and backing this with continuous advertising and reliable service" Philip Kotler (2000; 7). A common misconception is that a brand is positioned in the market place when in fact brands exist in consumer's minds. Marketers develop brands in order to appeal to the physical and emotional needs of consumers as seen in Figure 2.13. A customer's perception may not be factual but their perception is their reality.

Susan Fournier has uncovered seven essential attributes of good brand relationships, which are:

❖ *Love and Passion:* The consumer should feel passionate about the product or there should even be some anxiety experienced if the product is not available
❖ *Self-Concept Connection:* The consumer is able to satisfy a need or address a life issue by using a particular brand or product.
❖ *Interdependence:* the brand is part of the consumers daily life and routine
❖ *Commitment:* The consumer is loyal to the product or brand throughout the product life cycle and his life cycle.
❖ *Intimacy:* The consumer is familiar with the product/brand and understands its attributes
❖ *Partner Quality:* The consumer equates certain qualities in the brand/product with those that they would look for in a friend, such as trustworthiness, dependability etc.
❖ *Nostalgic Attachment:* Use of the brand or product brings back good memories for the consumer
Source: Adapted from Dun Gifford Jr., Moving Beyond Loyalty, Harvard Business Review, Mar/Apr 97, Vol.75 Issue 2, P9

Table 2.9: Seven Attributes of Good Brand Relationships

Calvin P. Duncan wrote an article on Advances in Consumer Research and in there he states that all brands are basically the same, generic brands are just name brands sold under a different label at a lower price. He also states that the best brands are the ones that are most frequently purchased whilst a brand's quality is the most important determinant of its success.

"Brand images are fragile, handle with care. It takes a lifetime to build a brand but only a few careless moments to destroy it. Brand builders strive long to increase the perceived value of their brands. They work hard at it, ensuring that the product is first rate or the service is backed by quality" Jagdeep Kapoor (2001; 43). Woolworths are no exception and are known to deliver quality products and service. "Some brands believe in cutting corners in terms of quality. This is dangerous and could backfire. In order to meet financial numbers, the consumer's need must never

be sacrificed" Jagdeep Kapoor (2001; 48). Three (3) steps are important to ensure brand growth. "First, it is important to identify the specific needs of the customer. Second, it is important to develop and design an appropriate product or service to meet that need. Third, it is important to ensure customer satisfaction." Jagdeep Kapoor (2001; 49-50). "Once a person tried out a brand, he will, if the brand satisfies him, come back for more. Thus are loyal customers won over to a brand. This is true not only for food and fast moving consumer goods (FMCG), but also for industrial products, financial and Information Technology services and other fast moving consumer services (FMCS) Jagdeep Kapoor (2001; 25). Customers must follow the A-T-A-R process. They need to be *aware* of the brand and then *try (trial)*, the brand then needs to be *available,* and lastly there need to be a *repeat* purchase or *recommendation*. High visibility has the benefit of repeated exposure and this makes the customer feel that the brand is doing well. "And, if it's successful it means that everyone's buying it. If everyone's buying it, then it must be good and you must, too, in order not to be left out. It's the way herd instinct works. Which is why it is better to display the brand for all to see than to have it hidden away in some corner for the consumer to discover" Jagdeep Kapoor (2001; 40-1).

Brand positioning is a process that pinpoints and substantiates a brands competitive advantage. Successful brand positioning depends on careful definition of your business and target market as well as the benefits and values that differentiate the brand in the consumers mind.

Brand awareness and recognition are two contributory factors to brand equity but in varying degrees. Figure 2.14. illustrates the fact that brand equity can either be positive or negative. Positive brand equity can be defined as the amount of marketing advantage a brand has over an unnamed competitor. Negative brand equity on the other hand is the degree of marketing disadvantage a brand has associated with it. Thus it can be said that a customer's actual experiences will disproportionately shape the brand meaning and equity for a specific product. High brand equity will present an opportunity for brand extensions. Brand equity is measure in the following manner: *recognition* of the brand, *reputation* of the brand, *relevance* of the brand and

lastly the *relationship*, which implies the depth of loyalty and customer involvement with the brand.

High Brand Equity Means:

| Reduced Marketing costs Increased Trade Leverage | Easier to make brand associations Increased Liking and familiarity | Supports quality positioning Supports higher price strategy | Creates a positive image Helps customer process info | Patents or trademarks Strong channel relationships |

Provides Value to Customer
Assists in customer information processing
Increases confidence in purchase
Increases satisfaction in product use

Provides Value to the Firm
Increases effectiveness of marketing programmes
Increases customer loyalty and trade leverage
Facilitates brand extensions
Is a source of competitive advantage

Source: Adapted from David A. Aaker, *Managing Brand Equity* (New York: Free Press, 1991), p.17 and inside cover

Figure 2.14: High Brand Equity

Brand equity is found in above the line advertising whilst brand activation is represented in below the line advertising (promotions). This is determined by the product life cycle and brand activation will be responsible for short-term sales whilst brand equity will result in long term sales. The brand extensions will capitalise on the brand's strength. The two main types of brand awareness are brand recognition and brand recall. Brand recognition requires the customer to discriminate the brand when given the brand as a cue whilst brand recall refers to the consumers ability to

retrieve the brand from memory when presented with a product category. This distinction is very relevant as not all purchase decisions are made in store. The depth of brand awareness is the likelihood that a brand will be recalled in a consumer's mind and the ease with which this occurs. The breadth of brand awareness refers to the range of different purchase situations in which a brand may be recalled in a consumer's mind. Therefore, it can be said that brand awareness is important in the consumer decision making process, as it will influence which brands form part of the consideration set. Figure 2.13 diagrammatically represents that a consumer will associate brands based on attributes, benefits and attitudes of a product or service. Consumers create associations in their minds about certain stores and these associations may be linked to products that they sell. Thus it can be concluded that a consumer may infer certain characteristics about a product or a brand purely on a basis of where it is sold. If it is sold at Woolworths then it must be good quality. The same brand may be perceived differently if it is sold in a different type of store. Therefore the transfer of a stores image can have a positive or negative effective on a product and its branding. Co-branding, brand alliances or brand bundling occur when two or more brands are combined to form one product or they are marketed together in some way. Celebrity endorsements serve as a good source of brand equity and this has proven to be a successful route for a lot of companies around the world.

Companies with the strongest brands make a distinct effort to ensure brand distinctiveness and message consistency. According to a special report in the Economist, "...brands represent a huge portion of the value of a company and, increasingly, its biggest source of profits. So companies are switching from producing products to marketing aspirations, images and lifestyles" (The Economist, September 8th, 2001, p.27).

This study shows that brands are not as powerful as companies and competitors think, nor are consumers as loyal or easily manipulated. Previously, a strong brand acted as a barrier to entry but this is not the case today. Established brands face competition from unexpected quarters. Consumers are bombarded with a vast array of product choices today. Lifestyles have changed and so have consumer's

perceptions, media scope and purchasing patterns to name a few. In order to survive today in this ever-competitive world, marketers need to build a brand, and not a product. They need to develop a strategy that sells a lifestyle or a personality, one that appeals to consumer's emotions. Brands add colour, warmth, familiarity and fun into an otherwise colourless world. It is important for brands to clarify their meaning and identity, but they must beware that they do not suffer the fate of marketing myopia, by drawing narrow boundaries around their brands and thereby missing new opportunities.

It can be concluded that with a packaged good the product is the primary brand whereas with services the company is the primary brand.
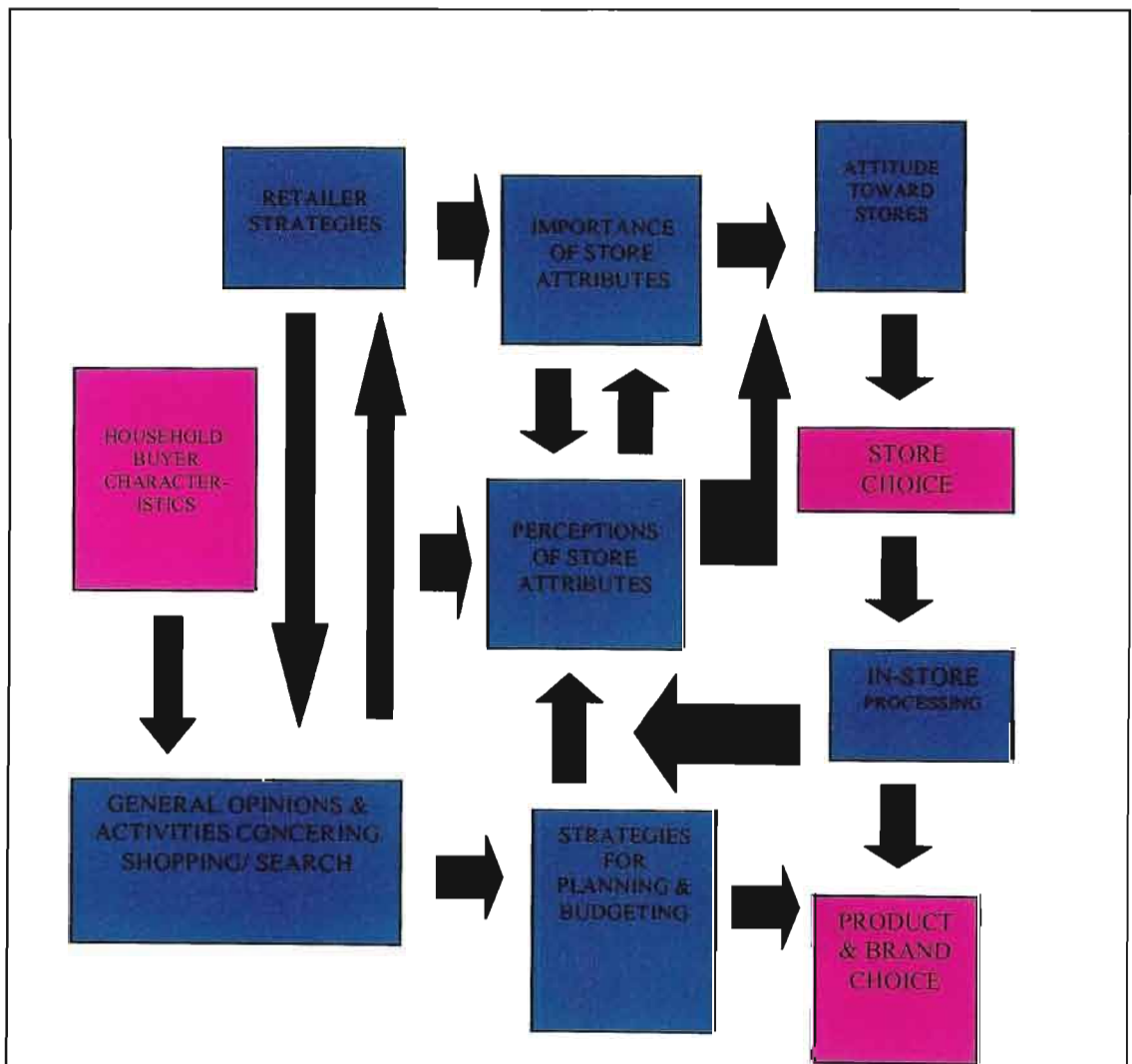
Figure 2.15: The Sequence of Effects in Store Choice

Customers also have store loyalty and figure 2.17. depicts the sequence of events in store choice. Stores use many merchandising techniques to attract the consumer. These range from shelving and pricing strategies to packaging and branding. Marketers make use of height and space in shelving strategies whilst they create a price awareness by promoting loss leaders. Promotional pricing (multiple purchases) is another popular option as well as couponing. Packaging appeals to the consumer's physical senses and is a highly effective marketing tool but this is unfortunately not under the stores control, unless it is a private label or house brand. Brand choice is more important nowadays as the war between national brands and private labels wages on. Depending on the type of store, personal selling could have an effect on the consumers end purchase. This would be in the form of salespeople and here it is important they are closely matched with the consumer as well as the store image. There are also situational characteristics that influence a consumers store choice and ultimately their purchase. Firstly, physical surroundings play a major role in the consumer's choice. This could include location, lighting, store temperature, parking etc. Social surroundings are another characteristic and this could include other consumers or people. Temporal settings relate to the time of day, week or season. Task definition is defining the actual reason of shopping for a particular product. Antecedent states would consider the consumers mood and conditions e.g. tiredness, excitement, in a hurry etc.

Conventional stores face increasing competition in the form of non-purchasing processes. Consumers can now purchase from a catalogue, party plan (Tupperware), door to door, mail order clubs, direct response to advertisements, classifieds, cable TV as well as the Internet. These non-conventional methods of shopping provide the consumer with a newfound sense of privacy, independence and convenience. The flip side of this is that there is no personal contact, nor is there any physical contact with the product. Consumers are also aware of the security risk involved with credit details.

Customers are harder to please with the vast array of goods that they are exposed to nowadays. Customer satisfaction is a complex matter and can be described as a kind of stepping away from an experience and evaluating it, so satisfaction isn't an emotion, rather it is an evaluation of an emotion.
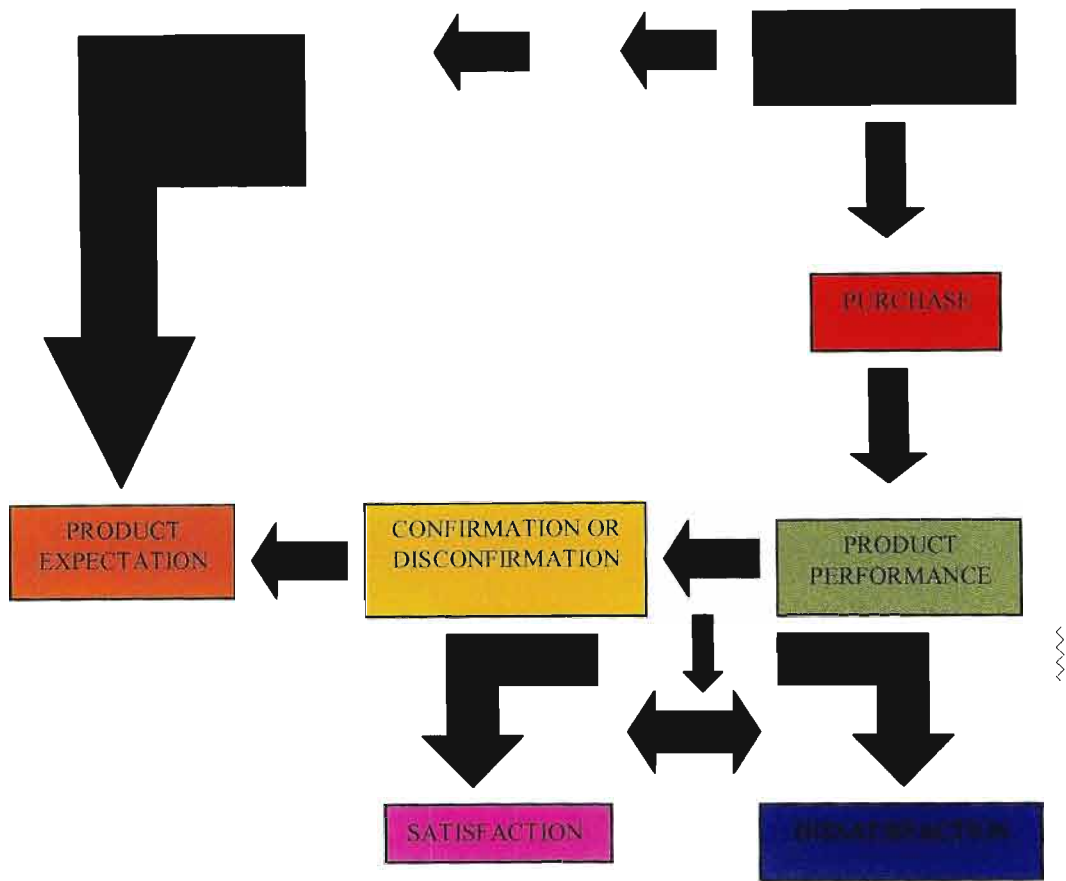
Figure 2.16: Customer Satisfaction Model

The consumer will have certain expectations prior to the purchase of the product as seen in Figure 2.16. These expectations may be in terms of the nature and performance of the product, or the cost and effort that is expended in use. Some consumers may even consider the social benefit or cost of purchasing such a product. Consumers develop expectations from many sources and advertising is a major culprit. The danger of advertising is that it can at times run the risk of over selling

the product. Disconfirmation of an expectation can be either beneficial or harmful, it is positive and can be viewed in a beneficial manner when the consumer's experience is better than he expected. The negative case scenario is when the consumer's experience is worse than was actually anticipated.

Satisfaction is determined and influenced by many variables such as demographic, personality and situational variables. Demographic variables states that less educated or older consumers are less likely to be dissatisfied whereas personality variables say that some consumers are more easy going than others. Situational factors include consumer's moods and this claims that a consumer in a bad mood is more likely to be dissatisfied.

A satisfied consumer is more likely to have a favourable post purchase attitude and this will lead to higher purchase intentions. This will instill a greater sense of brand loyalty in the consumer but this must not make the marketer complacent, as even a satisfied customer is known to stray. Consumers will complain if they are dissatisfied and they have every right to do so. Consumer complaining behaviour models class dissatisfied consumers into four groups, namely passive, voicers, irates and activists. Voicers are most preferred from the lot. Dissatisfaction will result in post purchase dissonance. Cognitive dissonance results when there is a discrepancy between a consumer's decision and his prior evaluation or expectation. This can be due to logical or behavioural inconsistency. Dissonance can be reduced if the consumer changes his product evaluations and expectations, changes his attitudes and seeks new information regarding new inventions.

2.7. CONCLUSION

This chapter focuses on the concept of consumer buyer behaviour and market segmentation. Consumers cannot be regarded or viewed as a single homogenous group of people with similar needs and wants. Therefore, market segmentation is a useful tool to group consumers. Even though this body of knowledge details some of the impact that consumer buyer behaviour has on a consumer's purchase decision, it has contributed to creating a better understanding of the Woolworth's shopper, but it must be remembered that theory is not absolute.

CHAPTER 3

3.1. PRESENTING THE ORGANISATION

Max Sonnenberg opened the first Woolworths store in the Old Royal Hotel's dining room in Plein Street, Cape Town in 1931. This was the humble beginning of a trademark that has become a tradition with quality. Max Sonnenberg's retail formula was met with immediate success and he soon opened a second branch. Woolworths expanded rapidly and saw stores opening up in Port Elizabeth and Johannesburg. The company went public in 1936. After World War II, Woolworths had established links with Marks and Spencers of London. In 1947, a firm friendship between Sonnenberg and Sir Simon Marks (son of the founder of Marks and Spencers) was sealed when Marks bought all the unissued Woolworths share capital. Woolworths has adopted much of Marks and Spencers core retailing philosophy in an attempt to be the Marks and Spencers of South Africa. Woolworths is famous for selling and marketing only their own exclusive labels, and this was actually viewed as a source of differentiation between Woolworths and its competitors. Even though Max Sonnenberg had no affiliation with any Woolworths' stores overseas, he had a vision of developing a chain of stores based on the Woolworths concept. He believed that South Africa offered great retailing opportunities and today Woolworths has grown into one of the countries leading chain stores. They have a vast offering of goods ranging from quality clothing, home ware and foods with more than a hundred stores countrywide. Today the Woolworths name is synonymous with quality, superior craftsmanship, and meticulous attention to detail and value for money.

3.2. WOOLWORTHS TODAY

Marks and Spencers ultimately sold all of their shares but the two companies have still maintained a close relationship as well as a formal technology agreement. They have a reciprocal agreement in which staff and managers routinely visit host stores locally and abroad.

Anne Laski, Lord Mark's niece, married David Susman, who later became the managing director of Woolworths and is now the honorary president of the parent group, Wooltru. Woolworth's Holdings Limited is a South African based retail group that operates locally and internationally through two subsidiaries, Woolworth's (Proprietary) Limited and Country Road Limited. Stores are based in Africa, the Middle East, Australia, New Zealand, the United States and Singapore.

3.3. FRANCHISE OPERATIONS

Woolworths franchise business started in 1970 with the first store in Namibia. Since then they have opened stores both locally and internationally and currently have in excess of eighty (80) stores, with the intention of having approximately ninety one (91) stores by the end of 2002. The franchise agreement is in the form of a legal agreement that is signed by both parties and is valid for ten (10) years. This is open to a possible renewal for a further five (5) years but agreement regarding this possible renewal must be reached prior to the start of the ninth (9th) year of the initial period. Woolworths allows the franchisee to the right to sell only Woolworths goods or other products that may be authorised by the franchisor. The payment for a Woolworths franchise is in the form of a once off minimum payment of R100 000 and in practise this payment would the following:-

❖ The commissioning of demographic studies to determine the potential market size in a specific area

❖ The total Woolworths involvement in the set-up of the store

❖ The initial determination of customer profiles and appropriate merchandise cataloguing

❖ The detailed sets of internal store design, shopfitting and associated floor plans and equipment grids

❖ Complete shopfront and external signage

❖ Assistance with recruitment of management and staff

❖ Design and planning of initial management and staff training

❖ Comprehensive operating manuals

Travelling and accommodation expenses of selected Woolworths employees incurred during the set-up of the store is for the account of the franchisor. Goodwill is payable on the conversion of an existing Woolworths corporate store. Woolworths will determine the goodwill amount and no goodwill is charged for new stores.

Woolworths Real Estate Development team are responsible for identifying, securing and developing the right site in the correct location. Premises are deemed suitable should they be located close in close proximity of other national retailers, banking and other facilities and should provide adequate security as well as convenient parking facilities. The size of such premises range from 400m² to 1200m² depending on the anticipated turnover. Woolworths will use their negotiating power to secure the best rentals for the suitable

premises. The franchisee will enter into a lease agreement with the lessor but Woolworths retains the right to take over the lease should the franchise agreement be prematurely terminated. The lease period will run concurrently with the period of the franchise agreement. The building must comply with Woolworths' specifications and Woolworths will project manage the establishment of the store. The store design is done by Woolworths and the shopfitting, flooring, carpeting, display lighting, signage and equipment uses in setting up the store will be supplied by Woolworths appointed suppliers. Prices charged will however be the standard cost to Woolworth's. Once the size and configuration of the store has been agreed, a detailed quotation will be prepared by Woolworths and agreed with the franchisee.

Only Woolworths branded merchandise may be sold or other products that may be authorised by the franchisor. This merchandise must be procured through Woolworths. Foods merchandise will be supplied by Woolworths at cost plus 7,5% commission. There is also a turnover commission payable on retail sales, which will be agreed with the franchisee based on store viability. The turnover commission is payable on a monthly basis. This commission covers the use of the brand name, national advertising and procurement of merchandise. Merchandise selection is based on the profile of a specific store.

The franchisee is charged on a debtor statement, which is forwarded to the franchisee on a monthly basis and must be settle in full, 14 days from date of statement. Interest is charged on all accounts that are not settled timeously.

The franchisee is obligated to complete a specialised program as determined and specified by the franchise department, in a time frame that has been stipulated. As Woolworths is totally committed to providing outstanding customer care, great importance is attached to the on going training and development of all employees. Woolworths will provide the appropriate training expertise and material to provide a consistent approach but it is the franchisee's responsibility to ensure that this training and development is effective. All Franchisees, their management and staff will undergo specific training over a minimum period prior to the opening of the store to acquire the necessary skills to make the business a success and to achieve the operating standards required by Woolworths.

The franchisee may sell the franchise during the contract period, however Woolworths has the right of first refusal and the calculation of the purchase price. Should Woolworths

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not want to purchase the franchise, Woolworths must approve the new franchisee and see that they meet the competency criteria.

Woolworths have extended this quality brand into franchised stores in Botswana, Lesotho, Zimbabwe, Swaziland, Dubai, Bahrain, Namibia and Mauritius. They have also established a supplier base in Southern Africa that shares their unfailing commitment to delivering the highest quality merchandise consistently over time. Even today, they continue to strive for the value for money principle and superior quality that Max Sonnenberg founded the first Woolworths store with.

Woolworths' aim is to exceed their customer's expectations by consistently delivering exceptional quality goods and services at reasonable prices. They strive to have the most wanted merchandise, in a well-stocked and displayed manner. They also strive to provide a superior service with knowledgeable and friendly staff and this in turn should translate into a pleasant shopping experience for the consumer.

Figure 3.1: Woolworths Infrastructure and Interaction

In support of their mission, Woolworths is committed to serving:

Customers - after all customers are the reason for their existence. All company efforts are aimed at pleasing and serving the consumer.

62

Employees - Woolworths offers long-term careers and strives to create a climate in which all their employees are given equal opportunities in order to contribute and develop to their full potential.

Suppliers - Woolworths works closely with their suppliers and continue their mission by building long-term, loyal relationships

Shareholders -Woolworths Holdings Limited aim to produce a consistent earnings growth and return on investment which is, at minimum, the best the in the retail sector.

Community - The company believes that their success is directly linked to the prosperity and well being of the community in which they operate. They contribute to the community over and above their basic trading responsibilities.

Woolworths has used this same successful product formula and entered the export market. Their export customers not only receive the service and support of dedicated Woolworths staff but also have the guarantee that all merchandise that is bound of export has met the same high level of testing and quality standards as any products destined for a South African store. They have their own packing and shipping departments, which ensures that their export customers receive excellent service right up to their doorsteps. By being an African brand, Woolworths needs to reflect the rich diversity of Africa's people and cultures, so no matter where they trade, their future is rooted in Africa's red soil and will be nurtured by her warm sun.

In South Africa, the name Woolworths is synonymous with superior craftsmanship, meticulous attention to detail and value for money in all the merchandise that they sell. Woolworths has grown into a retail organisation that is able to provide its customers with an ever-growing range of high quality merchandise. Armed with carefully researched customer requirements, teams of experienced buyers develop ranges of food, clothing and home ware throughout the year. To keep abreast of world trends, they regularly source new ideas from overseas and then interpret these into ranges that are suitable for the customer. Woolworths is a perfect example of niche marketing as it caters for a certain target market with a distinct set of needs. This target market is prepared to pay a premium price in order to have their needs satisfied. Woolworths however realised that selling just Woolies brands is not enough and hence the introduction of a limited range of major premium grocery and household items into Woolworths stores. This move is viewed as one of the more remarked upon brand building exercises in the history of South African

marketing. It is hoped to strengthen the relationship between Woolworths and their customers and thereby build lifelong relationships. As of December 2000, Woolworth's annual size of the market in foods was R43 billion. Between 1997 and 2000 they saw a 9% average annual increase in the size of their market. Keeping abreast of their competition Woolworths bought "inthebag" from Wooltru in July 2001 and is now fully owned by Woolworths. Woolworths' food shoppers rate aspects like health, freshness, quality and trust well above those of competitors. Woolworths however needs to look at issues of staffing and value to the consumer.

In order for Woolworths to compete with its rivals (see figure XX) Woolworths needs to ensure that it develops and maintains a strong operating company with clear goals. In fact the global growth is in line with Woolworths mission statement and vision which is as follows:

"We aspire to being the greatest, most trusted and respected African retail brand. We will achieve this by nurturing and building lifetime relationships with our customers. These relationships will be earned by us all making the Woolies difference." Simon Susman: Living our Brand - Woolworths the Difference. Every day Woolworths helps people earn these relationships by making a difference in the lives of their customers. It might be through a smile, a friendly greeting or a helping hand. Without their customers, they wouldn't be the kind of company that they are and neither would their customers feel the way they do about the store and company as a whole. As a company they understand that lifetime relationships are earned and not made, and so they make every attempt to seize any opportunity to strengthen and build a lifetime relationship. Woolworths has highlighted the following points and concluded that these would result in the consumer not coming back. "If they don't have the products that people want, they won't come back. If the products they want aren't available when they want them, they won't come back. If we don't have the right prices, they won't come back. If they don't enjoy shopping in our stores, they won't come back. If the products they buy don't live up to their expectations, they won't come back." Living our brand, p6. Therefore, Woolworths needs to have the right mix of product, people and processes in order to build and sustain lifelong relationships. Woolworths has to ensure that their quality is never compromised whilst still ensuring that everything that they sell offers the best value for money. In order to do this, they would firstly need to understand who their customers are and what they

expect from Woolworths as a store and company. Woolworths thinks and approaches things differently from other retailers. Their stores look and feel different and they not only sell products, they even offer lifestyle solutions. They only choose suppliers who share their vision and this allows them to deliver what they promise every time to the consumer, if not they will gladly replace or refund the purchase.

Woolworths believes that it is their brand that sets them apart from other retailers. The brand is what the consumer gets when he takes the product away. It is not a tangible item that can be smelt or touched, it only exists in the consumer's mind. The consumer perceives the Woolworths brand as quality.

The mission statement is clear with its definition of the industry, product, and business scope, the geographical target market segment, the core competency of Woolworths as well as the core benefit to the consumer identified. This also highlights the fact that the company is truly committed to the international operations. The underlying objective of the international product policy for Woolworths is to develop the optimum mix of products that are offered internationally so that these products can contribute directly to the firms overall corporate objectives of growth and profit.
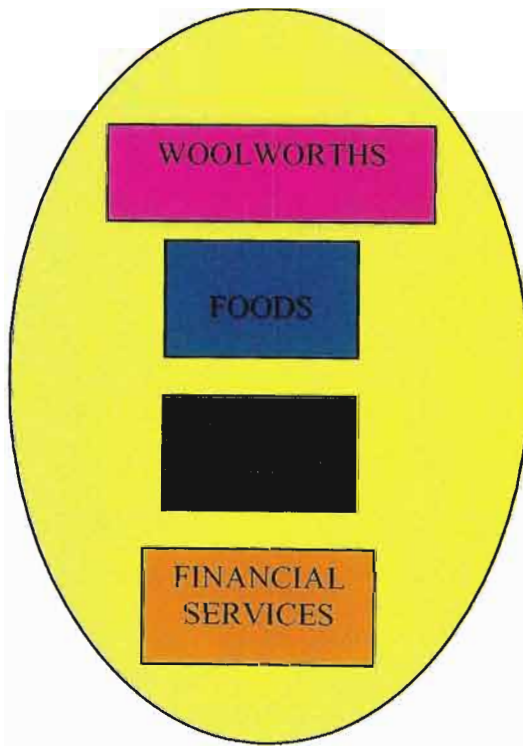
Figure 3.2: Woolworths Business

As seen in figure 3.2, Woolworths has three main areas of bushiness namely foods, textiles and financial services.
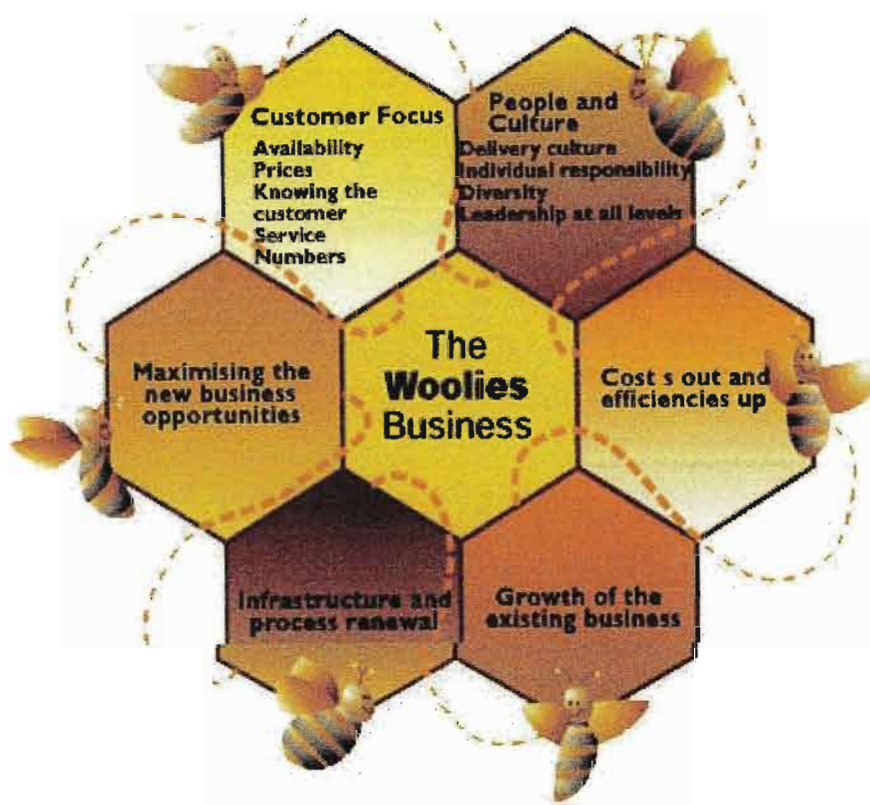
Figure 3.3: Areas of Focus or Key Issues in the Woolies Business

Customer Focus - By conducting research to determine customer needs, expectations and behaviours, Woolworths will be able to deliver a superior level of customer service. Woolies plan to develop and introduce a customer relationship management programme. Together with this they plan to continuously enhance their product offering by achieving more competitive/lower prices through better buying, improved product availability and superior quality. They also plan to extend their product offering to include a gift registry, interactive foods, market bakery and market produce. This will provide the consumer with a complete shopping experience.

People and Cultures - the key focus areas would be delivery culture, individual responsibility, diversity and leadership at all levels. Woolworths would need to implement and enhance technical and functional training as well as achieve a diverse work-force and culture that is in line with the employment equity plans to the country.

66

Improvement of the work environment and the introduction of a corporate belonging can be achieved through the introduction of a new image uniforms. A performance management and reward system can also be implemented and measured against a competency framework for business, functional and job competencies.

Growth of the existing business can be achieved by an increase in turnover on base business as well as through new initiatives. Woolworths needs to evaluate their growth opportunities in the franchise arena. Continue with their current business plans i.e. roll out of cell phones, implementation of foods supply chain as well as the real estate plan.

Infrastructure and process renewal - the general infrastructure of stores needs to be refurbished and redesigned in order to be in line with current computer and network trends. This should result in improved communication in-store as well as better management of employee performance and reward systems. Customer communication will be enhanced through the introduction of a web enabled call centre and the customer relationship management program.

Costs out and efficiencies up - Profitability can be improved by reducing costs and reinvesting in the growth of the business. Centralisation of retail operations will result in cost cutting and streamlining of administrative functions. Finances within the business can be better managed if a computerised system/program is introduced. Staff efficiency can be improved by introducing staff scheduling, time and attendance systems of stores.

Maximising the new business opportunities - can be achieved by expanding their financial services business and the firm establishment and expansion of the Woolworths on-line shopping.

A.C. Nielsen conducted a competitor survey in December 2001 to establish market share amongst the major food retailers in South Africa. The graph below represents the market share that the major food retails occupy in the South African market.

GROCERY STORES

Source: Adapted from the Markinor Surevy on Brands, Sunday Times, October 2002

Figure 3.4: Market Share of Major Grocery Stores in South Africa

3.4. COMPETITOR ANALYSIS

The major competitors in the grocery industry are Pick 'n Pay, Checkers, Spar, Shoprite, OK Stores, Woolworths and Hyperrama.

3.4.1. Pick 'n Pay

The Pick 'n Pay brand is a well known and established food retailer in South Africa with approximately 21% market share, according to the A.C. Neilsen and Markinor surveys that was conducted in December 2001. The national market share of the Pick 'n Pay group is 39%. Pick "n Pay consists of corporate and franchise stores. Their corporate brands include P 'n P supermarkets, hypermarkets and Score supermarkets. This group has 109 pick 'n Pay Supermarkets, 14 hypermarkets and 109 massmarket Score Stores. They have a franchise section with 95 pick 'n Pay family stores, 36 pick 'n pay Mini markets and Health Pharm. Health Pharm pharmacy chain is a franchise that is supported by Pick 'n Pay through distribution, marketing and management. The target is to have 30 pharmacies up and running by the end of 2003 and a further 200 stores by the year end 2006. All these stores are situated within the borders of South Africa but Pick 'n Pay have

extended their operations outside South Africa and now cover areas such as Namibia, Botswana and Tanzania. These areas are covered predominantly with the Score brand. This group has also acquired the Franklins and Fresco brands in Australia with an annual sales target of AUS $ 1.3 billion. The Pick 'n Pay stores are responsible for most of the company's growth and the group has a national sales growth of 14,7%. Pick 'n Pay have adopted an aggressive store location strategy with the aim of keeping opposition retailers at arms length. Pick 'n Pay have a successful house brand called "Pick 'n Pays Choice." Initially it was known as the "no name brand." Pick 'n Pay have diversified from foods into clothing and homeware and they have experienced considerable growth margins from this diversification strategy. Plans are underway for them to enter the retail pharmacy sector. Pick 'n Pay launched their national home shopping in March 2001 and a target breakeven has been set for 2003. Pick 'n Pay have diversified into the financial service markets as well and Nedcor is their joint venture partner for their "Go Banking" project. The aim of this project is to offer a full range of more value added or cheaper banking services with the next three years.

3.4.2. Shoprite Holdings Limited

Shoprite Holdings Limited have corporate and franchise stores. The corporate brands are made up of 73 checkers stores, 19 Checkers Hyper stores succeeding Hyperama and 249 Shoprite stores. 252 Sentra stores, 35 Eight-till-Late stores and 43 Sentra stores that have been converted to OK Foods stores form part of the Shoprite Holdings Limited franchise brand. This group has expanded into 10 African states and has even set up trail stores in Egypt, Malawi and Tanzania. Armed with an aggressive expansion programme, they hope to take the Shoprite brand into Africa and other continents. The main aim of this programme is to derive half their operating profit from Africa. The Checkers house brand was previously known as the "yellow band" and the OK Foods house brand was known as "Pot o' Gold". Currently each store has it's own brand and trades under that name respectively, e.g. Checkers brand. Checkers have been positioned away from the Shoprite brand in an aim to differentiate the brand and cater for the higher end of the market. All Hyperama stores are being revamped, repositioned and renamed to Checkers Hyper. The rationalisation process if OK Bazaars continues and today 364000m^2 has been closed. With all these strategies in place, Shoprite Holdings Limited accounts for the low national sales growth of 7,7% (as of December 2001). The Branding Supplement to the Sunday Times, October 7, 2001 states that "nothing illustrates the supertanker syndrome

branding better than the extraordinary presence of OK Bazaars among the top 10 most-admired companies and in the top 10 brands in the grocery stores category. The supertanker syndrome is when a brand has built up such momentum it keeps going even after it has effectively ceased to exist. The fact that the OK brand still has so much equity prompts the question: why have the owners, Shoprite/Checkers, not leveraged it? Rather than pump money into the Shoprite/Checkers brand shouldn't they have given more support to the OK Bazaars brand instead of killing it off?"

3.4.3. Spar

Spar is a voluntary trading group that supplies goods to approximately 712 stores nationally. They have operations within South Africa as well as in Botswana, Namibia and Zimbabwe.

Their store target is 750 stores by year end 2002. Their retail brands consist of the Superspar, Spar and Kwikspar brands. Their house brand range is marketed under the "Fresh Line" label and the Spar group enjoyed major growth in the perishables and household markets. The main reason for this significant growth was the introduction of new lines and categories in their "Fresh Line" product range. This has resulted in them expanding their distribution facility in Gauteng and Pretoria. Franchising is a major part of their business and the Spar group is aggressively canvassing landlords and developers for new store opportunities. The Superspar stores present the opportunity to take up space in regional shopping centres and these stores will be corporately managed. The Spar group has also established strategic partnerships with Steers and Ciro & Nescafe coffee shops. They have made in roads in the Internet shopping arena through the "Megashopper" and hope to establish their own online sales site by early 2002. The Spar group has a national sales group of 14.1% and they should significant growth in their national market share from 14,4% in 1990 to 25,1% in 2001. Keeping in line with this phenomenal growth, they hope to achieve a national market share of 30% by 2005. Currently they are working on improving store standards and controls.

3.5.1. WOOLWORTHS FINANCIAL STATEMENTS

Woolworth's Holdings Limited is a South African based retail group that operates locally and internationally through two subsidiaries, Woolworth's (Proprietary) Limited and Country Road Limited.

Stores are based in Africa, the Middle East, Australia, New Zealand, the United States and Singapore.

Whilst Woolworth's offers a selected range of apparel, footwear, toiletries, cosmetics, homeware, food and financial services of excellent quality and outstanding value under its own brand name, Country Road offers a distinctive style of apparel and homeware in the relaxed Australian lifestyle under its own brand name.

Country Roads timeline is as follows:

· 1974: Stephen Bennett sets up Country Road with Peter Vial, using $20,000 loan from father-in-law.
· 1981: Acquired by Coles Myer, allowing rapid expansion of the brand.
· 1987: Bennett buys back control via management buyout and a $51million float (at $1.50 a share) on the Australian Stock Exchange.
· 1988: Push into the United States begins.
· 1997: Solomon Lew's ARI takes an 11per cent stake; Woolworths of South Africa launches a $2 per share, $137 million bid, which Bennett and other share-holders accept.
· 2001: Speculation that US operations will close after sharp cuts to New York head office staff.
2002 :Country Road exits from the US Market
Source: http://www.theage.com.au/lifestyle/2001/12/10/FFXP88M41VC.html

WOOLWORTHS HOLDINGS LIMITED WHL

reviewed
group
results

for the year ended 30 june 2002

highlights

Total dividend per share	**33.3% to 20c**
From continuing operations:	
– Headline earnings per share	**43.2% to 46.2c**
– Revenue	**23.9% to R8 825.6m**
– Profit before exceptional items	**47.7% to R640.7m**
– Woolworths net profit before exceptional items	**40.1% to R625.5m**
– Country Road moves to a profit	**A$1,1m (2001: (A$3,6m))**

The financial statements show that Woolworths had an excellent run for 2002 and Country Road showed a good turnaround. Country Road's exit from the US market in the first half of 2002 resulted in a write off of net assets amounting to A$ 18,8m and other costs and provisions of A$5,0m. This translates to R122,7m after minority interests.

In order to improve utilisation of shareholder funds, a share repurchase programme was initiated. A total of 33,3 million shares which represented 3,6% of the issued share capital has been repurchased at a cost of R134,7m and at an average price of R4,05 per share. As the share repurchase was undertaken towards the end of the year, the benefits will be more fully reflected in next year's financials. A final dividend of 12,5c was declared and

this increased the total divided to by 33,3% to 20c per share. The share value in 2001 was 15c per share and this growth is reflective of the growing confidence in the business as well as that business is back on track.

The Woolworths operating group traded for 53 weeks up until June 2002, compared with a 52 week period in the last year. This additional week showed a positive 2,3% growth rate in sales whilst Woolworths sales increased by 22,6% by 2002. Food sales for the 53 weeks increased by 28,7% and by 18,7% on a comparable store basis. This is indicative that the brand building exercise "The Woolies Difference" is being effective. Woolworths is consistently offering their customers higher quality, innovative yet beautiful goods at affordable prices.

Country Road took a stance and decided to exit the US market as well as reduce their costs and focus on their home market (Australia). This yielded positive results for Country Road and they showed a net profit of A$1,1m from continuing operations which represents a turnaround of A$4,7m from last years results.

3.5.2. SHARE COMPOSITION

The total number of shares in issue at present is 914,653,695. According to the information available the following are the only shareholders directly holding in excess of 5% of the issued share capital as at 30 June 2001.

Company	Shares Held	% of Total
Wooltru Limited	410 447 149	45.20
State Street (US)	46 177 302	5.09
Old Mutual (SA)	46 600 064	5.02

3.5.3. MANAGEMENT COMPOSITION

The Board of Directors comprises the following people: -

Simon Susman	Chief Executive Officer
Mark Canning	Executive Director
Deon de Kock	Executive Director
Richard Inskip	Executive Director
Norman Thomson	Executive Director
Colin Hall	Non Executive Chairman
Mair Barnes	Non Executive Director
Nigel Colne	Non Executive Director
Brian Frost	Non Executive Director
Ian Thomson	Non Executive Director

3.5.4. EMPLOYEE COMPOSITION

The Woolworth's group employs 11 472 people.

3.5.5.INTELLECTUAL PROPERTY RIGHTS AND INVESTMENSTS

The Woolworth's brand name is their biggest intellectual property asset. The brand name has become synonymous with good quality products.

Other investments that generate revenue come from royalties, franchise, rental and other commissions. This amount is very small when compared to the overall revenue earned by the company (1.2%).

3.5.6. FINANCIAL STATEMENTS

The group annual financial statements and accounting policies comply with the South African Statements of Generally Accepted Accounting Practice. The full financial statements are readily available to the public and are attached to this document.

3.5.7. FIXED ASSETS SCHEDULES

Land and buildings are freehold with the exception of certain leased properties, which have been capitalised to date at a cost of R36.7m.

The group's land and buildings consist of retail stores, residential properties and distribution centres. The value of these assets as valued by the directors on the open market is R376.6m.

3.5.8. LIABILITIES SCHEDULES

The present non-current liabilities include; -

Deferred tax	R266.2m

Current liabilities include: -

Trade and other payables	R765.5m
Provisions	R66.7m
Tax	R116.8m

Overdrafts and short-term interest

Bearing borrowings	R184.8m
Interest on Long term	
Bearing borrowings	R0.5m

3.5.9. DEBT/EQUITY RATIO

The company is not highly geared, with a Debt : Equity Ratio of 0.59:1. For every R1 provided by the shareholders R0.59 is provided by external sources. This low gearing ratio shows a healthy state of affairs.

It can be seen from comparative financial data (Woolworths Annual Financial Statements) that the company has reduced debt over time, while funding it's expansion internally

3.5.10. INVENTORY TURNOVER RATIO

An Inventory turnover ratio of 14.2 indicates that the business replaced its entire inventory 14.2 times during the year. This indicates a good sales base as the inventory was turned over in just 25 days.

3.5.11. SUBJECTIVE RISK ASSESSMENT

A subjective risk assessment would take into consideration the macro (external) environment that Woolworths operates in as well as its micro (internal) environment.

3.5.11.1. The Macro Environment

The risks that affect Woolworths at the macro level are systematic risks. Two major macro-economic factors that affect Woolworths are interest rates and the GDP.

An increase in interest rates will have a negative effect for Woolworths because it sells most of its goods on credit. A higher interest rate will mean that the goods become less "affordable" to consumers and will hence lead to a decrease in sales. A higher interest rate will also lead to an increase in their financing costs. In South Africa, interest rates are at their lowest levels in 20 years, which is good for Woolworths. The fluctuation of interest rates over the last year can be attributed to many factors ranging from the high crime rate, government instability as well as the devaluation of the rand. A slowing down in the economy will lead to a lower propensity to spend amongst consumers. People are not spending enough to stimulate growth in the economy. Retailers like Woollies are usually adversely affected during these economic times. There is a risk attached to this aspect.

3.5.11.2. Micro Environment

The risks that affect Woolworths at a micro level are the unsystematic risks.

Woolworths invested a lot of their cash pile into their acquisition of Country Road. Country Road has yet to make a profit. Given that Country Road is situated mainly in Australia, UK and USA, countries that have been severely affected by the September 11 tragedy, it is highly unlikely that Country Road is going to turnaround any time soon.

The chairman stated in his report that they were looking at Africa and Middle East as areas of new potential. With the current Middle East crisis, it does not seem realistic that Woolworths can exploit any opportunities in the current climate.

On the positive side, there have been some bold and major changes to the board of directors and in the leadership style of Woolworths. The CEO is a hands-on man with many years of experience with Woollies. There has been a change in vision and strategy, with Woolworths now concentrating on its core customers and building their confidence by supplying quality goods at a fair price, the concept that made Woollies a household name.

3.6. CONCLUSION

Woolworths have proved themselves as a solid business, reducing debt consistently over time while funding internally, undergoing an unbundling process, and simultaneously expanding.

It will be interesting to watch developments at Country Road, as an offshore arm.

Strategy at Woolworths appears to be moving back to tried and trusted approaches, whereby quality at a fair price is to be offered. This is what Woolworths was built on, it is their niche and this is where they must continue their focus. Interestingly, Woolworths have begun to allow other brands into their stores. This may bolster sales but at what dilution, or cannibalisation cost?

CHAPTER 4

4.1. EVALUATION OF THE QUESTIONNAIRE

A questionnaire was identified as the primary data collection tool and this generated the following quantitative data. The questionnaire is a pre-formulated written set of questions, (beginning with simple dichotomous {yes/no} type questions progressing to semantic differential questions, to which respondents had to record their answers amongst the closely defined alternatives. The researcher used categorisation, coding, scales as well as reliability and validity as principles of measurement in the design of this questionnaire. The questionnaire was compiled with the funnel approach in mind. (See appendix A for sample questionnaire) This customer questionnaire was administered to MBA Students studying at University of Natal and Durban Westville. This format has been identified for it's cost and time effectiveness in securing feedback from the respondent.

Table 4.1: Gender

Category Label	Frequency	Percentage
Male	33	68.8
Female	15	31.3
Total	48	100.0

Table 4.1. shows that 33 males responded to the questionnaire which accounted for 68.8% of the sample whilst 15 females partook in the survey.

Table 4.2: Age in Years

Category Label	Frequency	Percentage
20-29	10	20.8
30-39	27	53.3
40-49	10	20.8
50-59	1	2.1
Total	48	100.0

Table 4.2. on the other hand depicts the various age groups of respondents. The 30-39 age group was the largest group and this accounted for 56,3% of the sample. The 20-29 age

group and the 40-49 age group each accounted for 20,8% of the respondents. The 50-59 age group only accounted for 2,1% of the respondents.

Table 4.3: Income Levels

Category Label	Frequency	Percentage
R5000 per month	11	22.9
R10000 per month	17	35.4
R15000 per month	20	41.7
Total	48	100.0

Table 4.3. illustrates the income groups of the respondents that were surveyed. The R15 000 per month income accounted for 41,7% of the score whilst R10 000 and R5 000 made up 35,4% and 22,9% respectively.

This however is not indicative of the profile of a Woolworths customer at all as Woolworths research has shown that their customer is predominantly female, 25 - 49 years of age, although the age group is older in the white and coloured markets. Woolworths have identified their shoppers as having an income of above R4000 and falling within or above the LSM6 market. (Source: Imbizo: Research Surveys)

Table 4.4: How often do you shop at a Woolworths food market store?

Category Label	Frequency	Percentage
Less than a month	20	41.7
At least twice per month	7	14.6
Twice per week	2	4.2
Once a month	9	18.8
Once a week	5	10.4
More Often	5	10.4
Total	48	100.0

20 Respondents accounted for 41,7% of the sample population that shopped at Woolworths less than once a month. 14,6% said that they shopped at Woolworths at least twice a month whilst 18,8% accounted for shoppers that visited a Woolworths store on a monthly basis. 10,4% respectively visited a Woolworths store once a week or more often.

Only 4,2% of the sample surveyed, visited a Woolworths store biweekly. This would indicate that Woolworths is still attracting a very niche market of consumers.

Multiple Response

Table 4.5: Which Woolworths store do you shop at?

Category Label	Frequency	Percentage
Pavilion	18	30.5
La Lucia	7	11.9
Musgrave	4	6.8
Gateway	11	18.6
Durban	12	20.3
Hillcrest	1	1.7
Kloof	1	1.7
Cowey Road	4	6.8
Westville Mall	1	1.7
Total	59	100.0
0 missing cases; 48 valid cases		

30,5% of the sample preferred the Pavilion branch whilst the Durban and Gateway branches averaged at 19,5%. La Lucia was the fourth most preferred store by 11,9% of the respondents. This would not impact on the Woolworths customer profile as this analysis is unique to this study and the sample chosen.

Table 4.6: Have you purchased/ would you purchase any other branded food or grocery items at Woolworths?

Category Label	Frequency	Percentage
I have	33	66.0
I have not	5	10.0
I would	11	22.0
I would not	1	2.0
Total responses	50	100.0
0 missing cases; 48 valid cases		

Two thirds of the sample have purchased dealer brand goods within a Woolworths store and nearly a quarter of the sample felt that they would purchase dealer brand goods from a Woolworths store in the future. This would indicate that the stocking of dealer brands

has been favourably or positively accepted by Woolworths shoppers and that customers are open to purchasing dealer brands from a Woolies store. This would indicate that Woolworths strategy of introducing dealer brands into their food markets has been positively accepted by consumers.

Table 4.7: Does the stocking of dealer brands change the Woolworths image?

Category Label	Frequency	Percentage
Better	16	33.3
Worse	7	14.6
No Change	25	52.1
Total	48	100.0

More than half of the respondents felt that the stocking dealer brands did not alter the Woolworths image. A third of the respondents felt that the Woolworths image was improved by the introduction of dealer brands. 14,6% of the respondents felt that this move would be detrimental to the Woolworths brand and image.

Table 4.8: I purchase branded food items from Woolworths

Category Label	Frequency	Percentage
Always	6	12.5
Sometimes	40	83.3
Never	2	4.2
Total	48	100.0

83,3% of respondents indicated that would sometimes purchase dealer brand food items from Woolworths whilst 12,5% responded that they would always buy dealer brand food products. Less than 5% of the respondents' felt that they would never buy non-Woolworths branded food items in a Woolworth's store.

Table 4.9: I purchase branded household items from Woolworths

Category	Frequency	Percentage
Didn't answer	1	2.1
Always	6	12.5
Sometimes	35	72.9
Never	6	12.5
Total	48	100.0

This question revealed that 72,9% of the respondents that they would sometimes purchase dealer brand household items from a Woolworths store whilst 12,5% indicated that they would either always or never buy dealer brand household items.

Table 4.10: I purchase Coke under the Woolworths house brand from a Woolworth's store

Category	Frequency	Percentage
Didn't answer	3	6.3
Always	9	18.8
Sometimes	17	35.4
Never	19	39.6
Total	48	100.0

Nearly 40% of the respondents indicated that they would never purchase the Woolworths brand Coke. 35,4% however responded that they would sometimes purchase Woolworths Coke whilst 18,8% felt that they would always purchase this item.

Table 4.11: I purchase dishwashing liquid under the Woolworths house brand from a Woolworth's store

Category	Frequency	Percentage
Didn't answer	3	6.3
Always	7	14.6
Sometimes	20	41.7
Never	18	37.5
Total	48	100.0

Woolworths dish washing liquid would be purchased by 41.75 of the respondents whilst 37,5% were brand loyal and would never purchase this product. A mere 14,6% responded that they would always buy Woolworths branded dishwashing liquid.

Table 4.12: I purchase household cleaning agents under the Woolworths house brand from a Woolworth's store

Category	Frequency	Percentage
Didn't answer	11	22.9
Always	4	8.3
Sometimes	19	39.6
Never	14	29.2
Total	48	100.0

Never purchasing household cleaning agents under the Woolworths house brand attracted nearly 30% of the respondent's votes whilst 40% felt that they would sometimes be inclined to buy Woolworths branded household product. A mere 8,3% felt that they trusted the Woolworths name and would always purchase their household products.

Table 4.13: I purchase personal toiletries under the Woolworths house brand from a Woolworth's store

Category	Frequency	Percentage
Didn't answer	6	12.5
Always	5	10.4
Sometimes	26	54.2
Never	11	22.9
Total	48	100.0

Woolworths branded personal toiletries had a firm place in 10,4% of the respondents minds and hearts and they stated that they would always purchase these products. Just over half the respondents were willing to try this category of product occasionally whilst 22,9% felt that they would never purchase Woolworths branded personal toiletries.

Table 4.14: I purchase tea and coffee under the Woolworths house brand from a Woolworth's store

Category	Frequency	Percentage
Didn't answer	4	8.3
Always	5	10.4
Sometimes	22	45.8
Never	17	35.4
Total	48	100.0

Table 4.14 indicates that the Woolworths brand is not firmly established in this group of respondent's minds. Woolworths branded tea and coffee would only be purchased by 10,4% of the respondents. 45,8% would be open to try this product occasionally whilst 35,4% felt that they would never purchase Woolworths branded tea and coffee.

Table 4.15: I purchase dealer brand Coke from a Woolworths store

Category	Frequency	Percentage
Didn't answer	8	16.7
Always	16	33.3
Sometimes	14	29.2
Never	10	20.8
Total	48	100.0

A third of the respondents felt that they would always purchase Coke in a Woolworths store. 29,2% indicated that they would sometimes do so whilst 20,8% felt that they would never purchase Coke from a Woolworths store.

Table 4.16: I purchase dealer brand dishwashing liquid from a Woolworth's store

Category	Frequency	Percentage
Didn't answer	9	18.8
Always	7	14.6
Sometimes	20	41.7
Never	12	25.0
Total	48	100.0

Nearly half of the respondents felt that they would sometimes purchase dealer brand dishwashing liquid from a Woolworths store whilst a quarter felt that they would never buy this type of product from a Woolworths store. Finally, 14,6% felt that they would always buy dealer brand washing liquid from a Woolworths store.

Table 4.17: I purchase dealer brand household cleaning agents from a Woolworth's store

Category	Frequency	Percentage
Didn't answer	10	20.8
Always	7	14.6
Sometimes	19	39.6
Never	12	25.0
Total	48	100.0

Household cleaning agents in the dealer brand category scored nearly the same as the dishwashing liquid in table 4.16.

Table 4.18: I purchase dealer brand personal toiletries from a Woolworth's store

Category	Frequency	Percentage
Didn't answer	9	18.8
Always	8	16.7
Sometimes	25	52.1
Never	6	12.5
Total	48	100.0

Just over half the respondents indicated that they would sometime purchase non-Woolworths branded personal toiletries whilst 16,7 would always buy their preferred brand. Only 12,5% indicated that they would remain brand loyal to the Woolies product.

Table 4.20: I purchase dealer brand tea and coffee from a Woolworth's store

Category	Frequency	Percentage
Didn't answer	8	16.7
Always	8	16.7
Sometimes	21	43.8
Never	11	22.9
Total	48	100.0

16,7% of the respondents indicated that they were brand loyal to their dealer brand of tea and coffee. Nearly half the respondents felt that they would sometimes be inclined to purchase dealer brand tea and coffee in a Woolworth's store 22,9% were against to the idea.

Table 4.21: Reasons for purchasing branded goods from a Woolworths Food Market

Category Label	Frequency	Percentage
Convenience	13	28.3
Price	1	2.2
Quality	26	56.5
Brand loyalty	6	13.0
Total responses	46	100.0
3 missing cases; 45 valid cases		

Over half the respondents indicated that they purchased dealer brand products from Woolworths mainly because they believed that it was quality while the purchase of dealer brands from these stores only accounted for 28,3% of the respondents. 13% bought dealer brand items from Woolworths stores because they were brand loyal whilst price was only a factor for 2,2%.

Table 4.22: Courtesy of Woolworths Sales Staff

Category Label	Frequency	Percentage
Didn't answer	1	2.1
Courteous	45	93.8
Neutral	2	4.2
Total	48	100.0

93,8% of the respondents believed that Woolworth's staff was courteous.

Table 4.23: Friendliness of Woolworths Sales Staff

Category Label	Frequency	Percentage
Didn't answer	3	6.3
Friendly	43	89.6
Neutral	2	4.2
Total	48	100.0

Woolworth's staff were perceived as being friendly by nearly 90% of the respondents.

Table 4.24: Attractiveness of Woolworths Advertising

Category Label	Frequency	Percentage
Didn't answer	2	4.2
Attractive	38	79.2
Neutral	5	10.4
Unattractive	3	6.3
Total	48	100.0

Table 4.25: Advertising

Category Label	Frequency	Percentage
Didn't answer	4	8.3
Informative	33	68.8
Neutral	7	14.6
Uninformative	4	8.3
Total	48	100.0

Table 4.24 illustrates that nearly 80% of the respondents found the Woolies advertising material to be attractive whilst table 4.25. reflects that nearly 70% of the respondents indicates that the advertising material is informative. Woolworths uses benefit segmentation to woo customers into their stores through informative advertising. "...benefit segmentation is relatively active and consumer responsive and acts as an effective weapon in the brand builder's arsenal." Jagdeep Kapoor (2001; 23)

Table 4.26: Product Variety

Category Label	Frequency	Percentage
Numerous	24	50.0
Neutral	14	29.2
Few	10	20.8
Total	48	100.0

Table 4.27: Product Variety

Category Label	Frequency	Percentage
Didn't answer	2	4.2
Large Variety	29	60.4
Neutral	9	18.8
Small Variety	8	16.7
Total	48	100.0

Table 4.28: Product Reliability

Category Label	Frequency	Percentage
Neutral	2	4.2
Reliable	35	72.9
Unreliable	11	22.9
Total	48	100.0

Table 4.26. indicates that half of the respondents felt that Woolworths had numerous items in their product variety whilst table 4.27. showed that just over 60% of the respondents felt that Woolworths carried a large variety of products. Lastly, table 28 displays that over 70% of the respondents were neutral regarding Woolworth's product reliability. Only 4,2% believed that Woolworths products were reliable whilst 22,9% felt that they were unreliable.

Table 4.29: Store Cleanliness

Category Label	Frequency	Percentage
Didn't Answer	1	2.1
Clean	43	89.6
Neutral	3	6.3
Dirty	1	2.1
Total	48	100.0

Table 4.30: Store Temperature

Category Label	Frequency	Percentage
Didn't answer	2	4.2
Hot	11	22.9
Neutral	14	29.2
Cold	21	43.8
Total	48	100.0

Table 4.31: Store Layout

Category Label	Frequency	Percentage
Didn't answer	2	4.2
Easy	34	70.8
Neutral	9	18.8
Difficult	3	6.3
Total	48	100.0

Table 4.29. indicates that nearly 90% of the respondents observed and felt that Woolworths stores were clean, almost 50% felt that the stores were cold and lastly Table 4.31. shows that just over 70% indicated that they found the store layout easy.

4.2. CONCLUSION

Respondents had a positive response to Woolworths stocking dealer brands but they were not very brand loyal or responsive to the Woolworths non-food items. The reason for this could be that they are not aware of these products due to lack of branding and advertising. This is an issue that Woolworths would need to address, as customers are happy and aware of the wide range of products that they currently stock. Woolworths would need to be more aggressive in their branding and advertising strategies in order to gain a place in the consumer's mind and hearts. Woolworths should emphasize the quality aspect in their advertising campaigns as almost 57% of the respondents bought dealer brand items at a Woolworths store, mainly because they associated this with the quality that they are accustomed to with Woolworths products. Convenience is another aspect that would be instrumental in respondents purchasing dealer brand items in a Woolworths food market. Most respondents found the Woolworths stores to be cold in temperature but this is necessary in order for the cold chain to maintained that much longer and

thereby making their produce last that much longer for the consumer. Lack of brand awareness in no food items seems to be the real problem for Woolworths at the moment.

CHAPTER 5

RECOMMENDATIONS & CONCLUSIONS

5.1. Recommendations based on research findings

It is hoped that by identifying a few areas of consumer buyer behaviour - marketers and Woolworths would gain an insight into the issues that influence a consumers brand choice. The identification of specific areas of marketing potential with regards to brands, could result in an increase in market share and subsequently turnover.

A competitor analysis revealed the following for Woolworths. Competitors are now doing more of the following:

Focus on fresh and value added food
More and natural foods
Convenience of food offerings and formats
Making food shopping an "experience"
Growth through local and international expansion
Entry into the retail pharmacy sector (pick 'n pay)
Conservative entry into home shopping
Consolidation and refocusing corporate and franchise brands to target specific markets
Source: Adapted from *Competitor Analysis Power Point Presentation*, Holdings Board Limited, 20 February 2002
Table 5.1: Competitor Trends in the Food Industry

With the competitors and their strategies in place, what does this mean for Woolworths?

❖ Woolworths need to manage the balance of the brands carefully in order to avoid diluting the special Woolies brand. They could fall folly to this very easy unless they maintain a healthy balance of 80% Woolworths goods and 20% other branded merchandise. If they do not adhere to this formula they run the risk of becoming just another supermarket that offers a whole range of brands.

❖ Concentrate on the Woolies brand philosophy, which has not been groceries but fresh produce, meat and perishable products.

❖ Woolworths need to explore new and different meal offerings that are quick, innovative, affordable and convenient.

❖ Location is important and they need to develop an effective and aggressive real state strategy quickly.

❖ Explore new and different ways of gaining the share of the consumer's stomach/appetite.

❖ Continue to explore food export opportunities and be on the look out of new innovative or even import opportunities.

❖ Investigate the Pharmacy concept but maybe with a different slant i.e. natural pharmacy or preventative/functional food.

❖ The shopping experience gap needs to be widened and this can be achieved by bring food to life through "Foodworks", customer service and added services e.g. recipes

❖ Still maintain their quality and service that they have become known for.

❖ Consider exploring the financial services market so that Woolworths will be competitively priced along side the competition. Make the service more affordable to the consumer.

❖ Consider the price and value that a consumer is being charged for a product.

❖ Be aware of any niches that exist in the market place and be proactive in getting into these markets

Using the model above, it is recommended that Woolworths should apply the following strategies comprising inter alia the following elements:

❖ Technological Improvement

Woolworths can inject sufficient levels of technology to ensure that their product quality is consistent, that quantities can be achieved as well economies of scales may be reached. They can certainly look at updating their pay point technology and offer the consumer more services like Pick 'n Pay does (payment of amenities such as rates, water, lights etc.) The data from the questionnaire shows that customers are not shopping at Woolworths for the added convenience and this might be an area that they could improve in and make the customer more aware of the added benefits of shopping with them.
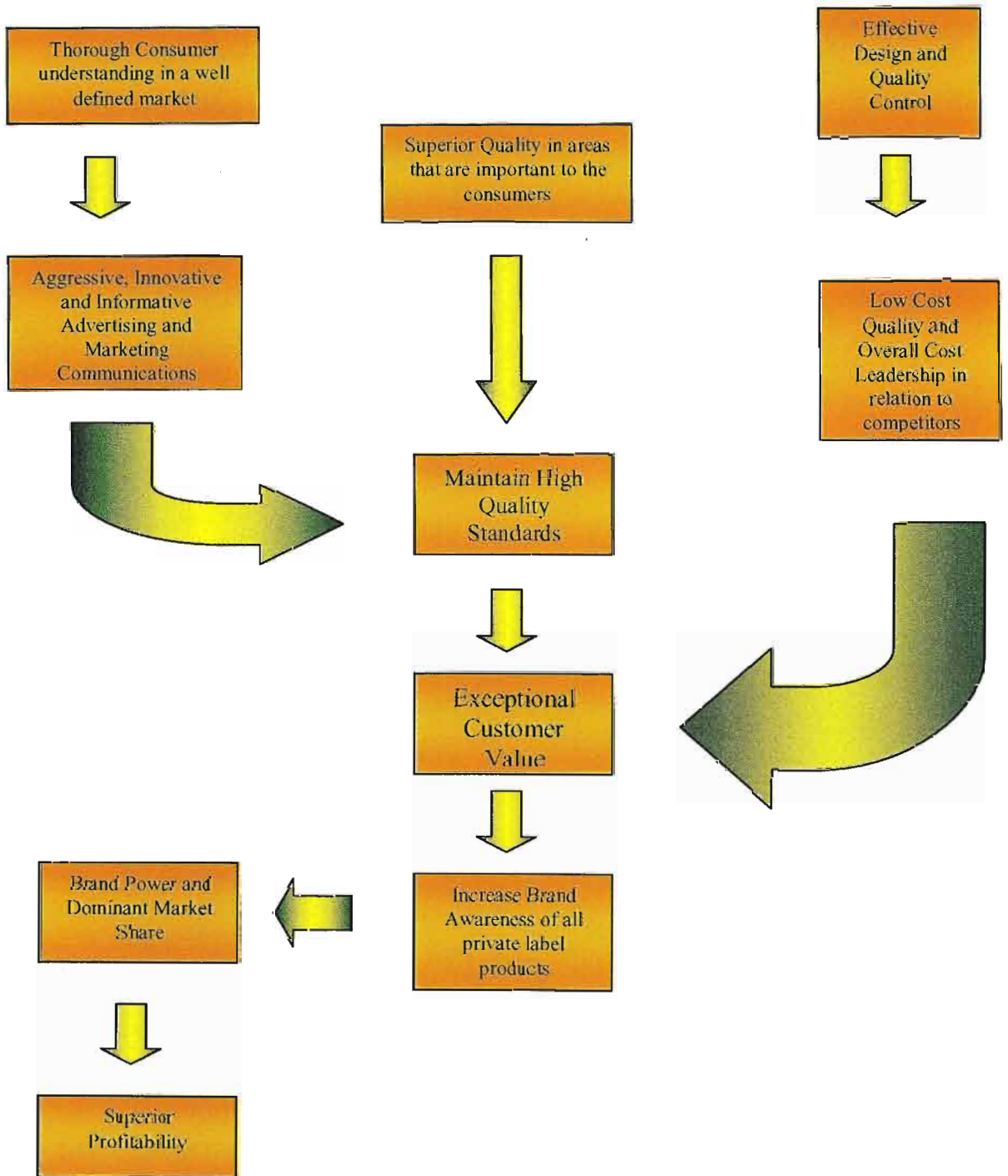
Figure 5.2: Model for Woolworths

❖ Product Innovation

The company is beset with the quality tradition, which is imperative for their continued success. However this does not mean that they need not be innovative whilst still maintaining their high levels and standards of quality. Innovation can be achieved through constant research and development and taking note of the changing needs of your target market. No matter what, Woolworths must not lose focus of its core competency, which is to offer superior quality merchandise.

❖ Effective Product Branding

Woolworths have been successful in building its brand names, after much effort and expense. It should therefore use this to its advantage and use this trusted and well-known brand name to expand into new and existing markets. The marketing of Woolworths and the creation of some of the most valuable individual brand names has been key to the company's success. The Woolworths brand is a strong one and they need to capitalise on this power. A firm brand awareness and presence needs to be created for all Woolworths no food items (especially those that are not unique to Woolworths and face competition from dealer brands)

❖ Woolworths influences its customers

A successful brand is about personality and Woolworths is no exceptional. The Woolies brand has a personality of its own right and is well known in most societies and cultures in South Africa. Woolworths have influenced and convinced consumers to believe that their brand is of good or even superior quality in some cases, and filled with only the best nutritional ingredients. Again, this should be extended into the no food item categories so as to gain market share and awareness.

❖ People prefer to buy Woolies

The Woolworths brand is successful because some people prefer them to ordinary products. Consumers rely on a brand for its guaranteed standard of quality, which reduces the risk of failure in purchase. Woolworths was rated 9th in the 2002

Markinor survey of Brands in South Africa and this showed no improvement from last year. It must be noted that Woolworths have slipped in their ratings since last year as competitors gain ground in the market place.

❖ The Woolworths Product and Corporate Branding

Firms may try to build brand loyalty by creating a corporate brand name that will suggest an identity or characteristics that would apply to all products. This is known as corporate branding. Alternatively, firms may choose to establish a brand identity for each of its products. Woolworths effectively does both. Woolworth is an example of multiple product branding, where each product within a range is given its own clear identity and personality but is also marketed using the Woolworths name as an umbrella.

❖ Woolworths Brand Values

A company's advertising, promotion, changes in name, new logo design pr any other such activities will not successfully build a brand unless there are certain well-defined values which are consistently communicated and demonstrated by the company which are recognised and appreciated by customers. The Woolworths brand emphasizes the benefits of quality and value, which will apply to any Woolies product. All aspects of Woolworths advertising reflect these brand values and the company's employees demonstrate these values in their behaviour towards their customers. They however need to develop a more aggressive marketing and advertising campaign to extend the awareness of their product range.

❖ The rewards of the Woolworths Brand

Building a brand is a corporate strategic issue and not a short-term tactical activity. The brand name - Woolworths has satisfied the needs of their consumers and has overcome competition from some other brands. Woolworths, although established in the 1930's is still a much loved brand today. Through its brand loyalty, the company has achieved a consistency of demand through customer retention however this

should be exploited to increase their customer base, market share and ultimately their bottom line.

The Woolworths brand philosophy has been developed to include meat, produce and perishable products and not groceries, as the perception may have been. They need to take care that they do not dilute the Woolworths brand and this can be achieved by trying to maintain a ratio of 80% Woolworths brand and 20% other branded goods. Since Woolworths operates in a highly price sensitive market, they need to make attempts to desensitise the consumers to price fluctuations.

❖ Vertical/Horizontal Integration
Integration opportunities can be expanding business on the World Wide Web. Also, expansion into food court stores at petrol stations (7 days-24hours). Offer added value services like flower arrangements.

❖ Exploration of Untapped Markets
Look for export and import opportunities whilst taking not of any government legislation or regulation that may exist and hinder your business.

The results detailed in this dissertation are by no means exhaustive. Further research could unearth more variables that may influence a consumers brand choice and provide more dept and scope to this area as time moves on.

5.2. CONCLUSION

This chapter served to discuss the results of the study by relating them back to the objectives of the study and finally to discuss the usefulness and appropriateness of the methodology used as outlined in chapter one (1). The researcher was able to substantiate the subjective views on Woolworths stocking dealer brands through literature and also to criticize or justify the methodology of the study. This study revealed that MBA students had a positive attitude towards Woolworths stocking dealer brands. They believed that Woolworths would now offer an improved

customer service and customer relations would be enhanced. Examining the implications of research findings for Woolworths concludes the study. Possible areas for research in the field of dealer brands and consumer buyer behaviour are recommended. The implications for the organisation are discussed by the recommending possible ways in implementing and managing dealer brands alongside private labels. Such recommendations are made with the purpose of enhancing overall customer service provided within and by the organisation. Given the positive general attitude of customers towards Woolworths stocking dealer brands, there are more reasons why such an undertaking may enhance customer service and promote business. From the customer perspective, many of them would be provided with additional convenience of a one-stop shop. The organisation on the other hand would benefit not only by an enhanced original image but also through improved customer retention and enhanced business focus amongst other effects. All these aspects could have an enormous positive impact on their bottom line. This would allow Woolworths to achieve their mission of "building lifelong relationships." Thus respondents felt that customer service would be taken to new levels through the stocking of dealer brands within a Woolworths store.

Competition helps a category to grow and has the benefit of expanding the market. This was a factor that Woolworths did not have to consider, since they always stocked their own house brand. Increasing competition from competitors led Woolworths to take the decision of stocking dealer brands. They thought that they could increase business by introducing established products to their product range. However this meant that Woolworths were entering new territory and would be less efficient as a brand per say due to dilution. According to Interbrand's Ms Clifton, "brands of the future will have to stand not only for product quality and a desirable image. They will also have to signal something wholesome about the company behind the brand" (The Economist, September 8th, 2001, p.27)."The next big thing about brands is social responsibility, says Mr. Olins" (The Economist, September 8th, 2001, p.30).

In concluding, it can be said that the introduction of branded goods into Woolworths food stores may be a mechanism for Woolworths to become a world class food retailer.

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Http://woolweb.Woolworths.co.za

http://users.wbs.warwick.ac.uk/msm/people/arnott/ib2090/files/209ibb00.ppt

Sample Questionnaire

1. Male ☐   Female ☐

2. Age 20-29 ☐   30-39 ☐   40-49 ☐   50-59 ☐   60+ ☐

3. Income Level: ☐ R5000 per month   ☐ R10 000 per month   ☐ R15 000 per month

4. How often do you shop at a Woolworths Foodmarket Store?

☐ Less than once a month   ☐ Once a month
☐ At least twice a month   ☐ Once a week
☐ Twice a week   ☐ More often

5. Which Woolworths stores do you usually shop at?

☐ Pavillion   ☐ La Lucia   ☐ Musgrave

☐ Gateway   ☐ Durban   ☐ Hillcrest

☐ Kloof   ☐ Cowey Road   ☐ Westville Mall

6. Have you purchased/would you purchase any other branded food or grocery item at Woolworths?

☐ I have   ☐ I have not

☐ I would   ☐ I would not

7. Does stocking other dealer brands change the Woolworths image?

☐ Better   ☐ Worse   ☐ No change

	always	sometimes	never
8. I purchase branded food items from Woolworths	---	---	---
9. I purchase branded household items from Woolworths	---	---	---
10. Which of the following items would you purchase under the Woolworths house brand?			
Coke	---	---	---
Dish washing liquid	---	---	---
House hold cleaning agents	---	---	---
Personal Toiletries	---	---	---
Sweets and Chocolates	---	---	---
Tea and Coffee	---	---	---
11. Which of the following dealer brand items would you purchase in a Woolworths store?			
Coke	---	---	---
Dish washing liquid	---	---	---
House hold cleaning agents	---	---	---
Personal Toiletries	---	---	---
Sweets and Chocolates	---	---	---
Tea and Coffee	---	---	---

12. What are the reasons for purchasing these branded goods?

Convenience ☐   Price   ☐   Quality ☐   Brand Loyalty ☐

13.Sales staff :	courteous	--	--	--	--	--	discourteous
14.Sales staff:	Friendly	--	--	--	--	--	unfriendly
15.Advertising:	Attractive	--	--	--	--	--	unattractive
16.Advertising:	Informative						Uninformative
17.Product variety:	Numerous	--	--	--	--	--	Few
18.Product variety:	Large variety	--	--	--	--	--	Small Variety
19.Product variety:	Reliable	--	--	--	--	--	Unreliable
20.Store:	Clean	--	--	--	--	--	Dirty
21.Store Temperature:	Hot	--	--	--	--	--	Cold
22. Store Layout:	Easy	--	--	--	--	--	Difficult

Sample Questionnaire

(1) 1. Male ☐ (1)   Female ☐ (2)

(2) 2. Age 20-29 ☐ (1)   30-39 ☐ (2)   40-49 ☐ (3)   50-59 ☐ (4)   60+ (5) ☐

(3) 3. Income Level: ☐ R5000 per month (1)   ☐ R10 000 per month (2)   ☐ R15 000 per month (3)

(4) 4. How often do you shop at a Woolworths Foodmarket Store?
☐ Less than once a month   (1)   ☐ Once a month (4)
☐ At least twice a month   (2)   ☐ Once a week (5)
☐ Twice a week   (3)   ☐ More often   (6)

(5) 5. Which Woolworths stores do you usually shop at?

☐ Pavillion (1)   ☐ La Lucia (2)   ☐ Musgrave (3)

☐ Gateway (4)   ☐ Durban (5)   ☐ Hillcrest (6)

☐ Kloof   (7)   ☐ Cowey Road (8)   ☐ Westville Mall (9)

(6) 6. Have you purchased/would you purchase any other branded food or grocery item at Woolworths?
☐ I have   (1)   ☐ I have not (2)

☐ I would (3)   ☐ I would not (4)

(7) 7. Does stocking other dealer brands change the Woolworths image?
☐ Better (1)   ☐ Worse   (2)   ☐ No change (3)

	(1)always	(2)sometimes	(3)never
(8) 8. I purchase branded food items from Woolworths	---	---	---
(9) 9. I purchase branded household items from Woolworths	---	---	---
10. Which of the following items would you purchase under the Woolworths house brand?			
(10)Coke	---	---	---
(11)Dish washing liquid	---	---	---
(12)House hold cleaning agents	---	---	---
(13)Personal Toiletries	---	---	--
(14)Tea and Coffee	---	---	---
11. Which of the following dealer brand items would you purchase in a Woolworths store?			
(15)Coke	---	---	---
(16)Dish washing liquid	---	---	---
(17)House hold cleaning agents	---	---	---
(18)Personal Toiletries	---	---	---
(19)Sweets and Chocolates	---	---	---
(20)Tea and Coffee	---	---	---

(21)12. What are the reasons for purchasing these branded goods?
☐ Convenience(1)   ☐ Price(2)   ☐ Quality (3)   ☐ Brand Loyalty(4)

(22)13.Sales staff :   courteous(1)   --   --   -(2)-   --   (3)discourteous

III

(23)14.Sales staff:	Friendly (1)	--	--	-(2)---	--	--	unfriendly(3)
(24)15.Advertising:	Attractive(1)	--	--	-(2)-	-	--	unattractive(3)
(25)16.Advertising:	Informative (1)						Uninformative(3)
(26)17.Product variety:	Numerous(1)	--	--	---(2)-	-	--	Few(3)
(27)18.Product variety:	Large variety (1) --	--	-(2)-	--	--	Small Variety(3)
(28)19.Product variety:	Reliable(1)	--	--	-(2)- -- --			Unreliable (3
(29)20.Store:	Clean(1)--	--	--	-(2)-	--	Dirty(3)
(30)21.Store Temperature: Hot(1)		--	--	---(2)-	--	Cold(3)
(31)22. Store Layout:	Easy(1)	--	--	-(2)-	--	--	Difficult(3)

WOOLWORTHS HOLDINGS LIMITED

reviewed group results

for the year ended 30 june 2002

balance sheet

		Year ended 30 June 2002	2001
	Note	Rm	Rm
assets			
Non-current assets		1 535.2	1 459.1
Property, plant and equipment		916.1	980.4
Investments	6	81.4	24.7
Loans to customers		180.2	115.6
Participation in export partnerships		210.0	229.0
Premium on acquisition of subsidiary		20.1	–
Other loans		112.6	102.8
Deferred tax		14.8	6.6
Current assets		2 528.6	2 272.2
Inventories		511.2	503.9
Woolworths card debtors		1 348.7	1 148.5
Accounts receivable		347.1	327.4
Loans to customers		201.5	171.6
Tax		1.6	–
Cash and cash equivalents		118.5	120.8
Total assets		4 063.8	3 731.3
equity and liabilities			
Capital and reserves		2 375.8	2 270.1
Ordinary shareholders' interest		2 350.2	2 238.4
Outside shareholders' interest		25.6	31.7
Non-current liabilities		301.1	336.3
Interest bearing borrowings		0.3	0.5
Post-retirement medical-aid liability		111.0	94.5
Deferred tax		189.8	241.3
Current liabilities		1 386.9	1 124.9
Accounts payable		713.0	756.6
Provisions		97.3	66.7
Tax		96.4	116.8
Interest bearing borrowings		480.2	184.8
Total equity and liabilities		4 063.8	3 731.3
Net asset bookvalue – per share (cents)		264.2	246.5
group analysis			
Total assets		4 063.8	3 731.3
Woolworths		3 658.0	3 347.9
Country Road		405.8	383.4
Inventories		511.2	503.9
Woolworths		339.1	324.8
Country Road		172.1	179.1
Approved commitments for capital expenditure for the next financial year		237.9	233.9
Woolworths		196.7	201.7
Country Road		41.2	32.2

WOOLWORTHS HOLDINGS LIMITED

reviewed group results

for the year ended 30 june 2002

income statement

| | | Year ended 30 June | | |
	Note	2002 Rm	2001 Rm	% Change
Revenue		**9 020.7**	7 411.1	21.7
Continuing operations		**8 825.6**	7 120.6	23.9
Discontinued operations		**195.1**	290.5	(32.8)
Continuing operations				
Turnover		**8 421.4**	6 778.8	24.2
Cost of merchandise		**5 571.8**	4 484.5	24.2
Gross profit		**2 849.6**	2 294.3	24.2
Other income		**404.2**	341.8	18.3
Expenses		**2 568.6**	2 166.3	18.6
Depreciation		**213.5**	199.0	7.3
Occupancy cost		**503.4**	403.3	24.8
Employment cost		**1 238.7**	1 050.8	17.9
Other operating cost		**613.0**	513.2	19.4
Operating profit		**685.2**	469.8	45.8
Interest paid		**44.5**	36.1	23.3
Net profit before exceptional items		**640.7**	433.7	47.7
Exceptional items	2	**(41.5)**	-	
Net profit before tax		**599.2**	433.7	38.2
Tax	3	**203.6**	147.2	38.3
Net profit after tax		**395.6**	286.5	38.1
Outside shareholders' interest		**(2.1)**	1.3	
Net profit from continuing operations		**393.5**	287.8	36.7
Discontinued operations				
Operating loss		**(14.0)**	(17.9)	
Interest paid		**(0.7)**	(0.9)	
Loss from discontinued operations		**(14.7)**	(18.8)	
Exceptional items	2	**(139.6)**	–	
Outside shareholders' interest		**18.8**	2.3	
Net loss from discontinued operations		**(135.5)**	(16.5)	

VII

Total group

Net profit attributable to ordinary shareholders	**258.0**	271.3	(4.9)

Reconciliation of headline earnings

Attributable earnings – all operations	**258.0**	271.3	(4.9)
Loss on discontinuance, net of outside shareholders' interest	**115.6**	-	
Impairment of property	**17.2**	-	
Goodwill amortisation	**12.1**		
Loss on disposal of listed investment	**4.8**	-	
(Profit)/loss on disposal of property, plant and equipment net of outside shareholders' interest	**(8.8)**	3.1	
Headline earnings	**398.9**	274.4	45.4
Net loss from discontinued operations after outside shareholders' interest	**19.9**	16.5	20.6
Headline earnings from continuing operations	**418.8**	290.9	44.0

Headline earnings per share (cents)

– All operations		**44.0**	30.5	44.3
– Continuing operations		**46.2**	32.3	43.2
Earnings per share (cents)				
– All operations		**28.5**	30.1	(5.3)
– Continuing operations		**43.4**	31.9	36.2
Diluted earnings per share (cents)	4	**28.0**	29.9	(6.4)
Dividends per share (cents)	5	**20.0**	15.0	33.3
Dividend cover (based on headline earnings from continuing operations)		**2.3**	2.2	
Number of shares issued (millions) store basis.		**889.7**	908.1	(2.0)
Weighted average number of shares in issue (millions)		**905.7**	899.8	0.7

group analysis
Revenue

Turnover	**8 421.4**	6 778.8	24.2
Woolworths	**7 302.0**	5 955.4	22.6
– Textiles	**3 834.1**	3 258.9	17.7
– Foods	**3 302.1**	2 566.0	28.7
– Logistics services and other	**165.8**	130.5	27.0
Country Road – continuing operations	**1 119.4**	823.4	35.9
Interest	**355.5**	294.6	20.7
Other revenue	**48.7**	47.2	3.2
Continuing operations	**8 825.6**	7 120.6	23.9
Discontinued operations	**195.1**	290.5	(32.8)
	9 020.7	7 411.1	21.7

Net profit/(loss) before tax and exceptional items

Woolworths	**625.5**	446.4	40.1
Country Road	**15.2**	(12.7)	
Continuing operations	**640.7**	433.7	47.7
Discontinued operations	**(14.7)**	(18.8)	
	626.0	414.9	50.9

WOOLWORTHS HOLDINGS LIMITED

reviewed group results
for the year ended 30 june 2002

cash flow statement

	Year ended 30 June	
	2002 **Rm**	**2001** **Rm**
Cash flow from operating activities		
Cash inflow from trading	**581.7**	392.3
Working capital movements	**(262.2)**	(106.8)
Cash generated by operating activities	**317.7**	285.5
Interest received and investment income	**355.5**	294.8
Interest paid	**(45.2)**	(37.0)
Tax paid	**(284.5)**	(97.5)
Cash generated by operations	**345.5**	445.8
Dividends paid	**(145.8)**	(103.4)
Net cash inflow from operating activities	**199.7**	342.4
Continuing operations	**187.4**	351.0
Discontinued operations	**12.3**	(8.6)
Cash outflow from investing activities	**(404.8)**	(340.8)
Cash flow from financing activities		
Shares issued	**41.3**	28.0
Shares repurchased by subsidiary	**(134.7)**	–
Long-term liabilities repaid	**(0.1)**	(11.4)
Net cash (outflow)/inflow from financing activities	**(93.5)**	16.6
(Decrease)/increase in cash and cash equivalents	**(298.6)**	18.2
Cash and cash equivalents at the beginning of the year	**(64.0)**	(101.3)
Effect of foreign exchange rate changes	**0.9**	19.1
Cash and cash equivalents at the end of the year	**(361.7)**	(64.0)
Continuing operations	**(361.7)**	(60.4)
Discontinued operations	**–**	(3.6)
group analysis		
Cash generated by operations – before tax	**630.0**	543.3
Woolworths	**579.2**	535.8
Country Road	**50.8**	7.5
Gross capital expenditure on plant and equipment	**335.0**	252.9
Woolworths	**273.7**	207.1
Country Road	**61.3**	45.8

WOOLWORTHS HOLDINGS LIMITED

reviewed group results

for the year ended 30 june 2002

statement of changes in ordinary shareholders' interest

	Year ended 30 June 2002 Rm	2001 Rm
Ordinary shareholders' interest at the beginning of the year	**2 238.4**	2 023.5
As previously reported	2 334.5	2 103.9
Prior year adjustment to opening balance arising from the change in accounting policy for :		
– Depreciation on owner-occupied property	(36.2)	(28.0)
– Post retirement medical benefits	(59.9)	(52.4)
Movements for the year:		
Share premium arising from shares issued under share purchase scheme	**41.3**	28.0
Shares repurchased by subsidiary	**(134.7)**	–
Recognised gains and losses	**205.2**	186.9
Distributable reserves	**125.1**	169.8
Net profit attributable to ordinary shareholders	258.0	271.3
Distributions to ordinary shareholders	(145.8)	(103.4)
Net unrealised gain on hedging instruments	12.9	1.9
Non-distributable reserves		
Realisation of translation reserve on closure on discontinued operations	(7.3)	–
Exchange differences on translation of foreign entities	87.4	17.1
Ordinary shareholders' interest at the end of the year	2 350.2	2 238.4