

**DEVELOPING MARKET DRIVEN STRATEGY AND
IMPLEMENTATION PLANS FOR LPGAS**

BY

MEGARANJINI NAIDU

**SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF**

MASTER OF BUSINESS ADMINISTRATION

AT

UNIVERSITY OF KWAZULU-NATAL

**Student Number: 202526903
Supervisor: PROFESSOR ELZA THOMSON
Date submitted: January 2006**

To Whom It May Concern:

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



**M. Naidu (Ms.)
Afrox Limited**



DECLARATION

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

Signed: *M. Aida*.....

Date: *04/04/2006*.....

STATEMENT 1

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

Signed: *M. Aida*.....

Date: *04/04/2006*.....

116053

STATEMENT 2

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

Signed: *M. Aida*.....

Date: *04/04/2006*.....

ACKNOWLEDGEMENTS

I am grateful to Afrox for financing my studies for the Master in Business Administration. My sincere thanks, to management and my colleagues at Afrox for their support and assisting with the relevant information during my period of study.

To Prof. Elza Thomson my supervisor, I thank you for your invaluable advice and guidance in the process of writing this thesis.

To the members of my family and the many friends who have supported me during what was for me an extremely stressful year, I would like to thank you all for your moral support and encouragement. A special thanks to my friend Kay Chetty, for her invaluable assistance. To Links Thulkanam thank you for your patience, support and friendship.

Last but not least, I would like to thank my late mother for the immense strength, encouragement and guidance that she gave me so unselfishly throughout her life. Her dedication and input has been most valuable. It saddens me to acknowledge that she is no longer here to share this moment with me.

TABLE OF CONTENTS

CHAPTER 1 – INTRODUCTION

1.1	Introduction	1
1.2	Background and Context	1
1.2.1	Energy use in rural areas	2
1.2.2	Energy and the environment.....	3
1.2.3	The impact on health by the various energy used.....	4
1.3	Motivation	6
1.4	Value of the project	7
1.5	Limitations	7
1.6	Restrictions	8
1.7	Problem Statement.....	8
1.8	Research Objectives	9
1.9	Research Design and Methodology	9
1.9.1	Data collection to identify strategic objects	10
1.9.2	Data analysis to identify strategic options	10
1.9.3	Evaluation of Strategic Options	11
1.9.4	Development of a Marketing Mix	11
1.10	Significance of the study	11
1.11	Chapter Summary	12
1.12	Conclusion	12

CHAPTER 2 – STRATEGY IN CONTEXT

2.1	Introduction	13
2.2	Strategy, Planning and Strategy Planning	14
2.3	The Business environment	16
2.4	The Macro environment	17
2.5	Industry environment	19
2.5.1	Porters five forces	19
2.5.2	The Life Cycle Model	22
2.6	The Competitor Environment	23

2.6.1	Competitive Intelligence	23
2.6.2	Gap Analysis	25
2.6.3	Benchmarking	25
2.7	The Internal Environment	27
2.7.1	Resource based view of a firm	27
2.7.2	Value chain analysis	28
2.7.3	SWOT Analysis	29
2.7.4	Core competencies of a company	31
2.8	Review of Company's Strategic Intent	32
2.8.1	Vision	32
2.8.2	Mission statement	33
2.8.3	Review of a Company's current objectives	34
2.9	Strategy Analysis and Choice	35
2.9.1	Strategic Options based on the Internal and External Environment	35
2.9.2	SWOT analysis	36
2.9.3	Grand Strategy	37
2.9.4	Portfolio Matrices	40
2.9.4.1	BCG Matrix	41
2.9.4.2	GE Portfolio Matrix	42
2.9.4.3	The Arthur D Little Life-Cycle Matrix	43
2.10	Evaluation of Strategies	44
2.10.1	Suitability	46
2.10.2	Acceptability	48
2.10.3	Feasibility	49
2.11	Implementation of Strategies	50
2.11.1	Leadership	50
2.11.2	Resources Allocation	51
2.11.3	Organizational Structure	51
2.11.4	Establishing Strategy Supportive Policies	52
2.11.5	Instituting Best Practices and Continuous Improvement	52
2.12	Corporate Culture	55
2.13	Developing the Marketing Mix to Support Strategies	56
2.13.1	Overview of the Marketing Mix	57

2.13.2	Product	57
2.13.3	Price	59
2.13.4	Distribution pr Place	60
2.13.5	Promotion	61
2.13.6	Physical Evidence, People and Process	61
2.14	Branding	63
2.14.1	Building Customer Relationships	63
2.15	Model for Chapter 2	65
2.16	Conclusion	66

CHAPTER 3 – CASE STUDY

3.1	Introduction	67
3.2	Afrox Limited.....	68
3.2.1	Afrox – Handigas Division	70
3.2.2	Strategic Planning at Afrox.....	71
3.3	Macro-environment of the oil /LPGas Market	73
3.4	LPGas / Handigas Environment	80
3.4.1	Dominant Economic Features of the Industry	80
3.4.2	Porter’s Five Forces – LPGas for Low Income Households.....	82
3.5	The Competitor Environment	82
3.6	The Internal Environment of Afrox’s Safety Gas	85
3.6.1	Value Chain Analysis for Afrox Handigas Division	85
3.6.2	SWOT Analysis for Afrox Handigas Division	86
3.7	Review of the Strategic Intent of Afrox	87
3.8	Afrox Handigas – Current Strategies	91
3.8.1	Generic Strategies	91
3.9	Presentation of Afrox Financials.....	92
3.9.1	Presentation of Financial Ratios for Afrox... ..	93
3.10	Current Implementation of Strategies	94
3.10.1	Organizational Structure	95
3.10.2	Best Operating Procedures, Continuous Improvements and Rewards	95
3.10.3	The Divisional Culture	96

3.11	Handigas Division Marketing Mix	97
3.11.1	Product Strategy	97
3.11.2	Pricing	98
3.11.3	Distribution (Place)	99
3.11.4	Promotion	99
3.11.5	Physical Evidence, People and Process	100
3.12	Conclusion	101

CHAPTER 4 – EVALUATION OF HANDIGAS DIVISION

4.1	Introduction	104
4.2	Analysis of Handigas Division	104
4.3	Handigas Division Position in Relation to the Macro Environment	105
4.3.1	The effects of the Environmental Factors	107
4.4	Afrox’s Position within South-Africa	107
4.5	Afrox Handigas Competitive Position	108
4.6	Evaluation of Afrox Handigas Internal Environment	109
4.6.1	Review of SWOT Analysis of Afrox Handigas Division	110
4.7	Surveys Conducted To Evaluate the Low Income Housing	111
4.7.1	Overview of the Survey done by Perry and Associates and Objectives	111
4.7.1.1	Results of the Surveys	112
4.7.1.2	Typical Energy use patterns for different kinds of households	114
4.7.1.3	High inconvenience value and refilling costs	115
4.7.1.4	Interviews that has been conducted	116
4.7.1.5	Overview of Survey done by Primedia	121
4.8	Conclusion	122

CHAPTER 5 - PRESENTATION OF STRATEGIES AND RECOMMENDATIONS

5.1	Introduction	125
5.2	Identification of Strategies	126
5.2.1	Identification of Grand Strategies	126
5.2.2	Identification of Business Unit Strategies.....	127
5.2.3	Strategies Identified for Afrox Handigas Division	127

5.3	Presentation of the Strategies	128
5.3.1	Grand Strategy – Joint Venture	128
5.3.2	Business Unit Strategy – Focus and Differentiate the Product	130
5.3.3	Business Unit Strategy – Logistics and Distribution network	132
5.3.4	Business unit Strategy – Branding, Promotion and Marketing	137
5.4	Assessing the Strategies for Acceptability	140
5.4.1	Assessing the acceptability of Logistics and Distribution	140
5.4.2	Assessing the Acceptability of Differentiating the Product	141
5.4.3	Assessing the Acceptability of establishing a Joint Venture with a BEE Partner ...	142
5.5	Assessing the Strategies for Feasibility	143
5.6	Recommendations	144
5.6.1	Recommendations for the Short Term	145
5.6.2	Recommendations for the Mid-to Long-Term	146
5.7	Future Research.....	147
5.7	Conclusion	148

BIBLIOGRAPHY

Books	149
Journals and Publications	151
Afrox Intranet	152
Surveys	152
Internet References	153

LIST OF FIGURES

Figure 2.1	Layers of the Business Environment	17
Figure 2.2	Porter’s Five Forces Model	21
Figure 2.3	Cycles of Competition	24
Figure 2.4	Gap Analysis	25
Figure 2.5	Value Chain	29
Figure 2.6	The SWOT Analysis Framework	30
Figure 2.7	The Mission Statement	33
Figure 2.8	Strategic Options Internal Assessment	36
Figure 2.9	Grand Strategy Matrix	38
Figure 2.10	The BCG Model	41
Figure 2.11	Suitability	46
Figure 2.12	Theoretical Model	65
Figure 3.1	The Afrox Industrial Model	70
Figure 3.2	The past and future of oil	74
Figure 3.3	The Customer Value model.....	90
Figure 3.4	Organogram for the Handigas Division	95
Figure 4.1	Brent oil prices	106
Figure 4.2	Market share	109

TABLES

Table 1.1	Energy Supply Options	3
Table 2.2	The Life Cycle Model	22
Table 2.2	The GE McKinsey Matrix	42
Table 2.3	The Life cycle Portfolio Matrix	44
Table 2.4	Suitabilty Analysis	47
Table 2.5	Assessing the Acceptability Strategy	48
Table 2.6	Product Life Cycle	58
Table 3.1	Afrox Business Divisions	69
Table 3.2	Key elements of the Strategy	72
Table 3.3	Pestel Analysis for LPGas Industry	75
Table 3.4	Economic Features of the Industry	81
Table 3.5	Competitor Analysis	83
Table 3.6	SWOT Analysis	86
Table 3.7	Afrox Business Strategy	91
Table 3.8	Afrox Financials	93

Table 3.9 Afrox Financial Ratios 94
Table 4.1 Energy Use Patterns 115
Table 4.2 Energy use and Expenditure 116

CHAPTER 1

1.1 INTRODUCTION

More than half the world's population live in rural areas, with the higher numbers in developing countries. The majority of people living in rural areas in South Africa still use traditional fuels including fuel wood, coal, dung, paraffin (IP) and to a lesser degree Liquefied Petroleum Gas (LPG), as their main source of energy. It is generally considered that people living in the rural areas of South Africa are from disadvantaged backgrounds.

This combination does not adequately cater for the fulfillment of nutritional, warmth or lighting needs. Some 44% of household's use paraffin every day, making it the most widely used commercial fuel in urban and rural areas. There are serious safety and health issues connected with its use, such as respiratory disorders, and paraffin poisoning in children. Conversely LPG is a safe and clean burning fuel that produces 49.6MJ/kg of energy in comparison to Paraffin with 37.5MJ/l. As such LPG could be a suitable alternate energy for refrigeration, heating and cooking.

This study undertakes to address the issues around the suitability, feasibility, affordability and accessibility of providing LPGas to the rural population. It will also look at the limitations, as well the environmental impact of using this product.

1.2 BACKGROUND AND CONTEXT

African Oxygen Limited (**Afrox**) is in the business of gases, welding products and healthcare. This company is sub-Saharan Africa's market leader in all areas of its business. It is South Africa's seventeenth largest employer, with some 18 000 employees. Afrox is continuously involved in the economic upliftment of businesspersons from historically disadvantaged communities. This is achieved through identifying and developing black entrepreneurial talent. All its operations actively support SMME's in South Africa. Up to 2001 Afrox spent over R 20 million with SMME's. This amount is expected to grow substantially yearly as more and more SMME's are appointed. Through Afrox's LPG Distributor Development Program, the company

has set up over 2 000 Handigas distributorships, 90 percent of which are owned and operated by black entrepreneurs. The underlying object of the LPG distributorship is to:

- Promote partnerships with SMME's,
- To create job opportunities,
- To broaden the level of economic participation,
- To provide equipment for decanting purposes,
- To assist distributors in acquiring vehicles for transport, and
- To assist in the acquisition of new markets.

The company has probably created jobs and wealth for more than 5 000 previously disadvantaged individuals and a livelihood for at least four times that many through this program.

As an extension to this value chain, Afrox is looking to provide the informal urban and rural South Africa with LPG as a clean energy source for cooking, heating and refrigeration. This would be a replacement to coal, wood and paraffin, as energy sources more prevalently used in the disadvantaged section of the population.

Members of the South African Electric utility, ESKOM, are responsible for an extreme electrification program. The participants in the local Liquefied Petroleum Gas have accepted this challenge and are currently collaborating to meet the urgent upliftment need in rural communities. However approximately 20% of South Africa's population will not expect to get utility grid electricity for at least the next twenty years. Many rural South African's live in sparsely populated villages with a small load of energy power requirements that are low. The question is, in the next twenty years, how quickly will the gap be closed from wood to electricity? What interim measures will be in place to bridge this gap?

1.2.1 Energy use in Rural Areas

Energy users that require energy services can be divided into three sectors namely:

- Domestic sector - Household as an end user consumer
- Service sector - Hospitality business
- Economic sector - Light and heavy industry.

For the purpose of this study the focus will be on the domestic sector, i.e. households requiring energy for domestic purposes such as cooking, lighting, water and space heating, refrigeration, recreation and media. The direction of this study would be to compare the benefits of LPG to other fuels concentrating on two main usages being cooking and refrigeration (Table 1.1).

TABLE 1.1: Energy Supply Options

Need/Demand	Supply Option
<ul style="list-style-type: none"> • Cooking • Water • Heating • Space heating/warmth 	<ul style="list-style-type: none"> * Biomass (wood, dung) * Coal * IP * LPG * Electricity * Solar
<ul style="list-style-type: none"> • Refrigeration 	<ul style="list-style-type: none"> * IP * LPG * Electricity * Batteries
<ul style="list-style-type: none"> • Lighting 	<ul style="list-style-type: none"> * IP * LPG * Electricity * Candles * Batteries
<ul style="list-style-type: none"> • Entertainment • Radio • TV 	<ul style="list-style-type: none"> * Electricity * Batteries (Cell and Car)

Source: www.dme.gov.za/newscentre/speeches/budget

In South Africa, wood, IP and LPG are used for cooking purposes, whilst wood is used for space heating and cooking. In rural areas, wood and paraffin are the more commonly used fuels for cooking purposes. Electricity is commonly used for lighting where it is available however as much as 60% of households still used candles for lighting (Davis and Ward 1995). Candles and Paraffin are the two most common fuels used for lighting in unelectrified areas.

1.2.2 Energy and the Environment

According to an article on green nature studies, approximately 3 million households burn fuel wood in order to meet their energy needs. Not only can the gathering of fuel wood prove

unsustainable and lead to deforestation, but also the fuel wood is burned in enclosed spaces without adequate ventilation. This can result in harmful levels of pollutants in rural homes, leading to respiratory health problems and other ailments (Internet1).

It should be pointed out that the environmental impact of rural energy is limited when compared to other sectors of the economy such as industries and transport. However, it could be said that electrification or LPG would have a lesser impact on the environment.

1.2.3 The impact on health by the various energy used

Paraffin is the major source of energy and is relied upon as primary fuel for millions of South Africans for cooking, heating and lighting. The most common cause of accidental poisoning in South Africa is paraffin ingestion. Approximately 20 000 children suffer from paraffin ingestion annually, with children under the age of five years old being the most affected. Paraffin is stored in any type of container from a bottle to a cup. Ingesting a mere 0.1ml of paraffin may cause pneumonia or other lung related diseases. Although treatable, there is relatively high fatality rate in the rural areas because of the lack of access to the nearest hospitals. Many of the poor in urban or rural areas are dependent on biomass fuels. The task of collecting these has severe social and health costs, which affect primarily women and children.

Afrox will first carry out market research and thereby define the market it intends servicing. To achieve this it will go through a process of partitioning the market into groups with relatively similar requirements and preferences to establish a market offering to the market segment it intend servicing. It will apply four criteria to judge the validity of their proposed segmentation scheme:

1. **Measurable:** Can the size, growth and market potential of a segment be measured?
2. **Profitable:** How profitable is the marketing effort likely to be? What is the payoff from the segment?
3. **Accessible:** Can segments be identified and reached successfully?
4. **Actionable:** Can effective marketing and sales programs be formulated for attracting and serving the segments?

The bases for segmentation will be:

- Customer size
- Customer behavior
- Geography
- Application

A competitive analysis will be performed, on four of its major competitors, to evaluate Afrox's strategy, anticipating competitors' reactions to it and in deciding what steps to take in response to competitors actions in the market place (Internet 2). Based on Porters framework for competitor analysis, the four diagnostic components will be addressed:

1. **Future Goals:** What drives the competitor, and what they want to accomplish? How would they react to Afrox's actions in the market?
2. **Assumptions:** Understanding what assumptions a competitor makes about itself as well as similar firms in the industry. Its market view will be critical for predicting what they will do in the market.
3. **Current strategy:** A competitor's current market strategy guides its action in the marketplace as well as suggests its reaction to Afrox's actions.
4. **Capabilities:** For Afrox to gauge its strengths and weaknesses relative to a competitor, it needs to know the core competencies and strategic capabilities of each of its competitors.

To get a better understanding of its capabilities and improving its performance, Afrox did a SWOT analysis not just as an internal exercise, but also on every one of its major competitors in the various sectors that it operates. Major emphasis was placed on the market sector that it is presently targeting, namely Low- Income Housing.

Understanding the customer needs allows for leverage of its strengths to address the weaknesses and opportunities. The internal SWOT analysis has confirmed that the current strengths of Afrox are its brand, with its infrastructure being its logistics as well as its distribution network. Quality and safety standards are far superior to the expectations of legislation, while its service and expertise is that of a leading company. Weaknesses were seen as marketing Handigas as a brand

for LPG, a lack of customer focus at this level due to channel distribution via distributors and not knowing customer needs at the lower end of the market.

The opportunities were identified as growing and maintaining the entire LPG market, showcasing a BEE strategy, strengthening links with the DME, the ability to work within the communities that Afrox serves, social responsibility and the biggest opportunity of claiming first mover advantage. The threats that Afrox will face are lack of market knowledge, levels of distribution, and cross filling of cylinders by its competitors.

This is very much a cash business, which attracts hijacking and theft, making it a high-risk business that requires cash management. The commodity status and pricing in the gas market makes Afrox vulnerable to external competitors.

The operational issues need to be identified, structured and prioritized so that an appropriate plan of action can be formulated:

- Strategic and implementation programs are required
- Do we want to sell “to” or “through” distributors – supply chain is crucial
- Direct link to the consumer is needed to understand, educate and market to the end user
- Awareness and education programs are long term and expensive
- Safety and safety regulatory issues is key to the business
- The need to change to become “retailers” in the business. This will require major mindset change both for employees as well as customers
- The risks associated with the business may affect distribution. This to be addressed so that this market segment can be serviced
- The product has to be affordable, available and sustainable.

1.3 MOTIVATION

The Low-Income Housing sector is a relatively untapped market for the use of LPG as an energy fuel. The reason for this is the perception that LPG is an unsafe product and costly, as it needs to

be bought in a pressurized container at standardised quantities. Afrox sees this as an opportunity to increase its market share and grow its LPG business.

The other opportunity is that it can contribute positively to the previously disadvantaged group of South Africa. As a Market Leader, Afrox needs to be able to devise a methodology that is sustainable to service this sector of the market, making it profitable to the company, as well as affordable to the consumer. The fact that government was keen to encourage alternative fuel usage, particularly gas, was seen as an added strength to motivate Afrox to use the advantage to penetrate the target market.

1.4 VALUE OF THE PROJECT

The value of this project is twofold. Firstly, it would be an upliftment of the previously disadvantaged group in addressing their needs to a better source of energy that is affordable, and readily available. Secondly, the benefit to Afrox would be having the ability to be a part in fulfilling this need, and be able to assist in this value chain, as well as to grow its market share, and seeing itself as partners with SMME's as the channel marketers. Indirectly this project will also create jobs for more people and enhance their entrepreneurial skills. Afrox will gain a competitive advantage by being the initiator of offering a package that its competitors have not been able to do thus far.

1.5 LIMITATIONS

The study will focus on the pilot projects carried out by Afrox, and in specific areas. This means that a cross section of the population and their lifestyle and cultural behaviors will not be taken into account. The results of this study cannot therefore be inferred on the rest of this market sector.

This study is confined to a single application of LPgas and it is therefore unlikely that the results obtained and the strategies identified can be applied to other LPgas applications in either the same or related industries.

The questions developed for the purposes of evaluation of the consumers were not validated, so the reliability and validity are determined to be limiting factors. The focus groups were held in certain communities of Gauteng, and the results cannot be inferred on the rest of consumers within the same LSM group.

The survey done by Perry and Associates are strictly confidential and will only be used by Afrox at their discretion. No financial data was available due to its sensitivity and confidentiality.

1.6 RESTRICTIONS

The fact that detailed business plans and operating models of Afrox are discussed, this study will be restricted for a period of five years.

1.7 PROBLEM STATEMENT

The Handigas market has been characterised over the last decade by:

- Increased competition,
- Decreasing profitability as the market is becoming more commoditised, and consumers are price sensitive,
- Switching from one competitor to another on price rather than service.

In order to address these issues, it is imperative that Afrox fully understands the market in which it wants to operate. This would warrant a strategic analysis to be done to identify and establish strategic options for the future. It would be necessary to study the perceptions of the consumer as well as other role players in the industry.

The problem statement therefore will be:

“How can Afrox as a Liquefied Petroleum Gas (LPG) company devise strategies and position itself to ensure that LPG is a viable option, as an alternate energy fuel in the Low Income Housing Domestic Sector, with increasing competition?”

1.8 RESEARCH OBJECTIVES

Essentially this study will focus on the use of LPG as an alternate fuel for cooking, heating and refrigeration.

The objective of this study can be defined as follows:

1. To identify the market for LPGas in the Low Income Housing and its impact on total business
2. To evaluate the affordability, safety and substitution issues around the product
3. To assess the options in terms of whether or not it is acceptable or desirable by the consumer
4. Identify and develop how Afrox should position itself from a marketing perspective
5. Establish what marketing tools should it employ to support its chosen option
6. How sustainable will this strategy be in the long – term.

1.9 RESEARCH DESIGN AND METHODOLOGY

As this study is of a qualitative exploratory, rather than quantitative nature, it reflects the attitudes of individuals and the approach to this thesis is one of a case study of the LPG market in this sector. Further the study will focus on providing information within a selected framework and the analysis and interpretation to assist in providing direction for recommendations.

Qualitative and quantitative research methods are different, yet could be seen as complimentary ways of gathering data. In choosing the methodology, the factors considered were which method would meet the research objectives. The collection methods to be used are interviews, focus groups and observation. The research is dealing with people from rural areas, and there is a need to explore their attitudes, emotions, sensitivity, conceptions and opinions. Afrox does not have an understanding of its target consumer and how they relate to its product. This research is at its first level, and qualitative research is more applicable, since quantitative research permits the testing and verification of models, which are generally based on the qualitative study. An advantage in adopting the qualitative method is it is flexible and has more interactive potential, which are

important in the preliminary phases of research. Its limitation, however, is that it could reveal a biased opinion from the interviewer. The interviewer needs to have good interpersonal skills and this could become expensive.

1.9.1 Data Collection to Identify Strategic Options

The competitive analysis developed in section one and the SWOT analysis done by Afrox will be used to identify strategic options. The consumer research will be key in establishing what real consumer issues there are. This would be done via a focus group, interviews and a promobile.

Programme of research: Focus group set up at Matsoaledi

Aim of the group would be to ascertain:

- Which type of fuel the residents use, for what purpose and why?
- Where are these purchased from and how often?
- Experience of the use of gas and for what purpose?
- Attitudes towards gas.
- How consumers could be encouraged to start using gas?
- A demonstration on the safe use of gas to the group.
- Leave a stove in their household to gain experience with gas cooking and its benefits.

Face to Face Consumer Interviews: Interviews will be conducted in a qualitative, open-minded manner, in the language of the respondent's choice. This will assist in investigating some of the issues as in the focus group.

1.9.2 Data Analysis to Identify Strategic Options

Secondary data will be used in the exploratory research and will include recent surveys done for the company by consultants that are researching and developing a market driven strategy and implementation plan for LPG penetration of the Lower LSM Domestic Segments in Rural and urban areas. Afrox is also making use of GIS (Geographical Information System) that will build a digital map, populated with relevant data, to assist in its quest to replace paraffin with cylinderised gas.

1.9.3 Evaluation of Strategic Options

The proposed strategic options will be assessed on three criteria: suitability, acceptability and affordability. The target market is the low-income group from LSM 2 to LSM 6 range. The product offering must be customized to satisfy the needs and wants of this sector of the market. In assessing the suitability of gas as an alternate energy to paraffin for cooking, the following will be taken into account: the convenience of the product, availability to the consumer, ease of use, and affordability. The options of acceptability will be looked at from a cultural, education and health point of view. The feasibility criteria will be to evaluate whether Afrox has the infrastructure and necessary resources to deliver on the strategy, and make the required return on investment.

1.9.4 Development of a Marketing Mix

Developing a strategy on its own with no implementation plan is normally the failure in many companies. The crucial step in having a successful implementation plan is building the foundation on the correct marketing mix to uphold the strategy, and sustainability. A marketing mix must be developed to suit the strategy chosen taking into account the 7P's being: product, price, place, promotion, physical, personnel and process.

1.10 SIGNIFICANCE OF THE STUDY

The marketing of LPGas faces the same problems as marketing an entry product in any other business. Increasing competition both globally and locally and focus on quality and meeting consumer needs means that many companies and industries are facing similar difficulties to those of the LPG industry. In completing this study it is hoped that an insight will be gained into how strategic options can be identified, developed, evaluated and implemented. Of more significance, what can industry together with government contribute to the upliftment of disadvantaged people in South Africa to a better life, and how sustainable is it.

1.11 CHAPTER SUMMARY

The chapter outline is as follows:

- Chapter 2 will discuss literature relevant to this study, the different models used by strategic planners to assess and evaluate strategies to be implemented that will yield financial and behavioral benefits to the company, and matching and tailoring strategy to fit a specific industry and company situation. The chapter is concluded with the theory relating to branding and the development of an extended marketing mix. An evaluation on the strategic tools available to matching strategy
- Chapter 3 is a presentation of the case study of the South African LPGas market mainly in the low-income housing sector. Theory presented in chapter 2 is applied to the case study in chapter 3 to present the current scenario of the LPGas market.
- Chapter 4 will present the evaluation of the case study under consideration. Information presented in chapter 3 will be discussed and, using the strategic analysis tools presented in that chapter, an evaluation of the company will be done.
- Chapter 5 identifies the possible strategies available for the company, based on the information presented in chapter 3 and 4. Strategies are assessed for suitability, acceptability and feasibility. In conclusion, recommendations are made regarding the strategies that the company could pursue, including strategies for the marketing mix and branding.

1.12 CONCLUSION

This chapter sets the scene for conducting the study, its objectives and the anticipated outcome. The limitations of the study are highlighted. The research and methodology have been set out, as well as areas to be considered for strategic planning and strategic identification. Evaluation of strategic options and its implementation has been set out. The extended marketing mix has been highlighted and the factors considered in developing these. The presentation of the theory will be outlined in the next chapter based on the literature that is relevant to the case study.

CHAPTER 2

STRATEGY IN CONTEXT

2.1 INTRODUCTION

In a fast changing world, with unpredictable demand cycles, strategic flexibility can generate higher profits by helping a company stay perfectly tuned to the market and avoid getting trapped in dead-end business models. Bensoussan (2003: 2) states that a winning strategy must be based on originality, that is being different from competitors in ways that customers value.

Michael Porter (1996) states that a company can outperform its rivals only if it can establish a difference of value to customers that can be preserved over time. A company with a broad offering maybe more resilient in the face of rapidly shifting customer priorities than a more narrowly focused competitor. Over the past decade or more, companies at different periods have had to overcome the impact of inflation and deflation, as well as recession and recovery. More recently globalization of businesses and the rapid introduction of new technologies have further compounded these economic events (Internet 2).

Against this backdrop of such rapid and unprecedented changes, which can be expected to continue with the same intensity into the foreseeable future, organizations are faced with the ultimate challenges: how to cope with this constantly changing business environment and yet prosper from it. There must be sufficient flexibility in any approach, and it must balance the needs of a volatile marketplace and economy. The solution lies in strategic thinking, planning and timeous execution (Internet2).

Michael Porter (1996) states that the best strategy for a given firm is ultimately a unique construction reflecting its particular circumstances. Understanding the relationship of the firm and its capabilities to its competitors and industry, and the economic, social, and political environment, and other powerful forces occurring in the world will provide the basis of strategic thinking, thus determining the shape of an industry and the future of a business. It is therefore these forces that will drive a company's vision. To achieve this vision a company may use

various strategic tools to shape the direction it should be pursuing, and steer it to achieve sustainability of the business.

This chapter will discuss the different models used by strategic planners to assess and evaluate strategies to be implemented that will yield financial and behavioral benefits to the company, and matching and tailoring strategy, to fit a specific industry and company situation.

An evaluation on the strategic tools available for matching strategy to:

- Industries and competitive conditions, and
- a company's own resources, namely:
 - Strengths and weaknesses
 - Competitive capabilities
 - Opportunities and threats, and
 - Market position

The industries competitive conditions together with its resources will be discussed under two broad headings, the external environment and internal environments that the company operates in. It will also consider the implementation process as well as the marketing tools available to support the implementation process.

2.2 STRATEGY, PLANNING & STRATEGY PLANNING

The task of crafting, implementing and executing strategies is the heart and soul of managing a business enterprise. Company strategy becomes the game plan that management will use to stake out market position, conduct operations, and attract and satisfy customers.

One of the key tools used in strategic planning is the **M.O.S.T.** Analysis (Internet 3);

1. **Mission** - This helps to clarify where the business intends to go,
2. **Objectives** - Its key goals, which will help to achieve this,
3. **Strategies** - Analyses what options there are for proceeding forward, and
4. **Tactics** - How these are going to be put into action.

The essence of strategy formulation is coping with competition [Pearce and Robinson 2003: 69]. The state of competition in an industry depends on the five basic forces as described by Porter. Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic agenda of action. It also highlights the critical strengths and weaknesses of the firm, and animates the positioning of the company in its industry, clarifying the areas where strategic changes yield the greatest payoff. Furthermore, it highlights the places where trends promise to hold the greatest significance as either an opportunity or threat.

Strategic plans provide a firm with long range direction and growth from three foundations:

1. **Basic Socio-economic purpose** - the purpose for the existence of the business, its social function and the company's survival
2. **Values and Philosophy of executive managers** - help determine how managers will treat their customers and employees
3. **Assessment of the company's strengths and weaknesses** - in the context of the internal and external environment.

Planning is dealing with an uncertain future. However, choices have to be made, and the decision on the choice made is determined by how one interprets the environment, the time frame used and the adaptation to affect the choice. The planning process helps to identify the gap between where the company is today and where it wants to be in the future and develop a practical plan for closing the gap and achieving its objective. The company cannot become a successful organization (winner) without a stable platform in a dynamic environment.

Reasons for Planning

Planning is strategic in order to gain direction towards a long-term advantage within the environment. The effort to establish strategic plans is carried out in tactical plans (operational plans), which cover the short term. The advantages for managers that engage in planning are that they:

- Provide direction
- Set the standards to facilitate control
- Reduce the impact of change
- Minimize waste and redundancy.

Planning in uncertain Environments

The question for management is “what could the future be?” and then to create a series of possibilities. It is imperative that the right consideration or idea is made upfront. Long-term planning has more options and is more flexible, unlike short term planning, which is less flexible and hence should adopt a more conservative approach that is reasonably predictable and carried through to the long run.

Long-term plans are never an accumulation of short-term decisions, rather it is more information, hence emergent actions become part of the long-term objectives. The idea is to hone resources in the interim to cope with the dynamism of the future. This creates stability in a dynamic environment. The interim period provides an opportunity to hone resources in order to latch onto opportunities as soon as they arise.

The planning process and timing needed must be realistic, flexible, achievable and measurable, and hence controllable. Controlling performance is measured against objectives so that deviations can be corrected. Without strategic direction, an organization risks both internal misalignment and the likelihood that it will fail to respond to the vagaries of a changing world.

2.3 THE BUSINESS ENVIRONMENT

The present economic, social and technological environment has radically changed the life of many organizations. In this context of rapidly changing technological developments and environment dynamism, it has become necessary for organizations operating in this environment to adapt or be left behind to deal with the aftermath. Time and again, failures were attributed not to the lack of an internal capability per se, but to the inability of the organization to recognize and capitalize on the events transpiring outside its span of control.

Environmental Scan

The environmental scan includes the following components:

- Internal Analysis of the firm
- Analysis of the firm’s Industry (Competitor analysis)
- External Macro Environment (PEST analysis)

The internal analysis can identify the firm's strengths and weaknesses, while the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities and threats is generated by means of a SWOT analysis. An industry analysis can be performed using a framework known as Porter's Five Forces. This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry (Internet 7).

Figure 2.1 illustrates the different layers of the business environment that the firm is exposed to.

FIGURE 2.1: Layers of the Business Environment



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

2.4 THE MACRO ENVIRONMENT

According to Hitt Ireland and Hoskisson (2003:40) a company's experiences and research suggest that the external environment affects the growth and profitability, and the external environmental conditions create threats and opportunities that, in turn, have major impacts on a firm's strategic actions. In order to achieve strategic competitiveness, it is essential for firms to understand and react to the different dimensions of the external environment. The external environment in which a business operates is a product of the prevailing economic, political and social conditions. Strategic formulation takes this into account and assesses their implication to

the industry and corporation (Internet 4). The remote environment is usually beyond the firm's control and can pose a threat to the firm, however a change in this environment can also create new opportunities. Let's examine each factor in the PEST analysis that affects the macro environment.

Political factors are the restraints imposed by the government, as well as the legal and regulatory parameters in which a company may operate. Political restraints are placed on firms through anti-trust laws, tax programs, minimum wage legislation, environmental issues, and others aimed at protecting the different facets that interact with the firm, as well as the firm itself.

Economic factors affect the purchasing power of potential customers and the firm's cost of capital. If we had to assess the economic trends of South Africa, the inflation rate is at its lowest of 6 to 8%, the interest rate at its lowest of 8.5% and expectations are that the Governor will reduce it even further. The Rand is trading at a fair rate of +/- R6.00 to the Dollar. All of these trends signify an economy on the upswing. With a decade of democracy the earning power of the masses are being uplifted through various BEE and SMME programs in the business, as well as educational and medical in the social side to bring about equilibrium in the people of the country. A strong economy coupled with sound business strategies will assist any firm to increase its dominance in its industry (Internet 3).

Social Factors in South Africa have seen many changes since 1994, with more emphasis on Black empowerment programmes creating more opportunity for the previously disadvantaged. A big effort is being made to make education available and affordable to all. Medical facilities are being upgraded, but is not sufficient to treat the masses. However, with Aids reaching crisis level, its an added burden not only socially but is influencing the country's demographics (Internet 3).

Technological Factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some of the factors that firms should consider are R&D activity, automation, technology incentives, and the rate of change (Internet 3).

2.5 INDUSTRY ENVIRONMENT

Compared to the general environment, the industry environment has a more direct effect on the firm's strategic competitiveness and above average returns. Hitt et al (2003), defines an industry as a group of firms producing products that are close substitutes. In the energy industry the major players are the Oil Companies (Total, Shell, Engen, Caltex and BP), Eskom, and Afrox. According to C.S Fleisher and B.E. Bensoussan (2003), an industry analysis provides a structural analysis and an outline of an industry's participants and characteristics. It assists to identify the profit potential of an industry and also expose the forces that would harm the potential profitability. The analysis gives the firm insight on possible defense tactics to employ to protect against competition and changes in the operating industry structure.

2.5.1 Porters Five Forces

Numerous options are available to strategists seeking to conduct an industry analysis. Assuming that the operating environment is stable, major economic and technological forces can be analyzed using Porters Five Forces, being one of the most influential analytical models for assessing the nature of competition in an industry.

In figure 2.2, Porter explains the five forces that shape competition in an industry. This well-defined analytic framework helps strategic managers link remote factors to their effects on a firm's operating environment. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas where strategic changes may yield the greatest payoff, and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats (Pearce & Robinson 2003:67).

Threat of new Entrants

New entrants to an industry can raise the level of competition, thereby reducing its attractiveness. The threat of new entrants largely depends on the barriers to entry. High entry barriers exist in some industries (e.g. shipbuilding) whereas other industries are very easy to enter (e.g. estate agency, restaurants). In the LPG business, barriers to entry are high as it is highly capital intensive.

Threat of Substitutes

The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. The threat of substitute products depends on:

- Brand loyalty of customers
- Buyer's willingness to substitute
- Switching costs for customers
- The relative price and performance of substitutes.

Bargaining Power of Buyers

The bargaining power of customers determines how much customers can impose pressure on margin and volumes.

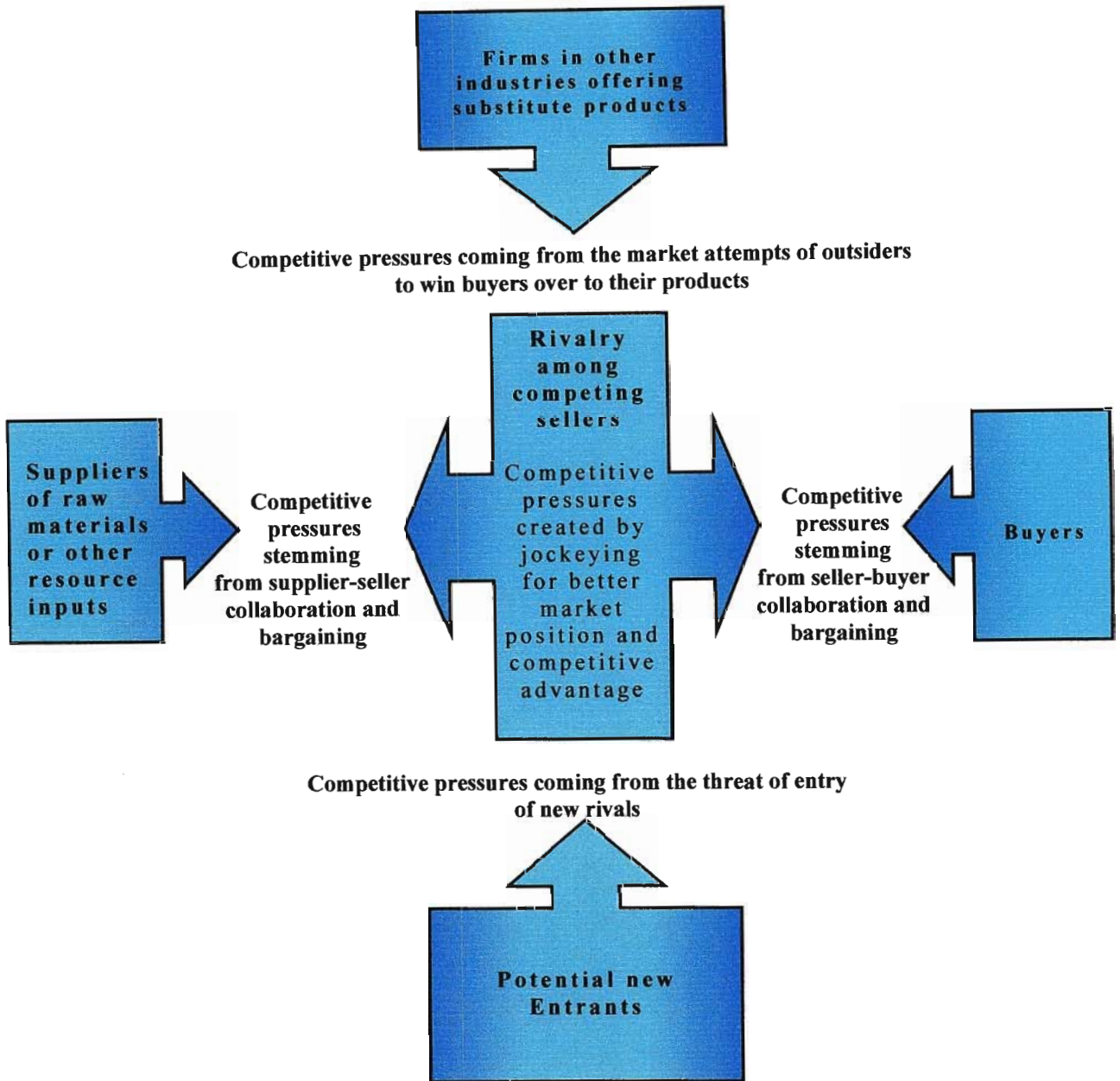
Bargaining Power of Suppliers

The cost of items bought from suppliers can have a significant impact on a company's profitability. If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive.

Competitive Rivalry between existing Players

The intensity of rivalry between competitors in an industry will depend on the structure of competition, the structure of industry costs, degree of differentiation, switching costs, strategic objectives, and exit barriers (Internet 6).

FIGURE 2.2: Porters Five Force Model



Source: Adapted from Michael E porter “How competitive forces Shape Strategy”, Harvard Business Review 57, No.2. Input from Pearce and Robinson, Strategic Management 2003:70.

Porter’s model of Five Competitive Forces allows a systematic and structural analysis of market structure and competitive situation. The model takes into account supply and demand, complementary products and substitutes, the relationship between volume of production and cost of production and market structures like monopoly, oligopoly or perfect competition.

However, the main weakness in this tool results from the historical context in which it was developed. At that time, most industries were fairly stable and predictable compared with today's dynamics. Overall, Porters Five Forces model has some major limitations in today's market environment. It is not able to take into account new business models and the dynamics of markets. The value of Porters model is that it enables managers to think about the current situation of their industry in a structured, easily understandable way, as a starting point for further analysis (Internet 6).

2.5.2 The Life-Cycle Model

A life-cycle analysis indicates and assesses the appropriateness of the strategies being implemented within the company, given the stage of the product life cycle. Strategists can use these changing requirements, which are associated with different stages of industry evolution, as a framework for evaluating the firm's strengths and weaknesses. Table 2.1 depicts the stages of industry evolution and the typical changes in functional capabilities that are often associated with business success at each of these stages (Pearce and Robinson 2003).

TABLE 2.1: The Life-Cycle Model

	Development	Growth	Shakeout	Maturity	Decline
Users/Buyers	Few: trail of early adopters	Growing adopters. Trial of product/service	Growing selectivity of purchase	Saturation of users Repeat purchase reliance	Drop of in usage
Competitive Conditions	Few competitors	Entry of competitors Attempts to achieve trial. Fight for market share, undifferentiated product/service	May be many Likely price cutting for volume. Shakeout of weaker competitors	Fight to maintain share Difficulty in gaining/taking share Emphasis on efficiency/low cost	Exit some competition Selective Distribution

Source: Exploring Corporate Strategy Gerry Johnson and Kevin Scholes Pg. 119

The present fast paced markets fueled by rapid and radical change mean that technology must be integrated into the firm's strategy. Depending on the product and customer base, as technologies mature, the nature of the customer evolves. Thus by combining using the five forces analysis and the life cycle model, the S curve sensitizes the firm to new competitive realities. This will allow the firm to evaluate and choose the correct technology at the right time (Fleisher and Bensoussan 2002:388).

2.6 THE COMPETITOR ENVIRONMENT

Changes in the business environment and moves by competitors erode the competitive position of organizations, which in turn, respond with countermoves. Competition moves through cycles and competitive advantage is temporary (Johnson and Scholes 2002: 121). Winning strategies must be based on originality or being "different" than competitors in ways that customers value. The pursuit of distinctive competencies, defined as those resources and capabilities owned by the organization which are unmatched by competitors, are what leading businesses look for to be able to sustain their competitive advantage.

A competitive advantage is the distinct way an organization is positioned in the market in order to obtain an advantage over its competitors. Organizations, which identify these opportunities to create the conditions of disequilibria, will allow the company to gain leverage in its profitability. The challenge that faces firms is to sustain and protect this position for as long as possible, to give them a competitive advantage in the market. Finding the means for achieving this "fit" or congruence between an organization and its business or competitive environment is a critical task of management in business today (Internet 5).

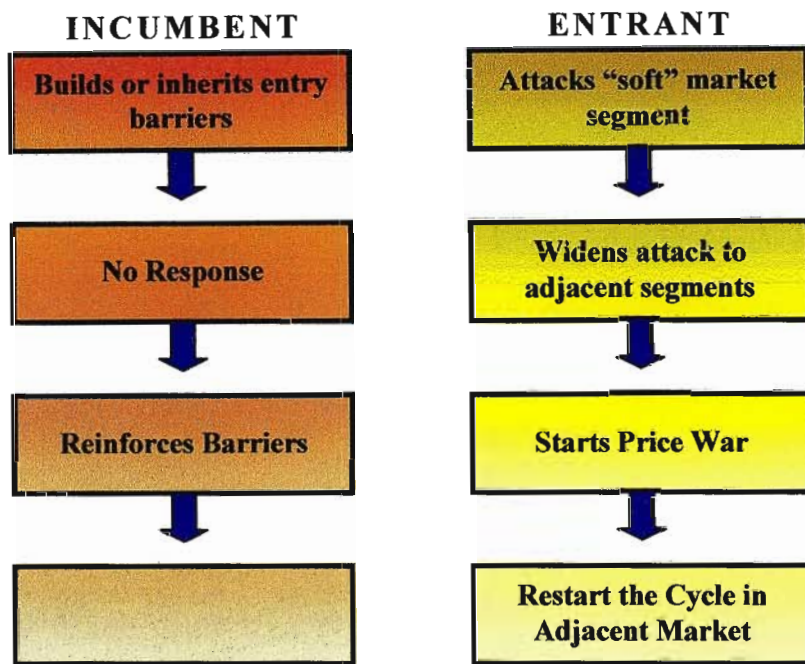
2.6.1 Competitive Intelligence

While strategy and planning can tell an organization in which direction to head, competitive intelligence is the tool that will identify, making the right choice. Having the correct information often spells the difference between success and failure. Competitive Intelligence encompasses the potential effects (i.e. threats and opportunities) created by all external elements of the business environment that impact on the current competitiveness and future competitive ability of an organization. Intelligence is the value add product resulting from the collection of data,

evaluation, analysis, integration and most importantly the interpretation of the information (Internet 9).

The reason for performing competitive analysis is to better understand one's industry and competitors in order to make informed decisions and develop strategy that provides a competitive advantage. Figure 2.3 refers to the dynamics of competition and hyper competition.

FIGURE 2.3: Cycles of Competition



Source: Adapted from R.A.D’Aveni with Robert Gunther, *Hyper-Competitive Rivalries: Competing in a Highly Dynamic Environment* 1994 Free press 1995 p115.

Perhaps the most important thing to keep in mind is the inverse relationship between profit margins or returns and the intensity of competition, that is as the intensity of competition goes up, margins and returns are driven down. This can require changes in competitive strategy to remain in an industry and, under some circumstances, it can occasion the decision to exit a business or an industry (Internet 10).

2.6.2 Gap Analysis

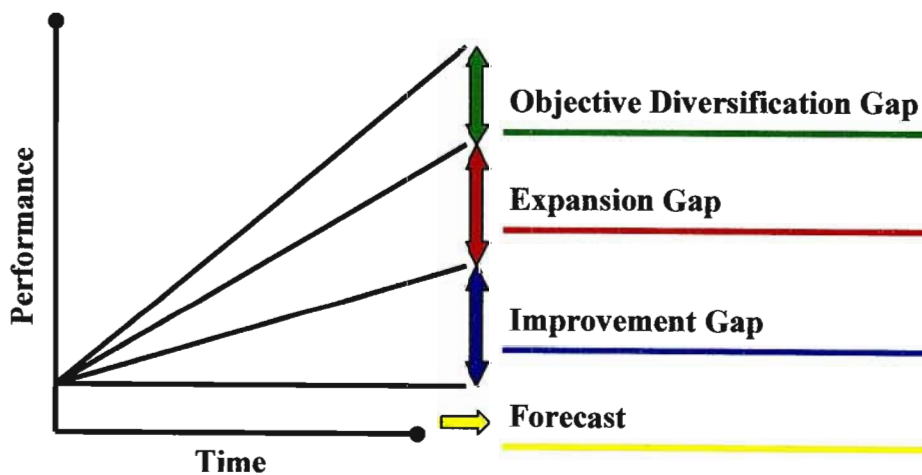
Gap analysis is all about evaluating and improving business performance. A gap is a space or opening. In management terms it is the space between where you are and where you want to be. For business it is important then to identify:

1. where you are - forecast,
2. then you can plan for i.e. where you want to be - objective,
3. and most importantly, how you going to get there - fill the gap (Figure 2.4).

According to Ambrosini (1998), a company has three alternatives to choose from when a gap has been identified: a manager can redefine the objectives, do nothing or change the strategy.

Gap analysis that is taken at one point in time does not remain valid forever. Depending on the environment and competitor analysis, it must be visited from time to time, to reveal the movement or progress you have made towards closing the gap, and indicate also whether strategic changes are needed.

FIGURE 2.4: Gap Analysis



Source: Adapted from Ambrosini (1998)

2.6.3 Benchmarking

Benchmarking is the process of identifying “best practice” in relation to both products, and the processes by which those products are created and delivered. The search for best practices can take place within the industry or lessons can be learned from other industries. Benchmarking is

the search for and implementation of better ideas. It is a blend of quantitative and qualitative research methods well tested and suited to help people break into new models of effectiveness and efficiency by finding and studying new approaches, particularly new processes (Internet 17).

Benchmarking projects begin when there's clearly a need for change and improvement. They end when the learnings have been turned into improvements in the customer effective system (Internet 13). For the application of benchmarking in a company, one firstly needs to understand in detail existing business processes. Next analyze the business process of others. Compare one's own business performance with that of others analyzed. Finally implement the steps necessary to close the performance gap (Internet 17).

When it comes to competitive intelligence there are a few simple tools that can provide sophisticated comparisons of business functions between organizations that can help firms "benchmark" themselves with direct or indirect competitors, allowing a company to gain the upper hand in the market place. Benchmarking is best used and described as a framework for strategic planning. Elements of study are identified, measures are applied to the key success factors, of the industry or market place and then these measures are used to develop future quality and market initiatives for the firm to enhance its overall competitive position.

In general there are seven steps to this process (Internet 12). This can form the foundation for future competitor analysis, when the emphasis is placed upon the goals and financial capabilities of the competitor. This becomes a question of how will the competitor compete with their particular set of resources and culture?

1. Determine which functional areas within your operation are to be benchmarked
2. Identify the key factors and variables with which to measure those functions
3. Select the best-in-class companies for each area to be benchmarked
4. Measure the performance of the best-in-class companies for each benchmark being considered
5. Measure your own performance for each variable and compare the results to determine the gap between your firm and the best in class

6. Formulate and specify those programs and actions to meet and surpass the competition based on a plan developed to enhance those areas that show potential
7. Implement these programs by setting specific targets and deadlines.

2.7 THE INTERNAL ENVIRONMENT

The strategy of an organization is the roadmap towards attainment of its long-term goals and objectives. A strategy of the organization facilitates in gaining a sustainable competitive advantage. An organization operates in an external and an internal environment. The internal environment of the firm consists of the inherent strengths and weaknesses of the firm. It also contains the internal resources and possesses internal capabilities and core competencies.

The organization needs to conduct the internal analysis to identify the strengths, weaknesses and figure out loopholes in resources, capabilities, and core competencies. This will enable the firm to devise suitable strategies for leveraging its strengths and overcoming its weaknesses and closing the gaps in the aforesaid internal components (Internet).

2.7.1 Resource Based View of a Firm (RBV)

The Academy of Marketing Science review (Internet 10) states that the resource-based view of the firm (RBV) is one of the latest strategic management concepts. The resource based perspective highlights the need for a fit between the external market context in which a company operates and its internal capabilities. The basis of RBV is that a firm's internal environment, in terms of its resources and capabilities, is more critical to the determination of strategic action than the external environment.

“Instead of focusing on the accumulation of resources necessary to implement the strategy dictated by conditions and constraints in the external environment, the RBV suggests that a firm's unique resources and capabilities provide the basis for a strategy. The strategy chosen should allow the firm to best exploit its core competencies relative to opportunities in the external environment” (Internet 13).

Sustainable Competitive Advantage

Not all resources in a company are of equal importance or possess the potential to be a source of competitive advantage. Therefore focus must be directed to those resources that have a positive spin on creating the following conditions, namely value, rareness, inimitability, and non-substitutability. Value to a customer is an essential element of competitive advantage.

Therefore, for a resource to be a potential source of competitive advantage it must be valuable or enable a creation of value to the customer. The inability of competitors to duplicate resource endowments is a central element of the resource-based view. Sustainable competitive advantage is achieved by continuous development of existing, and creation of new resources and capabilities in response to rapidly changing market conditions (Internet 14).

2.7.2 Value Chain Analysis

The value chain analysis describes the activities that take place in a company. The chain consists of a series of activities that create and build value. They culminate in the total value delivered by an organization. The 'margin' depicted in the diagram is the same as added value. The organization is split into 'primary activities' and 'support activities' (Figure 2.5).

Primary activities are those that are directly concerned with creating and delivering a product (e.g. component assembly), whilst support activities are not directly involved in production, but they may increase effectiveness or efficiency (e.g. human resource management.) It is rare for a company to be able to undertake all primary and support activities. A firm's profits are dependent on its effectiveness in performing these activities efficiently. Value chain analysis is one way of identifying which activities are best undertaken by a business, and which should be outsourced.

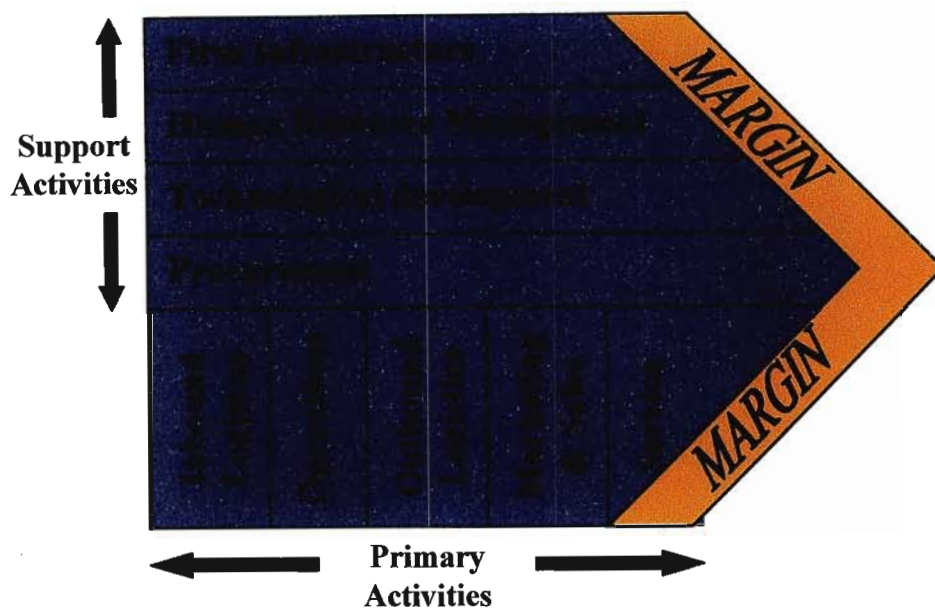
The activities a business undertakes are directly linked to achieving competitive advantage. This may be achieved by reconfiguring the value chain to provide lower cost or differentiation. In other words this analysis tool will be used to define the firm's core competencies and activities in which it can pursue a competitive advantage as follows:

- **Cost advantage** - by understanding costs better and squeezing them out of value-adding activities.

- **Differentiation** - by focusing on those activities associated with core competencies and capabilities in order to out perform competitors (Internet 15).

Value chain activities are not isolated from one another. Rather one value chain activity often affects the cost or performance of others. It is important for management to create the linkages between these activities to get the maximum output through the value chain.

FIGURE 2.5: Value Chain Analysis



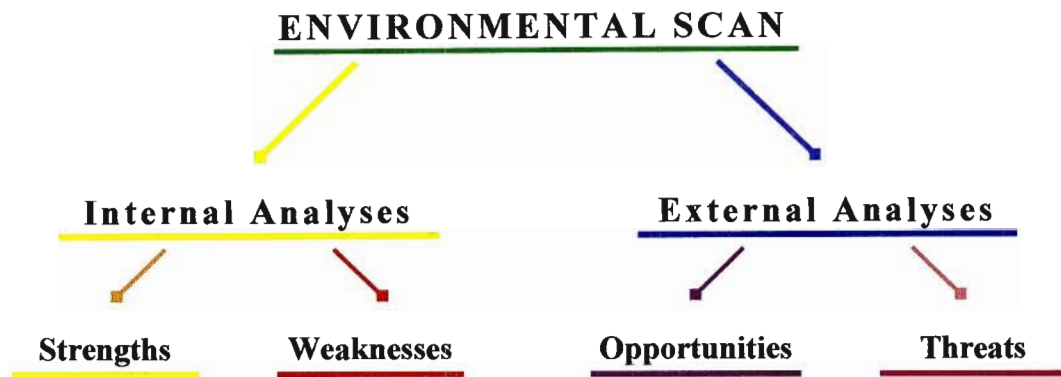
Source: The Value Chain: NetMBA.com

2.7.3 SWOT Analysis

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm can usually be classified as strengths (**S**) or weakness (**W**), and those external as opportunities (**O**) and threats (**T**). A SWOT analysis is widely used as a technique by managers to establish a quick overview of a company's strategy.

It provides information that is helpful in matching the firm's resources and capabilities to the competitive environment. In other words, there needs to be a sound fit between the firm's internal resources relative to its external situation. As such it is instrumental in strategy formulation and selection. The following diagram illustrates how a SWOT analysis fits into an environmental scan (Internet 16).

FIGURE 2.6: SWOT Analysis Framework



Source: Consult Quick MBA and Competitive analysis page98

A SWOT analysis is conceptually simple and comprehensive. It can be applied to many facets of an organization. It is important to identify what might be key external forces, which constitutes opportunities and threats, and the key capabilities or competencies (or lack of them), which constitutes strengths and weaknesses. This should then be collated into a matrix and a scoring mechanism used so that managers can assess (Ambrosini: 127):

- The environmental changes that are most critical
- The internal elements that are most influenced by each external change
- whether the internal strengths are to remain strengths, or become weaknesses due to changes in the environment.

From this matrix the probable questions that should arise for management to evaluate are (Fleisher and Bensoussan 2003: 92):

- What resources and capabilities do we want to develop?
- What should we be caring about?
- What opportunities can we develop?
- How can we build shared expectations among other stakeholders?

If a SWOT analysis is not conducted properly the possible flaws could be (Jacobs, Shepard & Johnson, 1998:122):

1. “Long lists of observations which provide little overall insight or clarity about required action,

2. No formal mechanisms to ensure that managers challenge their own frames of reference or their organization's paradigm,
3. Managers focusing on strengths and weakness in context to strategies to be implemented rather than existing strategies, and
4. Managers that tend to see environmental changes as threats rather than opportunities.”

2.7.4 Core Competencies of a Company

Prahalad and Hamel (Harvard Business Review 1990) defines a core competency as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. In other words it is the one thing that a firm can do better than its competitors. A core competency can be anything from product development to employee dedication. If a core competency yields a long-term advantage to the firm, it is said to be a sustainable competitive advantage or a distinctive competency.

According to Prahalad and Hamel (Harvard Business Review 1990) a core competence has three characteristics:

- It provides potential access to a wide variety of markets,
- It increases perceived customer benefits, and
- It is hard for competitors to imitate.

Coyne, Hall, and Clifford (1997) proposed that a core competency is a combination of complimentary skills and knowledge bases embedded in a group or a team that results in the ability to execute one or more critical processes to a world class standard. Looking at this, two important ideas are prevalent. The skills and knowledge must be complimentary, and taken together they should make it possible to provide a superior product, and the above three characteristics are then met (Internet 18). A firm needs to identify its core competency and see how well it can use it as leverage to gain business or diversify into markets that it is not already in. Managers need to see how best they can employ their resources, and it has been the case that “Most often, a company's core competence resides in its people and in its intellectual capital, not in its assets on a balance sheet” (Thompson & Strickland, 2001:122).

2.8 REVIEW OF COMPANY'S STRATEGIC INTENT

Once a company has analyzed its environment and has established what its strengths and weaknesses are, as well as its opportunities and threats, it has information that is required to formulate the company's strategic intent and its mission. Strategic intent is a high level statement of the means by which a company will achieve its vision. Simply put, it's the company's vision of what it wants to achieve in the long term. To achieve this a firm has to leverage its resources, capabilities, and core competencies to accomplish the company's goals in a competitive environment. An example of expression of strategic intent would be Coca Cola's dream of putting a coke within arm's reach of every consumer in the world (Internet 29).

If a company crafts well-defined mission and vision statements and hangs them on the wall and there are no implementation plans to put these statements into effect, then that's where they will stay. One of the key responsibilities of management is to energize their employees to work towards corporate goals. The logic, uniqueness and discovery that make your strategic intent come to life are vitally important for employees. They have to understand, believe and live according to it. Strategic intent is most effectively formed when employees believe fervently in their company's product and when they are focused totally on their firm's ability to outperform the competitors.

2.8.1 Vision

When the process of strategic planning begins, visioning comes first. When envisioning change, the question is, "What is the preferred future?" The beliefs of the organization must meet the organizational goals as well as that of the community. A vision statement should be realistic and credible, well articulated and easily understood, appropriate, ambitious, and responsive to change. It should orient the group's energies and serve as a guide to action. It should be consistent with the organization's values. In short, a vision should challenge and inspire the group to achieve its mission.

Martin Luther King, Jr. said: "I have a dream," and what followed was a vision that changed a nation. That famous speech is a dramatic example of the power that can be generated by a person who communicates a compelling vision of the future (Internet 30).

A vision is a guiding image of success formed in terms of a contribution to society. If a strategic plan is the "blueprint" for an organization's work, then the vision is the "artist's rendering" of the achievement of that plan. It is a description in words that conjures up a similar picture for each member of the group of the destination of the group's work together (Internet 19).

2.8.2 Mission Statement

How will the group reach this shared vision? A mission statement becomes a tool to communicate the group's purpose to others.

A mission statement will tell people:

1. What you do,
2. For whom do you do it, and
3. How you will get it done.

FIGURE 2.7: The Mission Statement



Source: www.businessplans.org/mission

The mission statement (Internet 20):

- Sets the group's direction;
- Is clear and concise;
- Is realistic;
- Reflects the values and beliefs of the group;
- Demonstrates a commitment to serving others;

- Is inspirational; and
- Action oriented.

A mission statement is an organization's vision translated into written form. Once the organisation has clarified its beliefs, it must build on them to define the mission statement, which is a statement of purpose and function. It must be an easy-to-remember sentence, a short list of bullet points, or a paragraph illustrating a business's goals and purpose. It has one common function: to guide the organization and its employees in making critical decisions that affect the direction of the company. A mission statement identifies the company to its customers, vendors, the media and others that will be using or requiring its services or products. It is about providing solutions and adding value to customers and the market (Internet 19). Figure 2.7 sets out the process that needs to be followed step by step to obtain optimum results.

2.8.3 Review of a Companies Current Objectives

Based on its vision and mission statements, a company will set its goals. A group goal is a broad statement indicating what the group expects to attain or achieve. Goals may be short, intermediate or long-term. The objectives of a company are statements of specific, measurable and attainable outcomes that contribute to the achievement of a particular goal. Criteria used in preparing objectives are that they should possess the following qualities: they should be acceptable, flexible, measurable, motivating, suitable, understandable and achievable.

Long- term objectives are commonly established in seven areas of business:

- Profitability
- Productivity
- Competitor position
- Employee development
- Employee relations
- Technological leadership
- Public responsibility

Short-term objectives and strategies extend over a shorter time span—one year or less—and have more specific goals than long-term objectives. However, they work towards achieving the long-term objectives (Pearce and Robinson 2003:155-156).

2.9 STRATEGY ANALYSIS AND CHOICE

Johnson and Scholes (2002:10-12) definition of strategy is “the direction and scope of an organization over the long-term which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholders expectations”.

Strategy exists at several levels in any organization, ranging from the overall business strategy right down to individuals working in various areas.

Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and is the thread that runs throughout the strategic decision-making in the business. Corporate strategy is often stated in the business mission statement (Internet 18).

Business Unit Strategy is concerned with how the business competes successfully in a particular market. It is directly concerned with the choice of products, meeting needs of customers, being ahead of competitors, and exploiting or creating opportunities in the market place.

Operational Strategy is concerned with how each part of the business is organized to deliver the corporate and business-unit level strategic direction. Operational strategy thus focuses on resources, processes, people and effectively getting products to the market place most economically and effectively (Internet18).

2.9.1 Strategic Options based on the Internal and External Environment

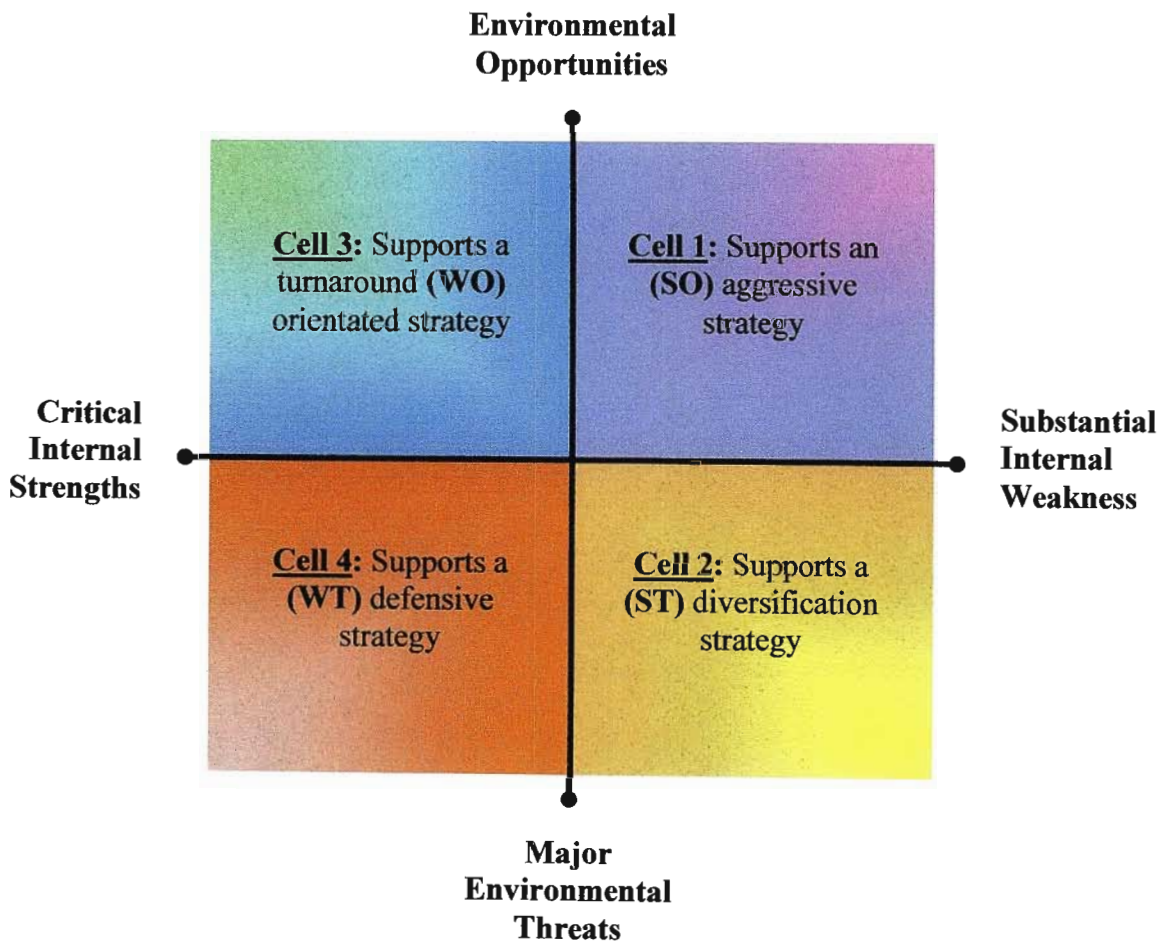
The nature of strategic analysis and choice is based on establishing long-term objectives, generating alternative strategies, then selecting strategies to pursue, finding the best alternative to achieve its mission and objectives. The following options are available to a company, and the

tools that are available to managers to make subjective decisions based on objective information that they have.

2.9.2 SWOT Analysis

Pearce and Robinson (2003: 135) illustrates how a SWOT analysis used as a logical framework of a firm's resources and basic alternatives that emerge from a RBV aids in strategic analysis. Key external opportunities and threats are systematically compared with internal resources and competencies, the objective being to match a firm's internal resources and skills and the opportunities and risks created by its external factors.

FIGURE 2.8: Strategic Options – Internal Assessment SWOT Analysis



Source: Adapted from Strategic Management: Concepts and Cases: Fred David Prentice Hall 2005

At this matching stage, the **TOWS**, which is another way to show the **SWOT** analysis, develops four types of strategies. Figure 2.8 shows the various positions that the company might find itself in, and each of the cells explains the strategy that should be followed:

- ◆ **Cell 1: Matching Strengths-Opportunities (SO)**

This is evidently the most favorable situation. The firm uses its internal strengths to take advantage of the external opportunities. This situation will suggest growth-orientated strategies to exploit the favorable match.

- ◆ **Cell 2: Matching Strengths-Threats (ST)**

A firm who's RBV has identified several key strengths faces an unfavorable environment. In this situation, strategies would seek to use the firm's strengths to avoid or reduce the impact of external threats. Alternatively they could redeploy those strong resources and competencies to build long-term opportunities in more opportunistic product markets.

- ◆ **Cell 3: Matching Weakness-Opportunity (WP)**

Here a firm faces impressive market opportunity but is constrained by weak internal resources. The focus of strategy for such a firm is eliminating the internal weaknesses so as to pursue the market opportunity more effectively.

- ◆ **Cell 4: Matching Weakness-Threats (WT)**

This is the least favorable situation, where defensive tactics are aimed at reducing internal weaknesses and avoiding environmental threats. This situation clearly calls for strategies that reduce or redirect involvement in the products or markets examined by means of SWOT analysis.

2.9.3 Grand Strategy

In an effort to achieve and sustain the long-term goals of a company, grand strategies, often called the master or business strategies, provide basic direction for strategic action. (Pearce and Robinson 2003: 161). The Grand Strategy Matrix is a popular tool used for formulating alternative strategies. There are fifteen grand strategies that strategic managers should consider

when making their selection, and the approaches to each alternative will vary according to the strengths and weakness of the firm, resource availability and the environment.

Looking at the strategy selection matrix, an organization, taking the above into account can position them selves in one of the four quadrants on the matrix. Each quadrant lists the strategies based on two evaluative dimensions: competitive position and market growth.

FIGURE 2.9: Grand Strategic Matrix



Source: Adapted from Strategic Management: Concepts & Cases Fred R. David Prentice Hall 2005

When the growth rate of the general market and the firm’s competitive position are considered simultaneously, a business can be broadly categorized in one of four quadrants as shown in figure 2.9:

- (I) Strong competitive position in a rapidly growing market,
- (II) Weak position in a rapidly growing market,
- (III) Weak position in a slow-growth market, or
- (IV) Strong position in a slow-growth market.

Each of these quadrants suggests a set of promising possibilities for the selection of a grand strategy:

- In **quadrant (I)** firms are in an excellent strategic position. One obvious grand strategy for such firms is continued concentration on their current markets and products. Because consumers seem satisfied with the firm's current strategy, shifting notably from it would endanger the firm's established competitive advantages. However, if the firm has resources that exceed the demands of a concentrated growth strategy, it should consider vertical integration. Either forward or backward integration helps a firm to protect its profit margins and market share by ensuring better access to consumers or material inputs. Finally, to diminish the risks associated with a narrow product or service line, a firm in this quadrant may consider concentric diversification. With this strategy, the firm continues to invest heavily in its basic area of proven ability.
- In **quadrant (II)**, firms must seriously evaluate their present approach to the marketplace. Pearce and Robinson (2000) state that if a firm has competed long enough to accurately assess the merits of its current grand strategy, it must determine why the strategy is ineffectual and whether it is capable of competing effectively. Depending on the answers to these questions, the firm should use one of four grand strategies: formulation or reformulation of a concentrated growth strategy, horizontal integration, divestiture, or liquidation. Formulation or reformulation of a concentrated growth strategy is usually the first option that should be considered because, in a rapidly growing market, even a small or relatively weak business often is able to find a profitable niche.

However, if the firm lacks either a critical competitive element or sufficient economies of scale to achieve competitive cost efficiencies, then a grand strategy that directs its efforts towards horizontal integration is often the desirable alternative (Pearce and Robinson, 2000). A final pair of options involves deciding to stop competing in the market or product area of the business. A multi product firm may conclude that it is most likely to achieve the goals of its mission if the business is dropped through divestiture.

This grand strategy not only eliminates a drain on resources but also may provide funds to promote other business activities. As an option of last resort, a firm may decide to liquidate the business. The decision to liquidate is an undeniable admission of failure by a firm.

- In **quadrant (III)**, a firm that expects a continuation of slow market growth and a relatively weak competitive position will usually attempt to decrease their resource commitment to that business. Minimal withdrawal is accomplished through retrenchment. This strategy has the side benefits of making resources available for other investments and of motivating employees to increase their operating efficiency (Pearce and Robinson, 2000). An alternative approach is to divert resources for expansion through investment in other businesses. This approach typically involves either concentric or conglomerate diversification because the firm usually wants to enter more promising arenas of competition than integration or concentrated growth strategies will allow. The final options for quadrant (III) businesses are divesture, if an optimistic buyer can be found, and liquidation.
- **Quadrant (IV)** businesses (strong competitive position in a slow-growth market) have a basis of strength from which to diversify into more promising growth areas. These businesses have characteristically high cash flow levels and limited internal growth needs. Thus they are in an excellent position for concentric diversification into ventures that utilize their proven acumen. A second option is conglomerate diversification, which spreads investment risk and does not divert managerial attention from the present business (Pearce and Robinson, 2000). The final option is joint ventures, which are especially attractive to multinational firms. Through joint ventures, a domestic business can gain competitive advantages in promising new fields while exposing itself to limited risks.

2.9.4 Portfolio Matrices

Portfolio analyses can facilitate an organization's assessment of the balance of its mix of services, products or business. It must be noted that none of the under-mentioned matrices take into

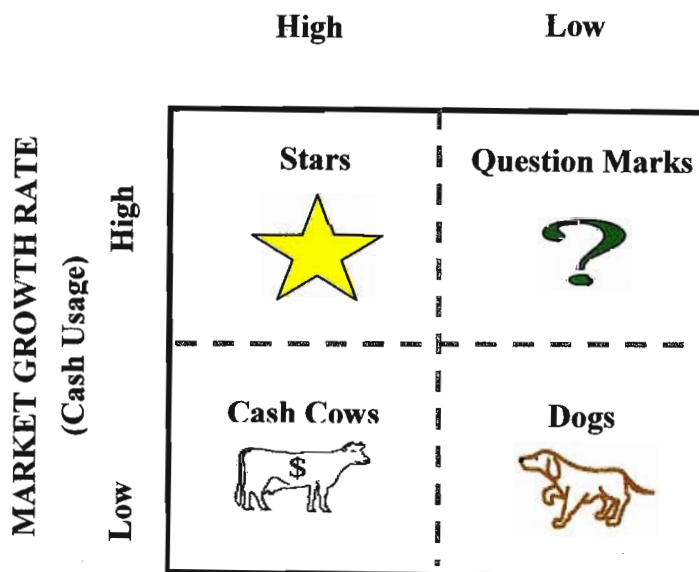
account the resource-based theory of the firm, nor its key competences in order to discover the area in which the company is most likely to succeed.

2.9.4.1 BCG Matrix

The Boston Consulting Group Matrix portfolio is based on a theory that a company's business unit can be classified into four categories and graphically portrays differences among divisions. It focuses on market share position and industry growth rate, and manages the business portfolio through relative market share position and industry growth rate (Internet 27).

The relative market share position is defined as a ratio of a division's own market share in a particular industry to the market share held by the largest competitor firm in the industry. The growth share matrix seems to have faded in popularity as more comprehensive models have been developed. The reason for this is that some of its weaknesses are that market growth rate is only one factor in industry attractiveness and that market share is one factor in competitor advantage. The BCG model overlooks the many other contributory factors that influence profitability.

FIGURE 2.10: The BCG Model



Source: QuickMBA.com/strategy/matrix.com

2.9.4.2 GE Portfolio Matrix

The GE model incorporates many aspects of the BCG model, and is similar in that it maps strategic business units on a grid of the industry and the SBU's position in the industry. The improvement in this model in comparison to the BCG model is as follows: the GE matrix generalizes the axes as "industry attractiveness" and "business unit strength" and has nine cells in comparison to the four.

As shown in Table 2.2, the industry attractiveness and business unit strength are calculated by first identifying criteria for each. Each parameter in the criteria is valued and multiplied by a weighting factor.

The industry attractiveness takes the following factors into account: market growth rate, market size, industry profitability and rivalry, demand and global opportunities. Each factor is weighted accordingly to the industry it operates in. Business unit strength includes factors such as market share, brand equity, logistics, production capacity and profit margins relative to competitors. At this point each business unit can be portrayed as a circle plotted on the matrix. Depending on where the circle is plotted, resource allocation recommendation can be made to grow, hold or harvest (Internet 22).

TABLE 2.2: GE/McKinsey Matrix

Risk		Business Unit Strength		
		High	Medium	Low
Industry Attractiveness	High	Invest/Grow	Invest/Grow	Selectively Improve/Defend
	Medium	Invest/Grow	Selectively Improve/Defend	Harvest/Divest
	Low	Selectively Improve/defend	Harvest/Divest	Harvest/Divest

Source: <http://www.quick.mba.com>

As mentioned, even though the GE model is an improvement on the BCG growth share matrix, it still has its limitations, by not considering interactions among the business units and neglecting to

address the core competencies of the business. Therefore rather than serving as a primary tool for resource allocation, portfolio matrices are better suited to display a quick synopsis of the strategic business units.

2.9.4.3 The Arthur D Little Life-Cycle Matrix

The ADL portfolio management approach uses the dimensions of environmental assessment and business strength assessment. As Illustrated in Table 2.3, the industry life cycle being the environment assessment and the business strength measures are compared to the six competitive positions on the axis (weak-dominant). The life cycle stage of a business is made up on the basis of business market share, investment, and profitability and cash flow. Depending where the business is depicted on the matrix, strategic decisions are made. The problem here exists in that if every business unit in a particular matrix position adopts the same strategic thrust in a given market, the competitive advantage is not seen. Normally it is the company that uses the differentiator that always succeeds to attain a competitive advantage (Internet 23).

Some of the limitations of the ADL life-cycle matrix include the fact that there is no standard length of life cycles, hence determining the current industry life cycle is awkward. Competitors may influence the length of the life cycle.

TABLE 2.3: The Life-Cycle Portfolio Matrix

		Stages of Industry Maturity			
		Embryonic	Growth	Mature	Ageing
Competitive position	Dominant	<ul style="list-style-type: none"> ➤ Fast grow ➤ Start-up 	<ul style="list-style-type: none"> ➤ Fast grow ➤ Attain cost leadership ➤ Renew ➤ Defend position 	<ul style="list-style-type: none"> ➤ Defend position ➤ Attain cost leadership ➤ Renew ➤ Fast grow 	<ul style="list-style-type: none"> ➤ Defend position ➤ Focus ➤ Renew ➤ Grow with industry
	Strong	<ul style="list-style-type: none"> ➤ Start-up ➤ Differentiate ➤ Fast grow 	<ul style="list-style-type: none"> ➤ Fast grow ➤ Catch-up ➤ Attain cost leadership ➤ Differentiate 	<ul style="list-style-type: none"> ➤ Attain cost leadership ➤ Renew, focus ➤ Differentiate ➤ Grow in industry 	<ul style="list-style-type: none"> ➤ Find niche ➤ Hang-in ➤ Grow with industry ➤ Harvest
	Favorable	<ul style="list-style-type: none"> ➤ Start-up ➤ Differentiate ➤ Focus ➤ Fast grow 	<ul style="list-style-type: none"> ➤ Differentiate, focus ➤ Catch-up ➤ Grow with industry 	<ul style="list-style-type: none"> ➤ Harvest ➤ Find niche, hold niche ➤ Renew, turnaround ➤ Differentiate, focus ➤ Grow with industry 	<ul style="list-style-type: none"> ➤ Retrench ➤ Turnaround
	Tenable	<ul style="list-style-type: none"> ➤ Start-up ➤ Grow with industry ➤ Focus 	<ul style="list-style-type: none"> ➤ Harvest catch-up ➤ Hold niche and hang-in ➤ Find niche ➤ Turnaround ➤ Focus ➤ Grow with industry 	<ul style="list-style-type: none"> ➤ Harvest ➤ Turnaround ➤ Find niche ➤ Retrench 	<ul style="list-style-type: none"> ➤ Divest ➤ Retrench
	Weak	<ul style="list-style-type: none"> ➤ Find niche ➤ Catch-up ➤ Grow with industry 	<ul style="list-style-type: none"> ➤ Turnaround ➤ Retrench 	<ul style="list-style-type: none"> ➤ Withdraw ➤ Divest 	<ul style="list-style-type: none"> ➤ Withdraw

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

2.9 EVALUATION OF STRATEGIES

The development of the model follows from the selection of a grand strategy, based on an accurate assessment of the internal and external environment of the firm, to subjecting the chosen strategy to a series of tests. Ultimately, the strategy chosen must stand up against a test of

suitability, acceptability and feasibility. According to Johnson & Scholes (2002:384) there are three types of evaluation criterion, which can be used:

- **Suitability** is the broad assessment of whether the strategy addresses the circumstances in which the organization is operating – the strategic position. In other words it is the rationale of a strategy and whether it “makes sense” in relation to the strategic position of an organization. For example, the extent to which new strategies would fit with the future trends and changes in the environment, or how the strategy might exploit the core competences of the organization.
- **Acceptability** is concerned with the expected performance outcomes if the strategy were implemented, and the extent to which these would be in line with the expectations of stakeholders.
- **Feasibility** is concerned with whether the strategy could be made to work in practice. Assessing the feasibility of a strategy requires an emphasis on more detailed quantitative assessment of the practicalities of resourcing and strategic capability.

2.10.1 Suitability

FIGURE 2.11: Assessing for Suitability



Source: Ambrosini V. with Johnson, and Scholes, 1998, Exploring Techniques of analysis and Evaluation in Strategic Management.

The main purpose of strategic analysis is to establish the basis on which suitability can be judged and evaluated along with the models and techniques that can be employed during the evaluation stage (Figure 2.11). Strategies might be regarded as suitable from the point of view:

- Exploits the opportunities in the environment and avoids threats,
- Capitalises on the organisation's strengths and core competences and avoids or remedies the weaknesses, and
- Addresses the cultural and political context.

Figure 2.11 illustrates the key tools that can be used to assess suitability. The life cycle analysis assesses whether a strategy is likely to be appropriate given the stage of the product life cycle. Positioning is concerned with the choice of generic strategy chosen by the firm and required competencies that underpin the chosen strategy. Positioning is the key test to suitability. Value chain analysis describes the activities within and around the organization and relates them to an analysis of the competitive strength of the organization. It could be said that the suitability of strategic developments may also be tested by the extent to which the strategy will reconfigure the value chain in a way that improves value for money and competitive position of the organization. The business profile analysis shows the extent to which the strategy matches favourable performance parameters from PIMS analysis. Portfolio analysis analyses the balance of the organisation strategic business units.

To better illustrate the analysis, each strategic option in Table 2.4 is evaluated and using the screening options of ranking, decision trees or scenarios, the best possible option that will benefit the organization should be the strategy pursued. Options identified as being suitable then need to be assessed for their acceptability.

TABLE 2.4: Suitability Analysis Questions and Tools

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

Source: Evaluating strategies – A framework, 2003 (online) available at <http://www.dur.ac.uk/p.j.allen/masses9doc>

2.10.2 Acceptability

Acceptability is concerned with the expected performance outcomes such as risk or return, if a strategy is implemented. As a starting point the options available to an organization has to be suitable and then be analyzed for acceptability to the different stakeholders. According to Johnson and Scholes (2002), the acceptability of strategy can be assessed in three broad ways. The following is a summary of the three different areas.

TABLE 2.5: Assessing the Acceptability of Strategy

CRITERIA USED TO ASSESS LIMITATIONS			
CRITERIA	USED TO UNDERSTAND	EXAMPLES	LIMITATIONS
Analysing Return <ul style="list-style-type: none"> • Profitability Analysis • Cost – benefit • Real options • Shareholder value analysis 	<ul style="list-style-type: none"> • Financial return on investment • Wider costs/benefits (including tangibles) • Sequence of decisions • Impact of new strategies on shareholder value 	<ul style="list-style-type: none"> • Return on capital • Payback period • Discounted cashflow • Major infrastructure projects • Real options analysis • Mergers/acquisitions 	<ul style="list-style-type: none"> • Apply to discrete projects • Only tangible costs/benefits • Difficulties of quantification • Technical detail often difficult
Risk <ul style="list-style-type: none"> • Financial ratio projections • Sensitivity analysis 	<ul style="list-style-type: none"> • Robustness of strategy • Test assumptions/robustness 	<ul style="list-style-type: none"> • Break-even analysis • Impact on gearing and liquidity • “What if” analysis 	<ul style="list-style-type: none"> • Test factors separately
Shareholders reactions	<ul style="list-style-type: none"> • Political dimension of strategy 	<ul style="list-style-type: none"> • Stakeholders mapping • Game theory 	<ul style="list-style-type: none"> • Largely qualitative

Source: Johnson G & Scholes K., 2002, Exploring Corporate strategy 6th Ed, Prentice Hall Europe: 300

Analysing Return

Profitability analysis concentrates on the financial acceptance of a strategy and most commonly employs the following approach: return on capital employed, the payback period, and the discounted cash flow method. However, financial appraisals tend to focus on the direct tangible costs and benefits and do not set the strategy in its wider context.

Cost-benefit analysis on the other hand attempts to put a money value on all the costs and benefits of a strategic option, including tangible and intangible returns to people and organizations other than the one carrying the project or strategy. The major benefit of this

analysis is its ability to force people to be explicit about the various factors which should influence strategic choice.

Share value analysis is about directors of the organization creating value and benefits for its shareholders, through value management.

Analysing Risk

Another measure of acceptability is the risk which the organization faces in pursuing a particular strategy. Key financial ratio projections are evaluated to determine how they would change should a particular strategy be adopted. Sensitivity analysis or “what if” analysis is a technique used to determine risk during strategy evaluation. It looks at what would be the effect on performance on a variety of “what if” scenarios and assists to determine the way resources should be planned and controlled for the key elements of strategy. Other ratios include liquidity, debt and break-even analysis.

Analysing Stakeholders Reaction

Stakeholder mapping is a useful technique used to prioritise the political agenda for an organization, and the likely reaction of stakeholders to new strategies, the ability to manage these reactions, and hence the acceptability of a strategy.

2.10.3 Feasibility

The final section of this model deals with whether an organization has the resources and competencies to deliver a strategy. A strategy is deemed to failure if a company does not have the resources. The tools most commonly used to assess feasibility are as follows:

- Funds flow analysis
- Break-even analysis
- Resource deployment analysis

Funds flow analysis forecasts the required funds required for the strategy and the likely sources of those funds. Break-even analysis assesses the feasibility of meeting targets of return and, as such, combines a parallel assessment of acceptability. Resource Deployment Analysis, unlike the

two previous analyses, is not about financial feasibility but rather a wider assessment of the resources and competences of the organization in relation to specific strategies.

2.11 IMPLEMENTATION OF STRATEGIES

When a strategy has been analysed and selected, the task is then to translate it into organizational action. All too often companies fail when their strategy is not matched with the most appropriate structure and controls, resulting in poor performance. Strategy formation and implementation is an ongoing, never-ending integrated process requiring continuous reassessment and reformation. Therefore, in summary, strategic implementation involves:

- Allocation of sufficient resources
- Establishing a chain of command or some alternative structure (cross functional teams)
- Strategic Leadership
- Assigning responsibility of specific tasks or processes to specific individuals or groups
- Managing the process and monitoring the results by comparing to benchmarks
- Best operating practices, evaluating the efficacy and efficiency of the process
- Controlling for variances, and making adjustments when required.

2.11.1 Leadership

Abraham Zaleznik (1977) identified a difference between leaders and managers. He describes leaders as visionaries who inspire. They care about substance, whereas managers are claimed to care about process, plans and form. Lack of leadership is most damaging at the level of strategic management where it can paralyze an entire organization (Internet 10).

Leading demands that leaders think and plan strategically and understand business systems and their interdependencies. Job relevant knowledge includes understanding how customer-value is created and how to leverage and brand their products or services. A successful leader has the ability to make changes that will suit the organization and manage it in a way, which is good for both individuals and the company in the long term. Through change, they help to create and maintain a cohesive culture.

Leaders have certain traits that make them successful, some of which are:

- Drive - high energy and effort level
- Desire to lead - demonstrate the values and provide a basis for a leader-follower relationship
- Self-confidence - absence of self-doubt, good ethics and trustworthiness
- Honesty and integrity - truthful and deeds are consistent
- Intelligence - able to gather and interpret information, solve problems and make good, meaningful decisions
- People - know your culture
- Principles - know what you stand for.

2.11.2 Resources Allocation

In assessing the feasibility of a strategy it has been seen that a strategy will only be successful if the right resources are deployed to that particular strategy. Through this exercise of evaluation, gaps are identified and resources whether tangible or intangible are quantified and filled. The value chain is a template that firms use to facilitate implementation of a chosen business strategy. Resources, capabilities and core competencies are the characteristics that make up the foundation of competitive advantage (Internet 13).

2.11.3 Organizational Structure

Organizational structure helps management achieve its objectives. There is a close linkage between objectives and strategy and therefore it is important that a structure supports the strategy. Structure is the shape of the organization to assume maximum advantage of the environment. It distributes responsibility and authority and communication channels most appropriately. Power must be placed in the right place at the right time, so that effective decisions can be made. In addition, it makes provision for the necessary human and financial resources to carry out the company's strategic intent. One of the major components of the organizing function is the allocation and provision of resources in order that individual team members can perform their tasks with minimum effort. To depict this as picture of the relationship between the people of an organization, an organogram is drawn, showing all of the above.

Structure must be most efficiently designed to suit the organization and its needs. The idea is to clarify the organizational purpose and ensure that the structure fits the purpose. Competitive advantage lies in a fine tuned and optimal structure. Any structure must be molded around the strategy and is hence an adjustable and dynamic process.

2.11.4 Establishing Strategy Supportive Policies

Once business strategies have been decided upon, the process moves into a critical new phase, namely translating strategic thought into organizational action. The role that policies play in implementing strategy is to channel actions, behaviors and decisions in directions to promote strategy execution. It has to counteract tendencies of people to resist a chosen strategy. Sometimes the best policy is in the empowering of employees, especially when employee initiative is essential to good strategy execution. Well-constructed policies will allow latitude for employees to make decisions and excel in their area of work, for which they are duly rewarded and have taken ownership (Adapted from Pearce and Robinson 1997: 321,323).

2.11.5 Instituting Best Practices and Continuous Improvement

Searching and adopting “best practices” is integral to effective implementation of strategy. To perform better than the competitor, managers need to understand performance standards, i.e. what constitutes good and poor performance. Benchmarking is now widely used to introduce best practices within a firm. It is the process of comparing and measuring an organization’s operations or it’s internal processes against those best-in-class from inside or outside the industry. Benchmarking has spawned new approaches to improving strategy execution via reengineering, continuous improvement programs and Total Quality Management (TQM). Continuous improvement programs are tools for implementing strategies key to:

- Defect free manufacture
- Superior product quality
- Superior customer service
- Total customer satisfaction.

Total Quality Management (TQM)

“For an organization to be truly effective, every single part of it, each department, activity and each person at each level must work together – because every person and activity affects, and in

turn is affected by others (Pycraft 2002: 738). TQM is about creating a Total Quality Culture bent on continuously improving the performance of every task and value-chain activity. Total Quality Management has been practiced by the Japanese decades ago, and the West is basically adopting a philosophy that has been in existence for many years.

From a human resources point of view a continuous improvement philosophy should be to:

1. Instill enthusiasm and commitment to doing things right from top to bottom of the firm,
2. Ignite employee efforts to be creative in improving performance of value-chain activities, and
3. Reform the corporate culture.

The blend of quality concepts and other management techniques in the area of employee motivation, measurement and rewards is generally referred to as TQM. The core concepts are customer focus, continuous process improvement, quality extended from manufacturing concept, but extended throughout the company, defect prevention, and universal responsibility.

Balanced Scorecard

“The balanced scorecard is a tool which uses indicators to communicate a strategy and to measure the success of its implementation. Used correctly it empowers an organization by operationalising the strategy discussion, and then assigning the accountability for well defined results” (JNL Accountancy SA October 2002 P18).

There are three reasons why the balance scorecard is a tool to empower:

- **Firstly**, it unpacks the financial targets, and creates a dialogue as to the strategy to achieving them.
- **Secondly**, strategy is transparent, reducing the risk of delegation.
- **Thirdly**, non-financial indicators provide an indication of whether targets are being met or manipulated.

To empower an organization, the balance scorecard must be a fluid document and continuous improvement and discussion must take place. If the document is not flexible this can only be detrimental to the organization as well as the staff. The balance scorecard adapts the TQM ideas

of customer-defined quality, continuous improvement, employee empowerment and measurement-based management/feedback on financial and internal business process outputs.

Gaining Commitment to chosen Strategy

The challenge that most organizations face today is to design a reward structure that motivates people to do the very thing it takes to make a strategy work successfully.

There are three basic ways to gain commitment:

- **Motivational practices** - This involves inspiring and challenging employees to do their best, getting them to buy into the strategy from implementation, by involving them in decisions about how to perform their jobs, and including them in discussions on things that affect them directly. It means empowering employees and making their jobs interesting and satisfying which converts into taking responsibility and being accountable.
- **Rewards and Incentives** - Ensure to use the full range of reward-punishment mechanisms. There must be transparency on the methods used to calculate the financial rewards, and employees need to understand that good performance gets rewarded and non-performance will be open and to constructive criticism. There should be praise and recognition, teamwork and good team spirit / low peer pressure. Opportunity for personal satisfaction is key to motivating and rewarding staff.
- **Promoting a results orientation** - To create a results orientated reward system, jobs must be clearly defined in terms of results to be accomplished. Measures must be in place to track actual achievement vs. target performance. Stress should be placed on achievement and not activities. There should be several target performance measures that encompasses the strategic plan target. Most important is to provide ample reward to key performers and deny those not achieving objectives (adapted from Thompson and Strickland 2001: 400,403).

The following guidelines can be used to designing an effective rewards system:

1. The performance payoff must be a major, not minor, piece of the total compensation package.
2. Incentive plans should extend to all managers and employees.
3. The system must be administered with scrupulous care and fairness.
4. Incentives must be linked tightly to achieving only performance targets in strategic plan.

Identifying and implementing best practices is a journey, not a destination; it's an exercise in doing things in a world-class manner (Internet 11).

2.12 CORPORATE CULTURE

Culture is very much the personality of the organization. Its broadest definition is a system of values, beliefs, behavior patterns, language and actions. Culture is determined to a large extent by the vision and mission of its founders who establish the early culture by projecting the image of what the organization should be, by defining the way things should be done. Sometimes multiple cultures can be found within a company and vary by department, geographic location, business unit or division.

Why does culture matter in an organization? A company's culture can contribute or hinder successful strategy execution. Beliefs and practices of a strategy may or may not be compatible with the company culture. Culture tends to have an ability to permeate into an organizational structure and mould it to formally guide the employees. Therefore a close match between culture and strategy adds significantly to effectiveness of strategy execution (Internet 13).

Strong cultures are inherently more established and consistent. It provides a system of informal rules and peer pressure. It can motivate people to do their best, as it promotes strong company identification. A strong culture reduces staff turnover, as prospective employees know what to expect before they join the company. However, organizations are now faced with operating in a dynamic, changing environment, and the culture of the firm must suit the changes in the business.

Today culture must promote flexibility and adaptability in approach to tasks and problem-solving. These organizations must quickly adopt a set of core values and behaviours that will guide the organization when there is uncertainty. Firms that structure themselves for dynamic environments often employ a team approach and very fluid and organic layouts.

Some hallmarks of adaptive cultures:

- Executives must have a strong commitment to timeless business principles and organizational stockholders.
- Executives must be willing to take prudent risks, be quick to modify strategies and operating practices, be supportive of people proposing useful changes, be adept at changing the “right things” in the “right ways”, and be genuinely concerned about the well-being of all stakeholders.
- Managers and employees must be receptive to risk taking, experimentation and innovation and changing strategies.
- There must be a sense of confidence among all employees for them to do what’s needed to ensure long-term success. They should be proactive in implementing workable solutions (Internet 37).

It is important that there is a strategic culture fit in an organization as it promotes good performance. The beliefs, goals and practices of the organization underpins the success of implementing a new strategy. Changing culture to fit a new strategy is an extremely tough challenge, hence senior executives must personally lead efforts to create a strategy-supportive culture.

2.13 DEVELOPING THE MARKETING MIX TO SUPPORT STRATEGIES

Implementation is the link between the marketing strategies and the attainment of organizational objectives. For a company to be successful and to meet its objectives through the strategies that it has opted to implement and follow, it now relies on the marketing managers to influence the level, timing, and composition of demand to meet the organization’s objectives. Marketing managers have the daunting task of creating a successful marketing mix that will increase results, as well as satisfying the consumer needs. Therefore once a company has developed a marketing

strategy, the “Seven P Formula” making up the marketing mix should be used to continually evaluate and reevaluate business activities. As products, markets, customers and needs change rapidly, one must make sure that the seven P’s are continually visited to ensure that the company is on track and achieving the maximum results possible for the company in today’s market place (Internet 24).

2.13.1 Overview of the Marketing Mix

A company’s marketing mix is a combination of marketing tools that are used to satisfy customers and company objectives. Consumers often look at the marketing mix as “the offering”. The first 4 P’s of the formula (product, price, place and promotion) generally control this offer. By blending these four components in an optimal way, the company will have the ability to reach multiple consumers within the target market. It is important to understand that these four variables are controllable and the marketing mix can be more easily changed to suit the changing needs of the target group and the other dynamics of the marketing environment.

This marketing mix framework was particularly useful in the early days of the marketing concept, when physical products represented a larger portion in the economy. Today, with marketing more integrated into organizations, and with a wider variety of products and markets, a further 3 P’s were introduced as components to the marketing mix being people, process and physical evidence. These components compliment each other and when used in its correct combination will result in maximum results for the business (Internet 25).

2.13.2 Product

The product is the foundation of a successful marketing campaign. Marketing is about identifying, anticipating and satisfying your customer needs. Using market research, the firm needs to identify who will be interested in the products, what are they looking for and where it needs to be purchased from. The critical question that company managers need to ask is (Internet 25) “Is the current product or service, or mix of products or services, appropriate and suitable for the market and the customers of today?” Managers need to examine packaging, design, material used, size and quantity, to establish if they are complying with consumer suitability.

This will allow the company to see if they are meeting the consumer needs. Compared to competitors, is the product or service superior in some significant way to anything else available. If so, what is it? If not, could the company develop an area of superiority? Should they be offering this product or service at all in the market place? By analyzing the market and its requirements, the company will be in the position to change the product or develop the product in order to match the requirements of the people they are targeting. Similarly consumer's needs are likely to change, and therefore products should constantly change to reflect this. Another important factor to be considered in product strategy is to identify what stage of the product life cycle the products have reached. The concept of the product life cycle is to assert four things. Products have a limited life. As products pass through the different distinct stages, it poses different challenges and opportunities to the firm. Profitability on the product may rise or fall at the different stages. Due to this products require different marketing, financial, manufacturing, and purchasing strategies at each stage of the life cycle. This is one way to determine how the marketing mix will link together, as each stage will require a different mix to suit the stage in the life cycle.

TABLE 2.6: Product Life Cycle

	Introduction	Growth	Mature	Decline
Overall product strategy	Slow sales growth Low profits Early adopters to try product	Rapid market acceptance Mass market sales Profit improves	Difficult Period Sales drop Adopt defensive mode Be wary of competitors	Downward trend Profits decline Careful consideration of product
Product	Brand New Product Careful on pricing promotion into the market place	Provide better service, to add value, and edge off competition May drop price to maintain sales	Try to sell on brand or Augment product Competitors aggressive Change the way to promote or distribute product	Continue to sell on service and brand Change packaging etc. Alternatively revamp and bring out as a new product, or change

Source: Adapted from McDaniel Continental Airlines & Darden W. Marketing 1987 Churchill G. & Peter J. Marketing – creating Value for Customers 1998

Determining which phase of the product life cycle the company's product is, as shown in Table 2.8, will assist the company in strategizing the decisions made: how to price the product in the market, how to promote and the effective way to distribute. Most firms have various products and each product or product line could be in a different stage of the life cycle, and therefore careful planning and consideration must be taken into account in bringing or changing strategies in the market place. Consumers can drive or be driven by market leaders in its industry.

2.13.3 Price

Changing the product to reflect the product's life cycle is only part of the essence of a well balanced marketing mix. Price is the second most important component of the marketing mix. Price very simply generates the profits of the business, so careful consideration must be given to what your target market is willing to pay for the product. Hence examining and reexamining prices of products and services must be a habit on a continuous basis to ensure they are still appropriate to the realities of the current market. When setting a pricing policy one must be careful not to set it too low as consumers might believe that the product is inferior, and conversely if too high, consumers may believe that they are not getting the benefits and value for their money (Internet 25).

The other factor to consider is the aggression of competition. To achieve a balance companies adopt different pricing policies to suit the market (Internet 26):

1. **Lost leader Pricing** - This involves lowering prices on a number of products to entice customers to purchase the company's products, and also to look at the company's other products that could be at high margins. It suggests brand loyalty after a period of time or the one stop shopping syndrome. This pricing could be used to stimulate interest in a mature product or a decline stage product.
2. **Penetration Pricing** - The ideal is to use this in the introductory stage of the product life cycle to enable the product to get some recognition in the market. Prices are reduced to create the interest in a consumer and could discourage competitors from capturing the market. This type of pricing structure is suitable for products that are mass-produced.
3. **Price Skimming** - Where penetration pricing keeps the pricing below the market price, skimming raises the prices artificially, where the demand for the product is

high and competitors are generally fewer. Quick profit, and can be used most effectively in the growth stage when demand is high. One must be careful not to overprice making the market attractive to competitors, who might enter the market at lower prices taking away your market share.

4. **Differential Pricing** - This is about marking the same product at different prices, which is justified by the economic climate, geographic, distribution channel and different market segments. This is very relevant as certain areas of business are overtraded whilst others are not, resulting in the imbalance of pricing of the same product.

In business, as in nature, whenever there is resistance or frustration in any part of the sales or marketing activities, the company needs to be open to revisiting that area. Awareness to the possibility that the current pricing structure is not ideal for the current market. The company may need to revise its prices, if necessary, to remain competitive, to survive and thrive in a fast-changing marketplace (Internet 26).

2.13.4 Distribution or Place

Having a good product that is priced right is not going to give the company the real sales that they are looking for. The company must be able to get its product to its target market and provide the service of convenience. The company has options to sell its product in many different places. There are three main distribution channels that are often used:

1. **Traditional** - Selling the product in bulk to wholesalers who in turn sell to retail outlets,
2. **Modern** - The producer sells directly to the retail outlets, or
3. **Direct** – The producer sells directly to the consumer.

Some of the drawbacks of selling to wholesalers and retailers are that they will have to add a markup on the product and this could out price the company in the market. However, the channel can get to a greater base of the target market. Direct selling gives the company control on who their consumer is and relationships are built with a fair amount of loyalty to the brand, bearing in mind that a sales force is expensive to maintain.

2.13.5 Promotion

In the marketing mix, promotion represents the communication of the company's products to the group of consumers they wish to target. The main aim of promotion is to inform consumers about the company's products or services. A need to create an interest and a need for the product or service on offer must be encapsulated in the promotion. For a communication to be persuasive and effective it needs to carry its audience through the different stages of the advertisement, which will result in a positive response.

One of the most effective tools to use is the AIDA model (Awareness, Interest, Desire, and Action). Companies use two different types of communication in their advertising, namely product or institutional advertising. Product advertising is mainly about the product and creates a demand for the goods or services. Institutional advertising seeks to promote the firm's name, image, personnel or reputation. Marketers need to adapt their communication to suit their product and their audience.

Caution must be used when putting an advert together as one does not want to offend the consumer, resulting in an unhappy consumer that will not purchase any of the company products. An example is that the color purple is associated with death in Burma, or that white is a colour of mourning in India.

It is not often that a company will use a single media to promote its products. The promotional mix is made up of five elements, namely advertising, sales promotion, public relation, direct marketing and personal selling. The combination of the above depends on the target group, the budget at hand and the type of product on offer.

2.13.6 Physical Evidence, People, and Process

The further 3 P's are very related to the environment that consumers are exposed to when dealing with the company, the manner in which they are treated and how easy is it to deal with the firm. In most service industries these 3 P's are very interrelated and most often are experienced prior to actual purchase.

Physical Evidence

The physical evidence is the environment in which the service is delivered, and where the firm and the customer interact, and any tangible commodities that facilitate performance or communication of the service. Physical Evidence is particularly important to companies such as auto repairs, hotels, and hospitals (Ziethaml and Bitner 2000 :253).

People generally form their first impression about anything within the first 30 seconds of seeing a person or some element of the company or product. Small improvements in the packaging or external appearance of the product can often lead to completely different reactions from the customer. With regards to packaging of the company, products or services, the company needs to think in terms of everything that the customer sees from the first moment of contact with the company all the way through the purchasing process. Packaging refers to the way the product or service appears from the outside. This also includes the people of the company, how they dress and groom, the offices, brochures, advertisements, vehicles, et cetera. Everything either helps or hurts the company image. Everything affects the customer's confidence in dealing with the company.

People

It is amazing how many businesses will work extremely hard to think through every element of the marketing strategy and the marketing mix, and then pay little attention to the fact that every single decision and policy has to be carried out by a specific person, in a specific way. The people employed in the company will determine the quality of service customers receive.

The ability to select, recruit, hire and retain proper people with the skills and abilities to do the job that needs to be done, is more important than everything else put together. A company can further achieve a competitive advantage over the competitors through offering a superior level of pre-sales and after-sales support and advice. The impact of this is it can determine premium pricing, as customers are likely to be prepared to pay more for the service they receive.

Process

The processes involved, mechanisms and the actual flow of activities by which products and services are delivered to the customer have an impact on the way in which the customer perceives

the company. Some of the critical processes that companies should look at are what processes involve getting the products to the customer, are customers informed of changes and what is happening in the company, do staff keep their promises to customers, and how effectively are staff handling customer complaints. These processes if handled correctly will build relationships and loyalty within the customer base.

2.14 BRANDING

Strategic brand management is about sustaining and enhancing brand equity, which represents the strength of the brand in the market. Understanding the needs and wants of consumers and developing products to meet those needs, requires brand equity that is consumer based, from a consumer's perspective. The power of the brand resides in the consumers' minds: what they have learned, felt, seen and heard as a result of their experiences over time. According to William Lever, of Lever Bros, one of the principle architects of brands, "Brands exist because they are useful to consumers. They provide certainty, reliability, another satisfying experience in a chaotic, confusing and cluttered world."

Marketers must therefore ensure that consumers have the right type of experiences with their products and services that they then link to the brand. This will differentiate the brand from the product (the Coke blind test). Advertising and marketing efforts should be considered as an investment into building consumers' knowledge about the products and services.

Leading brands are innovative, spending vast amounts of money on product and services development. They recognise that consumers needs change over time and are able to tap into the emotional trends that sweep their markets (Keller 1998:2). From the Beatles to the Spice Girls, those that do not change become extinct. King of WPP Group in London states, "A product is something made in a factory; a brand is something that is bought by a customer. A competitor could copy a product, however a brand is unique. A product can be quickly outdated; a successful brand is timeless" (Internet 38).

2.14.1 Building Customer Relationships

Exceptional customer service is the distinguishing feature that identifies a business from its competition. Developing a strong customer-focused culture is therefore a determining prerequisite ensuring business growth. A Blanton Godfrey succinctly advocates, “it’s not enough to merely satisfy customers, customers must be delighted, surprised by having their needs not just met but exceeded” (Internet 32). Customer loyalty is more important than ever in a more competitive marketplace. In the late 1990’s, about the time of the Silicone Valley crash, business watchers began to identify something important. They discovered that businesses that had dedicated themselves to providing their customers with superior service were producing better financial results. They grew faster and were more profitable than businesses that were still working as hard as they could to give their customers as little as possible.

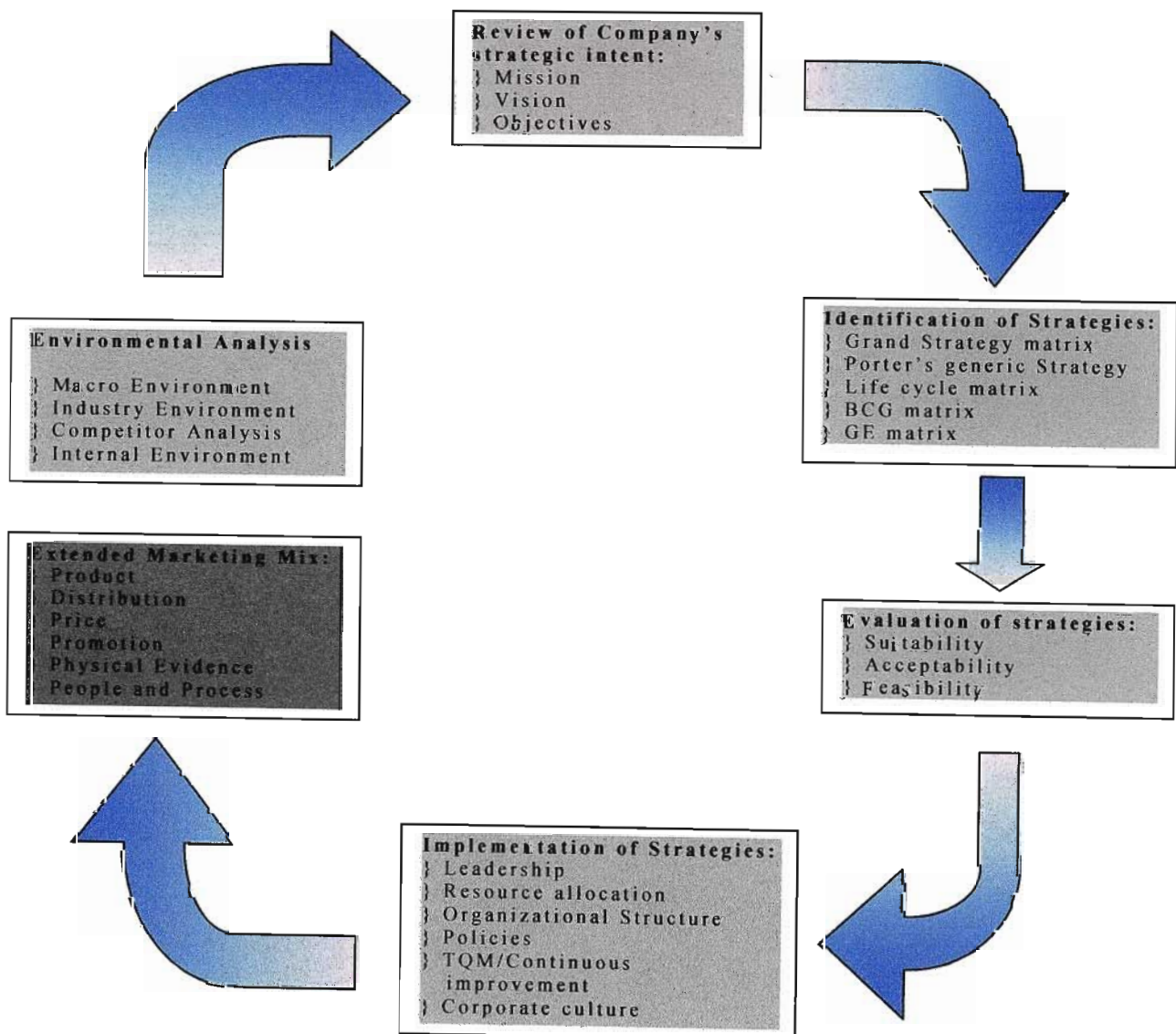
Businesses that emphasised total customer service were starting to make more money and keep customers longer than businesses that did not. Researchers realised that highly successful service organisations had lower marketing costs, fewer upset customers and more repeat business. Suddenly, being customer focused, understanding and meeting customer needs, and giving quality customer service became a critical goal that was trumpeted in every organisation regardless of its size or scope.

Relationship Marketing is a philosophy of doing business that focuses on keeping and improving customers rather than on acquiring new customers. This is necessary to build and maintain a base of committed customers who are profitable for the organization. One of the benefits of customer retention is increased purchase over time. The cost of marketing can also be reduced because customers will be less likely to look elsewhere if all their needs are being satisfied. These loyal customers can also become ambassadors for the company by influencing their friends and family to use its products and services. Research conducted by Harvard found that customers become more profitable over a period of time due the reasons given above. There has been less research on satisfied customers to determine what it takes for a satisfied customer to change. Why take a chance on mere satisfaction? Loyal customers don't leave even for an attractive offer elsewhere. At the very minimum they will give you the opportunity to meet or beat the other offer. Maintaining loyal customers is an integral part of any business.

2.15 MODEL FOR CHAPTER 2

In a changing environment, a strategy that has worked in the past may not be suitable under the new circumstances. In order to examine the alternative strategic options available to an organization under these conditions of external changes, the company as well as the external environment in which it operates was examined using various tools and approaches. The findings then delineated a menu of strategic thrusts, which addressed the changes in the environment, and were further tested in terms of whether the organization has the infrastructure to pursue the most suitable option. The following is a theoretical model (Figure 2.12) that will provide the framework for the case study in Chapter 3.

FIGURE 2.12: Theoretical Model



2.15 CONCLUSION

This chapter has presented an overview of the theory relating to the strategic planning process. Although every strategic planning process is uniquely designed to fit the specific needs of a particular business the tools and techniques discussed in this chapter are applied in every successful model. The process begins with clearly defining the vision and mission statements of the company. An analysis and evaluation is then performed of the environments in which the business operates, that is internal and external, the industry and competitive environment, the gaps and benchmarking which provide a context for developing organisation's strategic issues.

Strategic programming follows and the organisation develops specific strategies, from grand strategies to generic / business-level strategies using different portfolio matrices, and includes strategic goals, action plans and tactics. Strategies generated are tested for suitability, acceptability and feasibility. Emergent strategies evolve, challenging the intended tactics, and altering the realised strategy. Those strategies that are found to meet the criteria of the above are implemented. Often factors such as leadership, organisational structure, and culture influence the implementation and should be taken into account by being adapted or changed so that the strategy and the people complement each other.

Whilst the strategies are being formulated the marketing mix needs to be developed to enhance and assist in implementation of the strategy and leading to successfully reaching the strategic goals. In chapter 3 the current situation of the Liquefied Petroleum Gas (LPG) in the low-income housing is presented applying tools from this chapter.

CHAPTER 3

CASE STUDY

3.1 INTRODUCTION

South African households consume some 24% of the country's energy. By the end of 1997, about 60% of households had access to electricity, yet this energy source contributed only 20% of household energy consumption. Contrary to initial expectations, grid electrification did not satisfy all the energy needs of low-income households. The high cost of electrical appliances, their lack of multi- functionality and the relatively high costs for thermal end uses like cooking and space heating are some obvious constraints to the greater application of electricity.

Most energy in this sector was obtained from fuel wood (65%); other fuels used include coal (9%), Illuminating paraffin (8%) and a small amount of LPGas makes up the remainder. To put this into context it can be seen that majority of poorer households, use those fuels that they have easy access to, that are available and cheaper. These fuels are also used for cooking and space heating, whereas electricity is used only for lighting and to a lesser degree entertainment. These trends indicate that there is multiple-fuel use in households where fuels are required to meet a range of household energy services. With fuel wood becoming a more scarce resource, the poorer households will have to look at an alternative fuel as their energy source (Internet 27).

In this case study, the supply of liquefied petroleum gas to low-income housing in rural areas will be discussed. How acceptable will LPGas be? Is it affordable, accessible and can this market be sustainable in a market that does not have a steady income and is poverty stricken.

The strategic theory applied in this case will reflect the current situation of the Afrox Handigas division. An overview of the company and more detail of the division will be extrapolated into the analyses. Identification of the organization's vision and mission is the first step of any strategic process. An environmental scan will be performed within the framework of the five forces model and SWOT analysis information about the division's external environment, industry and internal organizational factors will be presented. Evaluation of the difference between the current position and desired future will be achieved through gap analysis. The present marketing

mix and changes to support the strategies will conclude this chapter. All information presented in this chapter is a result of interviews with key personnel in the division, secondary data, the intranet Afrox website, and market research done by Perry and Associates and the BEE partner in this project Wild Orchard and Associates.

3.2 AFROX LIMITED

Established in 1927, Afrox has prospered by constantly evolving to meet the needs of customers and developing solutions that add value. This ability to respond to change and determination to meet world standards of product and services enables Afrox to provide superior returns for its stakeholders. Afrox is engaged in the manufacture and sale of gases and related products. Afrox's business can largely be divided into three major divisions: gases, welding products and Process Gas Solutions (PGS), with a possibility of safety products becoming a fourth division in the near future. The company has recently sold off its interests in the health care business.

The image of Afrox purely as a supplier of gas and welding gear is far from accurate. In fact, most South Africans make use of an Afrox product every day as part of their lives. Table 3.1 lists the different lines of business that Afrox is actively involved in. For the relevance of this case study, an evaluation will be done on the Handigas division.

TABLE 3.1: Afrox Business Divisions

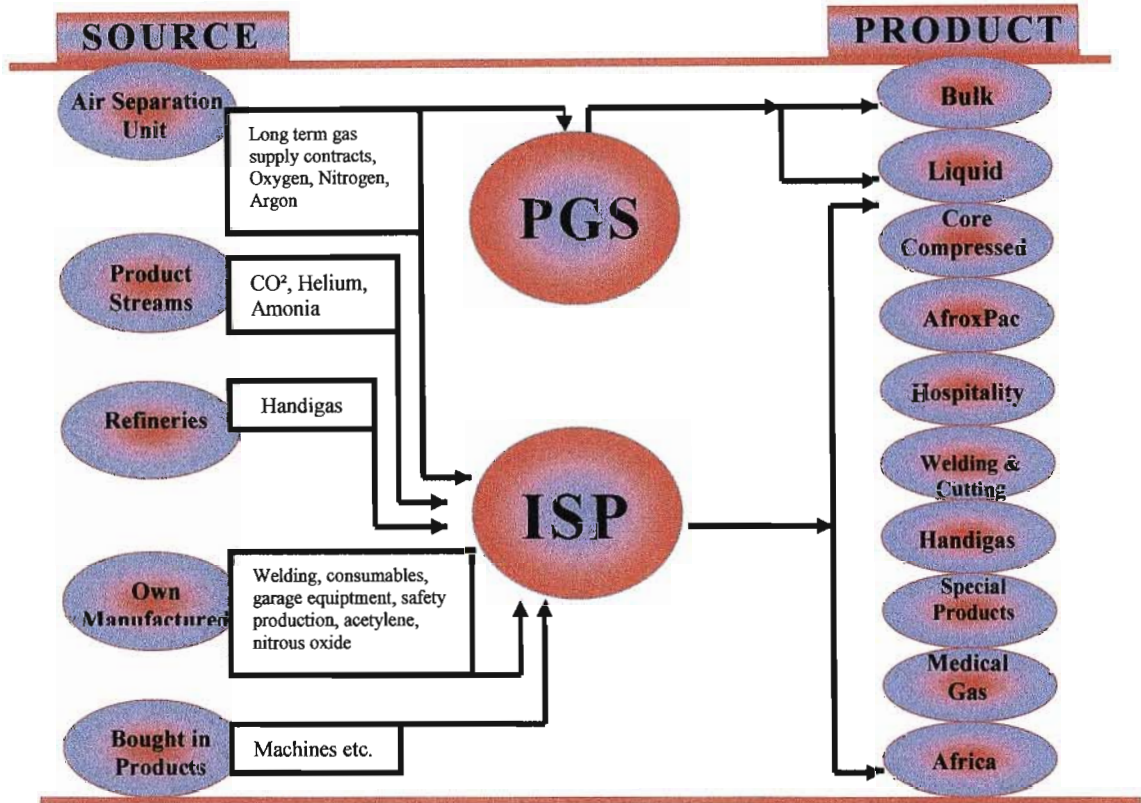
Industrial & Special Products (ISP)	Process Gas Solutions (PGS)
<ul style="list-style-type: none"> ◆ Industrial products – cutting & welding ◆ Handigas – mega bulk, industrial, retail Auto gas and Low Income Housing Energy – (Safety Gas) ◆ Medical gases ◆ Scientific Gases, Packaged chemicals, helium & refrigerants ◆ Hospitality (Handigas, suremix & Partigas) ◆ Manufacturing & Exports ◆ Safety products 	<ul style="list-style-type: none"> ◆ Production Operations ◆ Distribution ◆ Customer Engineering Service ◆ Merchant and On-Sites ◆ Tonnage ◆ Cryostar

Source: Afrox Intranet web base

The Afrox Industrial model in Figure 3.1 graphically shows the sources of product to the different divisions. Afrox manufactures some of the gases and welding consumable products. All its machinery is bought from suppliers globally. The air separation unit is mainly a source for bulk gases and is run as a separate unit. In the case of the Handigas division, the Liquefied Petroleum Gas is sourced at the refineries and is transported by road or rail to the various branches where it is decanted into bulk tanks for storage. The process then is to decanter the product into different sized cylinders (48kg, 19kg, 14kg and 9kg) and these are transported to the various sectors of the market for reselling or to the end user.

FIGURE 3.1: The Afrox Industrial Business Model

The Afrox Industrial business model



Source: Afrox Intranet Customer First

3.2.1 AFROX – Handigas Division

Handigas is the brand name under which Afrox has marketed Liquefied Petroleum Gas (LPGas) for fifty years. Handigas is the energy fuel that works anywhere, indoors or out. It is a safe, reliable energy source that can be used in every heating energy process. It is versatile and very efficient.



Afrox Logo



Afrox ensure delivery



Afrox Cylinder

Handigas provides unmatched power and portability over an extremely wide range of applications. Handigas has established itself as a major energy supplier to industrial, commercial and hospitality consumers as well as becoming an important energy source in the domestic and agricultural markets. Portability sees Handigas firing the flame of empowerment and progress in the most underdeveloped reaches of the rural areas.

The customer base ranges from the largest resort or entertainment complexes to the smallest manifolds and domestic cylinder user. From standard LPGas heating processes to leading edge industrial applications, Afrox Handigas has the energy to deliver on every level. Afrox also understands that reliable supply is essential to any process large or small, which is why the company has invested in the largest fleet of gas delivery vehicles in the country. Afrox has more branches over a bigger footprint than any of its competitors and has front-end agreements with the major refineries to ensure security of product supply.

3.2.2 Strategic planning at Afrox

Afrox Limited has a very clearly defined strategic process, which takes the format of the executive team clearly setting down the initial strategic plans. The current process was introduced in 2002 and since then Afrox has:

- Embedded business and strategic planning as a performance management model.
- Achieved a considerable degree of alignment with BOC (Parent company).
- Re-structured management to reflect its strategy.

- Re-launched Afrox onto an aggressive growth agenda.

TABLE 3.2: Key elements of the Strategy

Key Elements of the Strategy

-
1. We will seek superior growth through the triple strategy of:
 - Defend:
 - Defend existing high markets shares and high margin businesses
 - Improve:
 - Customer focused Product Service Offerings & sales & marketing effectiveness
 - Grow
 - Identify and exploit growth opportunities within existing defined markets:
 - Products
 - Geography
 - And we will find new step out opportunities off the back of our existing core competencies
 2. We will continue to improve the effectiveness and efficiency of our business processes
 - Develop processes and infrastructure
 - Improving our operating efficiencies and grow profits by using
 - Best Operating practise
 - Best Commercial practise
 3. We will continue to roll out our BEE strategy
 4. We see our people as a key pillar of this strategy, and will seek to attract develop and retain the best possible people resource.

Source: Afrox Intranet Customer First Programme

In Afrox there is no exact formula by which successful strategic direction is crafted. It appears to emanate from a combination of brilliance, foresight and experience, and maybe sometimes luck. Still there are certain concepts and mechanics that are used to help the probability of success. Looking at the current situation, trends in the market, and doing analyses based on Porter's, PEST and a SWOT analysis. Consultants are called in to give an overall view of industry, and economical factors that South Africa/Africa will be facing in the ensuing years. As stated earlier Afrox has a defined Vision, Mission and Objectives, which are reviewed, to ensure that it encapsulates the business fundamentals.

The environmental scanning done includes customer needs and expectations, technology developments, market place dynamics, demographics, politics and societal trends. Afrox has achieved a position whereby the top 100 managers understand the strategic goals, and their role in achieving these. Managers then selectively cascade this information to their people, ensuring that

everyone in the company understands where they are headed and their role in helping the company get there.

Once the strategies have been accepted a set of guidelines are produced and each region from General Manager to Branch Manager will go about formulating tactical plans to set their divisional goals, always bearing in mind the objectives and strategy of the company. Afrox has a flat but matrix reporting system.

Afrox management is becoming more fluid allowing information to flow down and across the organization far easier, than what it was a few years ago. The vision, mission and objectives of the company are communicated to every single employee and a performance contract for each individual is put in place with their manager into achieving the goals set out for that year. Employees are being empowered to map out their own destiny. Staff is accountable for their actions, but set their short-term plans, based on the objectives and goals of the company. In this way there is transparency of what each individual is accountable for and can get measured and rewarded for their efforts. The idea is everyone has to feel ownership of the strategic plan.

Monthly reviews against the plan are done at region level and quarterly reviews are done at executive level. Depending on the results of actual vs. the budget, plans could change, and focus put in areas of concern to ensure that the goals and objectives of the company are met or exceeded. This process is ongoing and environmental scanning plays a pivotal role in achieving this.

3.3 MACRO-ENVIRONMENT OF THE OIL/LPGAS MARKET

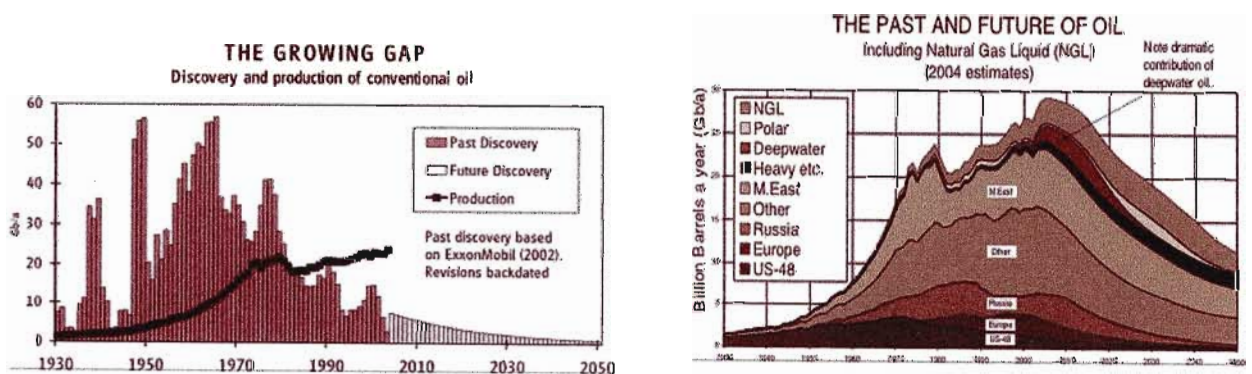
The world's economy will falter and collapse as global oil production peaks and heads into a permanent decline (Internet 36). Today's high oil prices are no fluke. The prices have developed because the world's oil producers can no longer keep up with global demand. Saudi Arabia, which, claims to have a quarter of the world's oil reserves, was in a position to moderate oil prices by acting as a swing producer, ensuring that the production met demand thus stabilizing prices. Today Saudi Arabia can no longer increase output to stop prices going up because their production is as high as it can ever go. Output from Saudi Arabia is on the decline and is

estimated to be declining at a rate of 6000 barrels a day. Most other producers around the world are in a similar position, with their outputs either near its peak or already in a decline.

The fact that no country is able and willing to take over from Saudi Arabia as a swing producer introduces a new source of instability. The world demand for oil will exceed the supply with increasing frequency. Every time this happens consumers will see a spike in the price of oil. This is evident if one considers that the price of crude at present is in the \$60 range. Every country would be seriously affected, more so the developing countries who will not be in a position financially to weather this storm. The LPGas prices are directly linked to the barrel and natural gases is also facing the dilemma of the world's reserves being depleted rapidly and it will only be a few more years for it to will be in the same situation as oil.

The biggest danger with the current oil market is that prices will rise to levels that could cause the world economy to go into recession, which could last for several years. Oil is no longer being discovered at anything like the rate it is being used.

FIGURE 3.2 : The past and Future of Oil and the Growing gap



Source: ASPO (www.peakoil)

In Figure 3.3 it can be seen that the world's production of conventional (i.e. readily extracted) oil is probably as high as it will ever be. However, the world's total oil supply will probably carry on increasing for another four or five years if the price stays high enough for it to be profitable to produce it from expensive, energy-intensive sources such as the Canadian tar sands, or fields in polar regions and in deep water far offshore. Thereafter it is bound to decline. (Internet 34).

So far the discussion is based on the oil pricing and the supply thereof globally. The peak in global oil and gas production will bring about a dramatic change in the world economy. The challenge is to shape and direct that change so that its effects are positive rather than immensely damaging. The need to ensure that the peak in world oil and gas production does not cause a global depression, gives the world an opportunity to construct a framework that will be required to deal with climate change much sooner.

Another consideration should be for a global fossil cartel to be formed, which could give greater stability to the world economy and bring prosperity particularly to the poorer countries. By conducting a PESTEL analysis, in Table 3.3 it will be possible to identify those factors that will affect the LPGas Market.

TABLE 3.3: PESTEL Analysis for the LPGas Industry

Political Factors

1. Government should lower taxes to the lower income group, increasing disposable income
2. Increasing access to affordable energy services. A financial scheme to provide targeted subsidies per household to fund switching costs.
3. Establish a national policy that will ensure that the national energy resources are managed effectively to meet the country's energy needs.

Economic Factors

1. High prices of crude oil has a negative impact and affecting sales of LPGas
2. Unemployment is high and although in certain areas improving, consumers do not have sufficient income to spend on a sophisticated yet safe energy.
3. The strength/weakness of the Rand and its implication on the South African economy.
4. Income inequality is high and South Africa is the 4th worst out of 105 countries.
5. Low Income houses built with poor thermal performance, particularly in very cold parts of the country.

Social Factors

1. Income is extremely slow at becoming more equal, and the economy has not seen the true effect of this.
2. Inequitable access to resources in the homelands.
3. Millions of people are still living in shacks, garages, or corrugated structures in urban areas – growing population in a limited area.
4. Aids is changing family structures and priorities of families in terms of expenditure.
5. Biomass and paraffin products are serious health hazards, and are one of the oldest forms of human induced pollution.
6. Unsustainability of fuel wood as an energy source.

Technological Factors

1. Development of local technology, as we currently have to base costs on international currency and its volatility.
2. Technology and economics of manufacturing LPGas cylinders locally.

Environmental Factors

1. Urban growth has placed natural vegetation under constant attack.
2. Pollution from fuel wood and coal.
3. Deforestation

Legal Factors

1. Health and Safety
2. Regulation on emissions at refineries and synfuel suppliers.

Political Factors

The South African constitution makes it necessary for the government to establish a national policy that will ensure that its energy resources are managed. It is essential that government endeavor to provide energy to all of its citizens, particularly small businesses, disadvantaged households, schools and clinics, at a reasonable cost (Internet 19). Minister of Minerals and Energy also stated that government would play a pro-active role in achieving this transition. Commitment from all the major suppliers of LPGas have committed to this project together with

the LPGas Association, but will only achieve this if government starts to actively play a role in achieving this goal. So far government has committed to the project but there is no tangible evidence of any action been taken, leaving industry to their own initiatives. South Africa is among the most inequitable countries in the world, and the gap if left will get wider. Government should consider the barriers to entry in the LPG market and alleviate the economic pressures that face the masses.

Current estimates indicate that South Africa has the largest number of people living with HIV/AIDS in the world. About 5 million people are infected and HIV/AIDS is the leading cause of death in the country. The epidemic is severely affecting the future of many South African children, and accounts for almost 75% of all new orphans. HIV/AIDS is disproportionately affecting disadvantaged communities, the communities with least access to general treatment and care. Government needs to formulate a proactive approach to contain this disease before it brings this country to its knees, socially, economically and politically.

Economic Factors

The volatility of the world oil crude market has been demonstrated by the record high prices being asked for a barrel of crude oil. Simultaneously in June the Rand/US dollar exchange weakened. Government has expressed indifference to the value of the rand, with no stated intention to control it within any particular band. It is arguable whether it is better in our economy in the long run to have a strong rand or weak rand. However, government cannot remain indifferent to the structural effect of a strong rand on the South African economy and the need to play a role in encouraging job creation to compensate for the continuing loss of jobs in the resources sector. The cost of fuels in South Africa has reached a peak and instead of people being encouraged to use a cleaner burning fuel in households they will look back at firewood, paraffin and coal.

Looking at the structure of low-income houses, the poor thermal performance in many houses, especially in those areas that experience cold winters, has energy implications. Houses should be built with better material, as the cost of energy to service is now that much higher.

Inflation and interest rates are in the single digits, which means consumers have more cash to spend, and investors can consider the South African Economy. On the other side of the coin, South Africa's recent economic decline combined with its infra-structural shortcomings to produce a dire marginal existence for most blacks within urban areas. Even though the economy trend shows growth, this is due to a highly mechanistic industrial arena. Unemployment in South Africa is still critical, and the unskilled are still in the majority. Government is addressing both of these critical issues. However, the wheel seems to be turning very slowly. The adverse health effects of using fuel wood, places a heavier burden on government socially and economically.

The biggest cost for low income housing to change to LPGas is the cost of switching. The cost of the appliance and a cylinder is approximately R150.00 in comparison to a paraffin stove that costs R30.00. Even though the gas appliance will last much longer than a paraffin stove which may have to be replaced every 6 to 9 months, people do not have the initial cash to invest. As Government has subsidized electricity, the subsidy to overcome the switching costs will encourage people to change.

Social Factors

In the case of rural wood-using households, of which there are approximately 3 million, indoor air pollution is a major factor. The risks of rural people contracting respiratory illness is five times more compared to urban households using electricity. The unsustainable use of fuel wood in many rural areas is a major problem. Increasing scarcity of the resource (wood) results in energy poverty, and increases the labour burden on women, which deeply affects the quality of rural life. The ingestion of paraffin poisoning is a major cause of illness among children in the townships. Paraffin and candles are also leading causes of fires and burns which occurs when stoves or candles are accidentally knocked over (Internet 35).

Another major cause of concern is Aids, which is not only a social issue but is also affecting family structure. It is a calamity affecting every corner of the globe, disabling the workforce, undermining economic development, increasing social exclusion and exacerbating world poverty. It has spread rapidly and dramatically, currently affecting around 35 million people worldwide. Rural populations are deprived of hospitals and clinics as doctors and biotechnicians are hard to recruit. Such hospitals lack resources and medical equipment for operations and diagnostic tests (Internet 35).

Technological Factors

The major risks faced by South Africa were found to be an inability to compete in international markets due to excessively high factor costs as well as its reliance on international sources of technology for emerging strategic industries. High costs are incurred in importing LPGas cylinders. This cost will reduce when a South African manufacturer can be established. The cost of manufacturing a cylinder will be lower than that of the imported cylinder. At present there is no assurance of safe handling and distribution as well as the use of LPGas in rural and peri urban areas. This can only be done through the appropriate technology, equipment and standards developed and enforced while ensuring commercial sustainability.

Environmental Factors

When looking at the environment the most pressing problems associated with energy use is pollution and the increasing deforestation of the country. The environmental effects of household energy use are particularly severe on the rural poor, who use fuel wood as their primary energy source. The use of coal in urban areas also results in indoor air pollution with serious health consequences.

With both fuels, pollution in many cases exceeds World Health Organisation standards. Of concern in the medium to long term is the environmental deterioration caused by the removal of the trees from the landscape. This results in soil erosion and the loss of fertile soil, which ultimately threatens food production, and the very life-support systems which rural people depend on. As stated earlier due to the poor structure of homes, they perform badly as thermal conductors, as a result more energy is required resulting in an increase in pollution. The bulk supply sector, being the refineries and synfuel operations, produce a large amount of waste gases, which directly pollutes the air.

In the synfuel operation, even though it maybe cheaper than crude oils these processes is thermodynamically inefficient. In other words large amounts of energy are lost in the conversion process, and this is released in the atmosphere.

Legal Factors

There is a need for more stringent regulations to govern refineries, and the disposal of their waste material.

3.4 LPGAS/HANDIGAS ENVIRONMENT

The environment that the LPGas industry is operating in is a volatile market that is highly competitive and price sensitive depending on which sector in the industry you are analyzing. If we apply the theory of the industry analysis to the market, the determining factors that come to light are the life cycle stage of the industry and the competitive conditions in which they operate.

South Africa's main players in the gas retail sector are Afrox, BP, Easigas/Shell and Totalgaz. All players are strong competitors and tend to dominate the market geographically or by sector. Barriers to entry in this market are high as it is capital extensive.

3.4.1 Dominant Economic Features of the Industry

Each industry's characteristics will differ, and by the nature of this difference the economic features of that industry will apply. For the benefit of the case study it will be confined to the LPGas Industry to the filling of LPGas cylinders and making it easily accessible to its target market, namely the low-income households of the rural areas. The economic features are tabulated in Table 3.4.

TABLE 3.4: Economic Features of the Industry

Market Size	3 million households can switch to Lpgas
Scope of Competition	Producers will sell in South Africa with possible expansion into Africa
Market Growth Rate	Growth within this segment will be high, provided economic factors are addressed
Stage in Lifecycle	Entry Level
Customers	End Users in LIH group, channel - New dealers (Spaza shops), SMME's
Degree of vertical Integration	None of the producers are selling directly to the end users, nor have sufficient dealers or SMME's, servicing this market.
Ease of Entry/Exit	High entry barriers due to cylinders being highly capital intense and regulatory bodies stringent on safety. Erection of plants to store and decant product also costly.
Technology/ Innovation	Production technology is standard. Cylinders are also standard with variations to size and valve fittings.
Product Characteristics	Product is standard from refinery purchased in bulk and filled into cylinders of various size to suit the consumer. Price and availability will determine consumer buying decision.
Cylinder Characteristics	Small cylinders that are safe, affordable, easily portable and refillable.
Scale of Economics	Due to the enormous potential in this segment, if successful, economy of scale can be achieved.
Learning and Experience	Very important to understand the market segment and understand their needs. To also adhere to the regulatory requirements.
Capacity utilization	Depending on success- difficult to predetermine.
Industry Profitability	Less than 10% as initial capital outlay is high for first 3 years

3.4.2 Porter's Five Forces – LPGas for Low Income Households

In considering the different factors for each of the five forces, the threat of new entry into the market is low due to capital intensity, which can be seen as a positive factor. The present threat of substitute products is electricity, fuel wood and paraffin. Electricity cannot get its grid to most of rural parts of South Africa, and it is possible that by 2010 it would have reached less than 50% of the consumers that have an energy requirement.

Fuel wood is becoming scarce and will not be sustainable in the near future. Paraffin is being seen as a great health and safety risk, and government is looking at ways to stop households using paraffin in their homes for cooking and heating. Suppliers to the industry being the national refineries have a reasonable to high bargaining power. Consumers have a low buying power, as switching costs are high. However, once they have switched, they could have a high buying power due to the choice of producers/price in the market. Rivalry amongst competing sellers is high, as all vie for market share, making the market conditions fairly volatile.

3.5 THE COMPETITOR ENVIRONMENT

The intensity of competition within the industry is high, especially when a firm is challenged by a competitor's action or when an opportunity to improve market position is recognized. The other reason for the intense rivalry is that there are a few companies, which are almost equally balanced, even though they may differ in resources and capabilities (Hitt, Ireland & Hoskisson 2003: 61). Monitoring of competitors for Afrox are done through market studies, and competitive analysis conducted during the strategic planning process, which is a live document that is visited on a constant basis regionally and by branch.

TABLE 3.5: Competitor Analysis for LPGas in Low income households

Analysis	Afrox	Easigas/Shell	BP (British Petroleum)	Totalgaz
Market Share % (Total LPG)	40	30	15	15
Market Share % LIH	3	2	0	2
Target Market	Rural and peri Urban areas. Low Income households.	Rural and peri Urban areas. Low Income households.	Rural and peri Urban areas. Low Income households.	Rural and peri Urban areas. Low Income households.
Cylinder Characteristics	Safety Gas 5.4kg cylinder with cooker top	EasiCooka 3kg cylinder with cooker top	No specific cylinder developed for this market.	Shesha 5kg cylinder with cooker top
Strategies and Objectives	Committed to strategy with DME To create a new LPG market by converting 20% of paraffin users to LPG over a 3year period. Lpgas to be sustainable accessible and affordable to LIH. Educate and promote safety of gas. Job Creation within the community.	Committed to strategy with DME. Long term View 3 to 4yr plan, prior to profitability achieved. Educate and promote safety of gas.	Commitment to strategy of DME Unknown as no launch has been made. Assumption waiting for initial projects of competitors success, then copy or take market.	Commitment to strategy of DME Seem to have started in urban areas, and on reaching a fair volume to move into rural areas obtaining economy of scale. Prices are low for the cylinder but not enough to sustain the market.

Table 3.5 is an analysis of the competitor environment depicting the present market share that each competitor enjoys. These statistics are likely to change rapidly as all competitors are trying to capture this market. as they also see this as an opportunity. Each company has come out with a new cylinder with characteristics to differentiate their product. The goals of all companies are driven politically by the strategy of the DME as well as growing their market share.

Total and Elfgas have merged and are trading under the name of Totalgaz, targeting the whole LPG market as the newest competitor. At entry level Totalgaz has launched Shesha, a 5kg

cylinder with augmented features in that it has a connector that can be used for other appliances such as heaters, lamps and cookers. Pricing is low at a value of R50.00 deposit for the cylinder and cooker top. The strategy is to supply into rural areas, informal settlements as well as to consumers that “directly qualify“ for the package.

Totalgaz is using a policy of direct marketing, cutting out the channel distributors. By doing this, it is of the opinion that it can then lower prices. However the cost of distribution is very high. The market it has targeted is more of the urban area than the rural areas. This could be to ensure success of early adopters.

BP has under gone a management reshuffle, and is still not focused. It seems to be lagging in innovation or direction at this point. It has not launched or has actively starting doing business in this market segment.

The Easigas / Shell pilot project was launched at Soshanguve in Soweto. The product was launched under the brand name Easicooka, consisting of a 3kg cylinder and a cooker top. According to Easigas marketing manager Peter Kolarik “LPG penetration in the lower-income domestic segment is low, relative to similar world markets.” He also added that while LPGas is a boon, making gas affordable, accessible and a desirable commodity, is a big challenge. The strategy was to offer a “free fill card” trying to incentivise consumers to do the return sale (Internet 39).

Afrox launched its product under the brand name of Safety Gas, which comprises of a 5.4kg cylinder with a cooker top that is adaptable to fit any other gas equipment for lighting and cooking. The launch was in Soweto as well, and even though subsidised did not achieve the desired results. Subsidised cylinders were taken out of the desired market and sold at a profit in urban areas, hence the system was abused. The biggest competitor to all LPGas marketers at present, are substitute products that are perceived to be cheaper by the consumer, in paraffin, fuel wood and coal.

3.6 THE INTERNAL ENVIRONMENT OF AFROX'S HANDIGAS

Internal environmental analysis evaluates relevant factors in an organization in order to determine its strengths and weaknesses. It will determine which strengths have strategic significance and where an organization is vulnerable to attack. By examining your weaknesses, you can identify gaps in performance, vulnerabilities, and erroneous assumptions about existing strategies. It also needs to be analyzed against how it fares with the competitor and how it could be turned around. Afrox's core competencies have resulted in above average returns to its shareholders. Afrox has capabilities and resources that give it the strategic competitiveness in the industry in which it operates. Its main competencies are in its people, its assets and the value of its brand name.

The resource-based view will discuss the tangible resources of Afrox which are its production facilities and logistics, that are managed by an effective team adding value to its brand, and its intangible resources of the value add from a technological and innovative aspect. Its reputation in the market and the respect it commands in the industry.

3.6.1 Value Chain Analysis for Afrox Handigas Division

Afrox has an advantage in that LPGas forms almost 40% of its core business whereas its competitors in the fuels market see it as less than 10% of its profit generating product. Afrox has a focused strategy and boasts the largest number of outlets, more than any of its competitors. The branches are also more widely spread to ensure effective service in every area of the nation, bringing the customer more expertise and more service, closer to hand. It has the largest fleet of gas vehicles in the country. Afrox has invested a large amount of capital in its cylinders to support this business. LPGas itself is a commodity with no intrinsic value adds, therefore Afrox has had to use its core competencies to differentiate itself in the market. "With its competent people we harness our technical, marketing and applications expertise to every LPGas project making sure that all systems are geared to delivering a reliable, high-quality energy solution" (Intranet 1). Afrox has the ability to negotiate prices and supply through the four refineries ensuring that if we have interrupted supply from the one we are able to meet our demands from the alternative resources.

Afrox has a CES division (Engineering Services) that provides solutions, a back up service and all information to its clients. Safety standards are world class and being in the industry have earned a reputable name for service excellence, resulting in many major companies only using Afrox to fulfill all their needs. Afrox have positioned itself in the industry as a premium brand, which is not just the product, but includes the technical and after service in all facets of its business.

To service its consumers more efficiently Afrox has started its program on upgrading its sites to Gas and Gear Retail Outlets. It will now compete not only as a manufacturer, as a retailer direct to the consumer, where the consumer will have online access to expertise advice in the store for any of their requirements.

3.6.2 SWOT Analysis for Afrox Handigas Division

The SWOT analysis in table 3.7 is based on the market research done in the last year and upon SWOT analyses done during strategic planning in the last two years, which are applicable to the current situation.

TABLE 3.6: SWOT Analysis for Afrox Handigas Division.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Strong management team and skilled personnel • Has an extensive distribution and customer network. • Channel to the market - have over 100 distributors and dealers. • Has a majority share in the LPG market – Market Leaders • Customer focused – good relationships and partnership. Contracted business • Facilities and technologies • One of the strongest brands in the industry • Wide range of products • Access to finances 	<ul style="list-style-type: none"> • High product costs • Cylinders are expensive in comparison to paraffin stove. • No control on tracking the cylinder once taken by the consumer • Lack of market intelligence • To slow in product introductions • Pilot projects are broadly based, no confirmed results to base future projects on.

TABLE 3.6: Continued

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Enter a new market segment and grow market size • Create employment through SMME's and Spaza shop • Improve BEE involvement within our business • Improve our relationship with government – obtain subsidy for cylinders • Improve the quality of life of the disadvantaged group in South Africa. • To create a differentiating brand in Safety Gas for this market. • Claim first mover advantage. 	<ul style="list-style-type: none"> • High volume and low margin business • Direct competition from petroleum companies • Compete against cheaper substitutes being paraffin, fuel wood and coal • Perception that LPGas is seen as an unsafe, product. • Change the brand to Safety Gas might not be associated with Afrox. • High capital, and can be easily lost if competitors lower prices and take market share. • No loyalty on refill of cylinder

Even though Afrox products dominate the market, it was widely felt that the Handigas branding was not strong enough to differentiate Afrox from its competitors in this market sector. Hence the opportunity for Afrox to introduce “Safety Gas” as a brand to a safe cooking gas in a friendly cylinder being white and will fit in any kitchen. The marketing or branding campaign will be directed to cooking and space heating in a low-income housing environment. Sometimes it could be said that Afrox has not maximized on its strengths and used it as leverage to get into this market sector. The threats of competitors will always be there. For political and social reasons all competitors will be competing for the position of being the first to successfully implement a sustainable project. The opportunity to convert 20% of paraffin users to LPGas is equivalent to 500 tons of gas in the first year and this could escalate at a rate of 15% per annum.

3.7 REVIEW OF THE STRATEGIC INTENT OF AFROX

“Afrox is a broad based company operating in a wide range of business segments. The strategy is to sustain its core business while using their strong branding and distribution network to grow into new markets and new geographies. Afrox is also focused on cost control and efficiency enhancing projects. Afrox have been able to diversify out of its core gases business into other

sectors, including scientific, hospitality business, medical and LPG in its various forms, manufacturing, exports and safety products” (Afrox Financial Statements for 6 months ending March 2005, Rick Hogben, Managing Director, Afrox Limited). Afrox has a very clearly defined Vision Statement with values, operating principles and a business plan.

Vision and Value Statements of Afrox

Vision

**We are passionate about our business and our brand.
We are dedicated to customer service and believe in the quality of our people.**

We shall be the leaders in the businesses we operate, activities we undertake and services we provide.

We will achieve this by being:

- # 1 at safety, health, environmental management and quality**
- # 1 at delivering superior customer service**
- # 1 at providing consistent growth and superior shareholder value**
- # 1 at identifying and commercialising innovative growth opportunities**
- # 1 at attracting and retaining high performing people**
- # 1 at operational excellence**
- # 1 at nation building commitments and social responsibility**

10

delivering today
building tomorrow

Our values

At Afrox we believe in values above rules.

Our values are based on principles of:

**Ethics and integrity,
Safety of all our stakeholders,
Customer focus,
Performance excellence,
Care for our environment,
Commitment to our community, and
Fundamental belief that our people make the difference.**

11

delivering today
building tomorrow

Afrox's operating principles are based on ten behavioral competencies in alignment with ACTS. The model is based on the code of conduct, which details the standards, systems and support mechanisms. Its vision statement is dedicated to customer service and its people.

Operating principles

Afrox's operating principles are based on ten behavioural competencies aligned to ACTS:

Accountability

- Strategy delivery
- Performance through people

Collaboration

- Partnership building
- Influencing
- Customer intimacy

Transparency

- Information sharing
- Visible leadership

Stretch

- Growth drive
- Capability development
- Change leadership

delivering today
building tomorrow

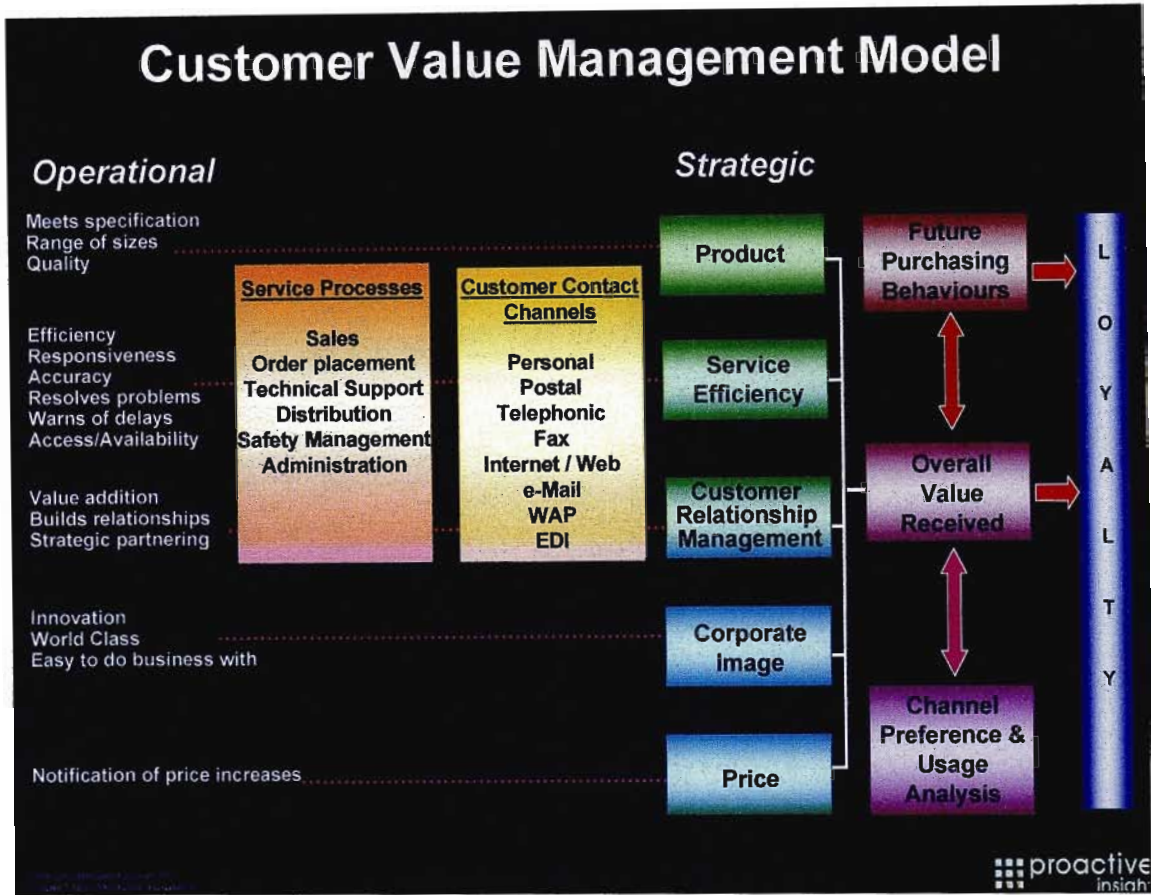
12

The value equation in Afrox can be stated as “Value is a function of the “benefits received” relative to the sacrifices made by customers.”

$$\text{Value} = \frac{(\text{Product Quality} + \text{Service Efficiency} + \text{relationship management} + \text{Image}) \text{ Innovation}}{\text{Cost (Price} + \text{Inconvenience)}}$$

This can only be achieved if the operational side of the business matches with the strategy of the company. Figure 3.3 shows the flow of interaction that needs to take place to satisfy and delight customers to obtain their loyalty.

FIGURE 3.3: Customer Value Model



Source: Proactive Marketing Research 2002 L;\Team2\Afrox\2002\Review Presentation

Current Strategic Goals for Afrox

The plan in Afrox is executed through six critical success factors (CSF's) or strategic goals. Table 3.7 sets out the vision and strategic objectives for each of the CSF. The Handigas division sets its objectives in line with the companies objectives. The General Manager of the Handigas division, will concur with the managing director on all strategies that affect his division, as well as the impact it will have on the rest of the business to ensure that goals and objectives are aligned.

TABLE 3.7: Afrox Business Strategy

Afrox ISP Business Strategy (Vision & Strategic Objectives)					
<p>CSF 1 (Growth & Value)</p> <ul style="list-style-type: none"> • Industrial Products • Scientific, He & Pack Chems • Hospitality • Handigas • Medical Gases • Afrops • BCP • Regional Initiatives 	<p>CSF 2 (Customer Service)</p> <ul style="list-style-type: none"> • Customer-centricity • Sales Effectiveness • Customer Service • P/O & O/C capabilities • FECCO PSO's implementation • Afrox Brand • Competitor Intelligence • Channel Strategy • Cylinder Management 	<p>CSF 3 (Operational Excellence)</p> <ul style="list-style-type: none"> • Managing Working Capital • Cyl Mgt Principles • BCP (Rainbow) • BCP (Optima) • Afrops initiatives • Measurements • Production Sites • Logistics Planning • Readiness for SAP • Programme Management 	<p>CSF 4 (People, Competency)</p> <ul style="list-style-type: none"> • Licence to Work • Performance Management • Learning Processes • Training priorities • Internal Communication programme • Change Management & Customer Centric Behaviours 	<p>CSF 5 (SHEQ)</p> <ul style="list-style-type: none"> • Safety Culture • Lead & Lag indicators • Accreditations • SHEQ systems • SHEQ roadmap • Product Stewardship • SHEQ risk assessment • Near miss reporting • Organisation quality Management system 	<p>CSF 6 (License to Trade)</p> <ul style="list-style-type: none"> • 6 BEE strategic objective • Overall Government relationship plan • Employee wellness & community involvement • Governance • Communication Programme (to stakeholders)

Source: Afrox Intranet Customer First Programme

3.8 AFROX HANDIGAS – CURRENT STRATEGIES

Grand strategies of the Handigas division, which are determined by the General Manager of the Handigas Division are concurred by the directorate of the company.

3.8.1 Generic Strategies

Generic and business level strategies are developed at divisional level by the management team of the Handigas Division. They develop the functional strategies for each of their areas, which are then implemented.

The strategic intent of the Handigas Division with regards to the supply of LPGas to low-income households are:

- Create accessible and affordable market for LPGas to the low income- housing sector by creating BEE businesses and employment opportunities.
- Increase the market size of LPGas by capturing a significant portion of the low income potential.
- Align its strategy with Government objective on the Minister's Paraffin Displacement initiative.
- Maintain and formalise its Partnership with its BEE (Wild Orchard).
- Implement a supply chain that will capture both the informal and formal opportunities presenting themselves.

Critical Success factors for 2005:

- CSF 1 Ensure business viability and sustainability
- CSF 2 Ensure and improve strategic health of the business
- CSF 3 Ensure growth and profitability
- CSF 4 Ensure superior customer service
- CSF 5 Preserve our license to trade
- CSF 6 Ensure sound corporate governance in the business
- CSF 7 Improve the SHEQ environment
- CSF 8 Recruit and develop high performing people

3.9 PRESENTATION OF AFROX'S FINANCIALS

Afrox is listed on the JSE Securities Exchange South Africa (JSE) and has a secondary listing on the Namibian Stock Exchange (NSX). Its financial results are published half yearly. The following figures are based on the year ending September 2004. During this period the following are the financial highlights.

Afrox has a long and proud financial growth record, with the past seven years having seen compound growth in revenue of 20 percent. The company's ability to generate cash was a highlight of the year's result, working capital declined for the fourth year in succession due

to excellent asset management. This financial standing has accorded Afrox a high credit rating with the Global Credit Rating Company.

A strong performance from the Afrox Handigas division can be attributed to new business gains and the renewal of existing contracts with increased volumes. Handigas is a significant contributor to Afrox's profit, and is the largest contributor to revenue. The company is continuing to develop new market sectors, such as the provision of low cost LPGas to the low-income housing, informal settlements and other poorer areas. The past year has seen relatively stable prices for LPGas despite oil price fluctuations, as a result of the strengthening Rand that has cushioned oil price rises. However, it is expected that this position will change in the next six months as the price of crude oil has reached the \$60 average.

TABLE 3.8: Afrox Financials

	2004	2003	% change
Revenue (m)	7 835	7 326	+ 7
Profit before tax (m)	1 215	1 011	+ 20
Net profit for the year (m)	623	554	+ 12
Headline earnings per share (cents)	187,5	166,5	+ 13
Dividends per share (cents)	64.0	83.0	- 23
Number of employees at year end	16192	16531	- 2

Source: Afrox Limited - Financial Statements 2004

3.9.1 Presentation of Financial Ratios for Afrox

The financial ratios in Table 3.8 are a snapshot of the whole company and not for an individual division, as customers and services run across all the divisions. As stated already compounded growth over the last seven years has produced above average results, with revenue over 20 percent, operating profit 17.8 percent, dividends per share 15.2% and return on capital employed not less than 23 percent. Table 3.9 refers to the ratios of the business for 2004 and compared to 2003. Due to excellent asset management the gearing ratio, that is borrowings as a percentage of capital employed, has been reduced significantly in the one year. The current ratio for Afrox

shows that it has 1.4 times as much asset to cover its liability. The norm is generally twice as much asset to liability 2:1, and the quick ratio is 1:1. Afrox's ratios show that the business is financially sound and is not a highly geared company.

TABLE 3.9: Afrox Financial Ratios

Liquidity Analysis Ratios	2004	2003
Current Ratio	1.4	1.4
Quick Ratio	1.1	1.1
Gearing Ratio	4.56	12.5
Profitability Analysis Ratio		
As a % of turnover	16	15
As a % of capital employed (roce)	34	31
Asset Turnover Ratio	2.1	2.1

Source: Afrox Limited - Financial Statements 2004

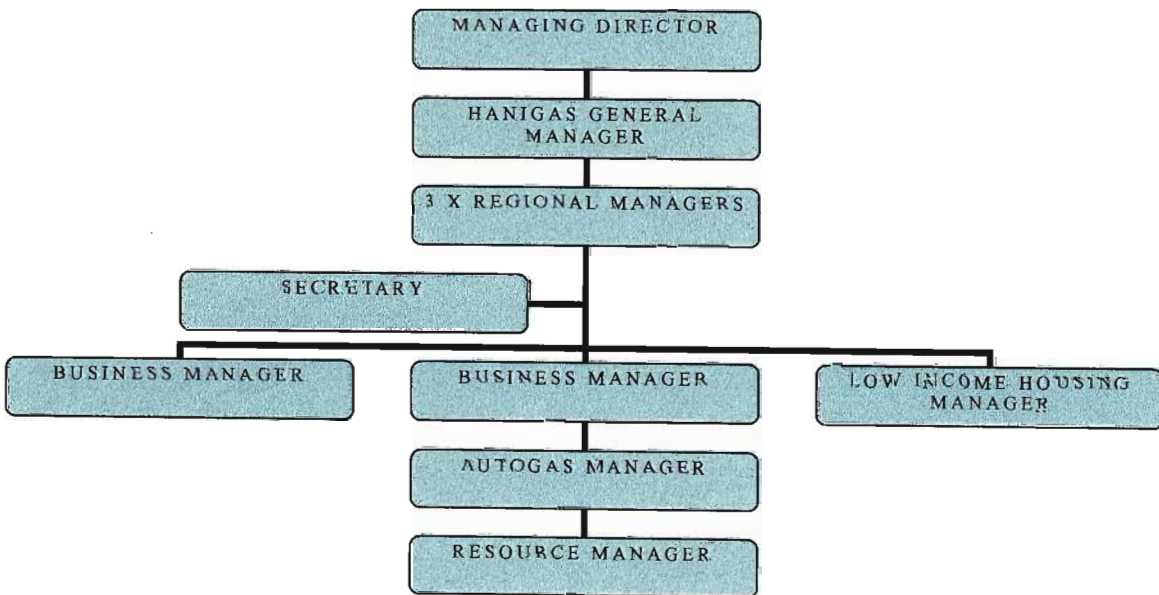
3.10 CURRENT IMPLEMENTATION OF STRATEGIES

Handigas is the brand name under which Afrox has marketed LPGas, and the division is headed by the Handigas General Manager, with key account managers for the various sectors within this division. Regional Handigas managers are based in the three regions with a dotted reporting line to the Handigas General Manager. In keeping with its initiatives, Afrox has embarked on a process to change the emphasis from being product-centric to customer-centric. It has become increasingly clear that to differentiate itself in the market, the company needs to go beyond the promise they make to ensure that the company has organizational capabilities to deliver on those promises. Employees understand and practice the values of placing customers at the center of their organizational focus. Afrox aims to develop highly motivated and productive employees to reach their full potential as individuals and as part of the Afrox team. Meetings are held within the division regularly and quarterly meetings are held with the regional managers, and the agenda includes pricing, quarterly results, forecasting, market intelligence and competitor analysis.

3.10.1 Organisational Structure

Figure 3.4 shows the current structure of the Handigas division. With the recent development of the low income housing project a new person has been employed to oversee this. The general manager has ultimate responsibility to the managing director of the company. Each branch manager will report on the Handigas activities in his/her area to their regional manager who represents that region at the quarterly meetings. All initiatives and communications will follow the same format. All large projects on LPGas are forwarded to the business manager and the general manager. They will liaise direct with that branch and assist in putting proposals or evaluations together for that particular customer. Besides setting the strategic objectives for the company, the Handigas division also acts as a service and technical support team to the rest of the business.

FIGURE 3.4: Organogram for the Handigas Division



3.10.2 Best Operating Procedures, Continuous Improvement and Rewards

Afrox has extensive operating procedures, governing all parts of the business. Afrox has its own E-learning system IMSS (Integrated Management Systems and Standards) which equips employees with the competence to perform known as – “License to work” and to improve further by acquiring additional skills. IMSS is a training system housing global business reference material, procedures and standards. Individual learning and auditing of the learning cycle are incorporated in the system. Supervisors coach and assist those employees that are not computer

literate. Afrox offers many opportunities for career and personal development and is committed to unleashing, nurturing and guiding the potential in its employees through education and training.

There is a continuous investment in leadership and management development, performance management, as well as skills development and competency based education and training. Training is focused at all levels from the shop floor to the senior management, as Afrox believes that its most important asset is its people, and it is through people that it is able to meet the strategic objectives of the company. Afrox has incentive schemes for the different levels of staff, that are tailored to suit the job, so that it is easy to measure and reward. Sales incentives, driver of the year awards, safety awards, branch with the best ratings for the audits on engineering, production, et cetera. This is done at a national level, so the whole company participates, which allows for competition, and a sense of pride and recognition to those employees that do well. The Focus magazine of Afrox communicates these accolades through out the company, and allows for these achievements to be recognized and celebrated. It is often easy to forget to celebrate achievements but to focus on the non- achievements. This can only de-motivate staff and stop them from trying to do their best, or better themselves. Afrox has a well-being program incorporating counseling, advice and assistance to employees. All support offered is in the context of the workplace productivity and performance enhancement.

3.10.3 The Divisional Culture

Afrox sees its people as its biggest asset, and is striving to empower from its management to the lowest level of employee to be responsible for the areas of work, and be part of the decision making process, especially if the changes directly affect them and their tasks. Employees understand that to make decisions they become accountable and responsible for their actions.

Management will assist and guide when the need arises. This encourages creativity, ownership and a better team spirit amongst employees, even though staff is evaluated individually they know that the weighting is higher on the team effort. An open door policy exists where staff work with management rather than for them. Afrox have begun to hold road shows to their staff as well as their customers.

Road shows and videos are a means by which the CEO communicates all new products and concepts to the staff. This means that the message is consistent, rather than individual manager's interpretation. This process has been well received. Customers road shows are about new products, service level agreements and also reminds customers of all the products we sell.

This culture is prevalent in the Handigas division, and since it is a strategic/service division, the branches become their first customers and most of their communication is done via the branch to the end user customer.

3.11 HANDIGAS DIVISION MARKETING MIX

Afrox is one of the leading brands in the industrial markets, however due to the diversification within the business, there is an element of confusion as to what products Afrox are selling. Afrox has gone on a major campaign to promote the Afrox name as the brand and its various products under this banner. Consistency in the Afrox signage is being focused on so that it is easily recognizable as an Afrox product, and then the type of product being sold.

Customers often look at how a company puts together an offer, being the product, price, place and promotion, and is often referred to the marketing mix of the company. The marketing mix is a combination of marketing tools that are used to satisfy customers and company objectives.

3.11.1 Product Strategy

LPGas has been in use in the world for many decades, and has various applications as an energy fuel. However, in South Africa, very little has been used in the domestic market as an energy fuel and this can be attributed to consumers not being educated about the product, its availability and affordability.

When examining the life cycle of this product as a form of energy for the low income housing, it is in the developmental to growth stage of its cycle. In comparing Afrox to its competitors, it is believed that Afrox initially did not differentiate itself sufficiently in the market, nor did it target the segment of the market that they had initially planned to.

At present the product is very similar to the competitor except that Afrox have a white cylinder that is more aesthetically appealing to the female sector of the market. The cylinder weight together with the product is under 9kg making it more easily portable.

The foot ring of the cylinder is wider so that it can hold a large or small cooking vessel. A safety valve has been installed to prevent children from opening the cylinder. Competitors have also launched their products in the various rural townships and have not had the success that they would have expected. There are not many early adopters and the reason for this is that even though consumers may like the product, as well as the equipment is not affordable at its present pricing.

3.11.2 Pricing

Given the tough environment under which Afrox is presently operating, and the market segment targeted, pricing of the product becomes very sensitive. Pricing is two-fold: there is the once-off purchase price of the cylinder and then the price of the gas. As competitors improve on their products and take away the advantage of having a better product, Afrox had to adopt the competitive pricing strategy. The outcome of this is a price war between competitors in which no one wins. Margins are being eroded and the net effect being not enough capital to plough back into this sector. Totalgaz on the other hand used the penetration pricing strategy aimed at stealing market share from its competitors. It ran into problems, because of the non-availability of cylinders, as well as not having sufficient outlets close to consumers to refill cylinders. Easigas went the medium-value price, but did not have sufficient cylinders, and the turn around on the refills of gas did not materialize.

Adjusting Pricing

The pricing of LPGas is controlled by the gate price at the refinery and follows the BFP pricing. When the refinery puts the prices up, as suppliers all competitors pass this onto the customer. With the Competitions Board being implemented in South Africa, suppliers cannot put prices up together, so there is always the cat and mouse game as to who goes first, as volumes do move to opposition whilst they adjust their pricing as well. Afrox has a “price matching clause” in its agreement that should the customer source a better price in the market, when there is a price increase, they can in writing make application to an independent consultant nominated by Afrox.

Afrox has one chance to resubmit a price to the consultant, and should the price still be higher than the competitor, the customer is released from his contractual obligation to Afrox. This ensures fairness to the customer by making sure he receives a market related price. This becomes very difficult to manage when competitors drop prices to grow market share. Afrox does offer a discounted price to its resellers/distributors as compared to its end users, to ensure good customer service.

3.11.3 Distribution (Place)

One of the key factors to sustain this product in the market is availability to consumers. Distribution plays a major role in the low income housing project, as convenience critical factor in the consumer selection process.

The barrier facing suppliers is that there is no infrastructure with regards to roads in the rural areas. If there is no electricity available, an electric pump cannot be used to fill, and a manual pump, which takes longer and is physically exhausting will have to be used. Maintenance on vehicles servicing the area will be high. To remove these barriers, sustainable distribution networks to meet the needs of households would have to be put in place. Effective participation of the historically disadvantaged (especially women) to be incorporated in the LPGas value chain, especially at the point of distribution.

3.11.4 Promotion

Afrox did not aggressively promote its brand or product, as it was felt that they were the leading brand and customers will always purchase from them. With the global markets open and cheaper products being imported, consumers have a bigger choice. Over the past few months a vigorous process was developed to assist in the new destination of the brand Afrox. One of the barriers facing the low income households is the lack of customer education on the properties of LPGas, perceptions on safety, and a comparison to other fuels from a social, and economic point of view.

Afrox strategy on promotion in this sector will be under pinned by face-to-face campaigning and below the line marketing:

- Establish and develop in-house promobile capabilities to focus on
- Conducting road shows in targeted areas

- Conducting demonstrations at participating dealers, spaza shops, taxi ranks and shopping centers
- Educating people about gas during road shows and demonstrations especially to the women in the communities
- Emphasizing the features, uses, safety aspects and efficiency of the safety gas appliance
- Distribute pamphlets in the language that dominates the area, on safety and the closest outlets for refilling of gas.
- Establish and develop in-house community events marketing capabilities that will promote the safety gas appliance during community events, such as weddings, church functions, funerals, stokvels etc.

3.11.5 Physical Evidence, People and Process

The further three P's are often more associated with the service industry, however, today consumers are becoming more demanding on the service levels they expect from a firm, particularly with regard to the environment in which they deal, the manner in which they are treated and how easy is it for them to deal with the firm.

Afrox over the past few years has adopted the global mannerism in dealing with clients. This means that all administrative tasks like the taking of orders, scheduling of vehicles, collection and the paying of debt has been centralized. The benefit is that specialists are created in the fields of business, however one loses the interaction of the client, and if something is incorrect it is only seen after the fact.

When consumers are deciding to purchase a product, availability plays a major role, in satisfying the demand. The role of process in this instance is to ensure that customers get the product that they ordered on time. Afrox has introduced a measurement with the acronym DIFOT which, measures Delivery In Full On Time. This is analyzed daily and since its implementation Afrox has seen continuous improvement. It is important that the order takers understand fully what customers are requiring and, if stock is going to be a problem, can immediately notify customer and branch.



The people employed in the company will determine the quality and service the customers receive. Afrox did a survey and the outcome showed that top management were very customer centric in comparison to middle management being the supervisors and their direct reportees. An intensive training program titled FLM (Front Line Management) has been initiated to improve the Customer First thinking in Afrox. Afrox uses service as a differentiator to their customers, as quality and safety is an expectation that customers have of Afrox. It is always looking at innovative ways through the products and services to create value to its customers, ensuring that it has "supremely service-oriented staff that does its job". Competitive pricing makes customers stay put, rather than shop around. Hiring the right people and putting them through customer and product training also is a big selling point (Internet 28).

3.12 CONCLUSION

Through its core competence of an innovative, co-ordinated and holistic planning approach, Afrox has ensured the delivery of quality value-added products and services that have become the market leader in the industry.

The case study of the Afrox Handigas division has been presented in line with the theory introduced during chapter 2. A structure of the company has been outlined, and how the Handigas division fits into the whole company has been explained. The overall strategic planning process at company level, as well as at divisional level was conducted, and it can be seen that Afrox has a very definite strategic process. The primary function of the Handigas division is solutions to the requirements of energy in the industry and domestic market, and relevant to this case study is the low-income housing sector.

The macro-environment analysis identified that there are various trends currently affecting the industry, such as the production of oil to meet global demand, and the price per barrel, as shortages seem eminent. A PESTEL analysis was conducted for the South African market and factors such as the importance of government's role, the positive impact on the social and environmental factors. The underpinning global economic factors that could be the stumbling block to the sustainability of this project. Porter's Five Forces analysis determined that the sector is highly competitive with suppliers having a high bargaining power and consumers having a

high purchasing power. Barriers to entry was deemed high and seen as a positive factor. The competitors in the market are fairly balanced, being the major Oil Companies and Afrox. The biggest threat is the present substitute products, fuel wood, paraffin and electricity.

The internal environment of Afrox Handigas division was examined and a Value Chain Analysis was conducted, which highlighted the areas in which the company adds value to its customers. The Customer Value Management Model illustrated the flow between the operational and strategically processes that is required to achieve customer satisfaction and ultimate loyalty. A SWOT analysis was reviewed, highlighting those areas to improve and to effectively capitalize on its strengths. The Strategic intent of the company, its values and vision were presented. The Strategy to sustain its core business has been the main focus of the company, as well as cost control and implementation of efficiency enhancing projects. The financial analysis reflects that Afrox is in a very healthy position, and its stakeholders are extremely satisfied with the results over the last five years.

Leadership in Afrox is visible and strong, divisional managers vary, and the Handigas division has a strong leader, however is still fairly new in this position. The culture of the company is moving from being product centric to customer centric, the customer comes first. Staff is more empowered and decision-making is not only done at senior level. Transparency and collaboration is more visible and is becoming a norm.

In conclusion of the chapter, the extended marketing mix for the division was presented. Afrox as a company has an extensive product range and strategies of differentiation and focus are pursued.

There is a clear pricing strategy with provision for adjusting prices for promotions or normal price increases. Distribution and logistics play an important role in this market. A strategy on promotion to address this sector is being established and processes required to ensure smooth operational and customer satisfaction have been presented.

The continued delivery of quality projects is important in ensuring sustainable value-added, but it is the economic viability of the business that will enhance its position of continuing with its

significant contribution towards the Group's profits. The main challenge is to ensure that an adequate return is achieved for additional costs of value-added. Information presented during this chapter will be used in chapter 4 to assist in evaluating the strategic options available to the Handigas division going forward. The environmental analysis will be used to evaluate the suitability of strategies, whilst the financial data will be employed to evaluate the acceptability and feasibility of strategic options.

CHAPTER 4

EVALUATION OF HANDIGAS DIVISION

4.1 INTRODUCTION

The information presented in Chapter 3 will provide the framework against which the company's environments will be evaluated. This chapter will focus on the presentation of the findings of the investigations and interviews conducted for this study. The first investigations were conducted with the consumers and traders to establish the different sources of energy used in the household, with the main objectives focused on affordability, aspirations, their perceptions, and what would be required to change from their current source of energy to LPGas. In the second survey interviews were conducted with some of the major distributors and Industry regulators to obtain their views on the consumers and their needs. A presentation of the promobile carried out by Primedia Face to Face at four locations, will be presented and analyzed.

A summary of the results from the surveys and the promobile are given and an overall evaluation of the Afrox Handigas division. A gap analysis for the Handigas division will be presented in conclusion of this chapter.

4.2 ANALYSIS OF HANDIGAS DIVISION

Afrox is a strong robust company that has proved its ability to grow through all economic cycles. This is due to Afrox being a broad-based company operating in a wide range of market segments. The strategy is to maintain our core business whilst utilizing our strong branding and distribution to grow into new markets and geographies. In the last seven years Afrox has seen excellent growth, and continues to produce results well above inflation in a difficult manufacturing economy. Handigas is a significant contributor to profit and the largest contributor to revenue. However, the Handigas division's current dilemma of an eroding profit base due to external environmental threats is posing a challenge to the division, and it may have to reconsider its position and evaluate which strategies it should focus on to meet the challenges of the future. This will be examined against the backdrop of the company's internal and external environment.

4.3 HANDIGAS DIVISION POSITION IN RELATION TO THE MACRO ENVIRONMENT

The PESTEL analysis gave an overview of the main factors affecting the Liquefied Petroleum Industry. Within these factors the following are deemed to have the most impact on the Handigas division:

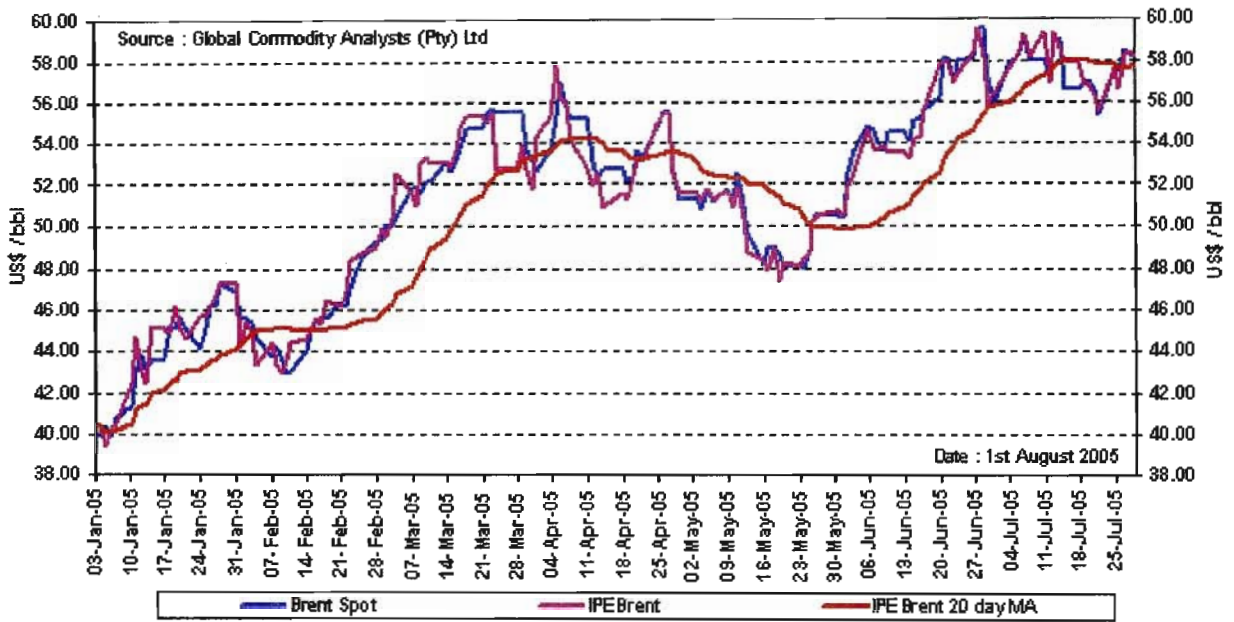
- The cost of crude oil and the valuation of the Rand
- Equalization of income distribution
- Changes in lifestyle
- Change in technology in the manufacture of LPGas cylinders
- Government's energy policy with regards to access to affordable energy services.

During the period under review, the average international product prices of Petrol, Diesel and Illuminating Paraffin increased. The continuing rise in the price of oil, which ranged from \$40 and \$68 a barrel, impacted on distribution costs and the ability to price LPG. The average Rand/US Dollar exchange rate strengthened when compared to the previous period.

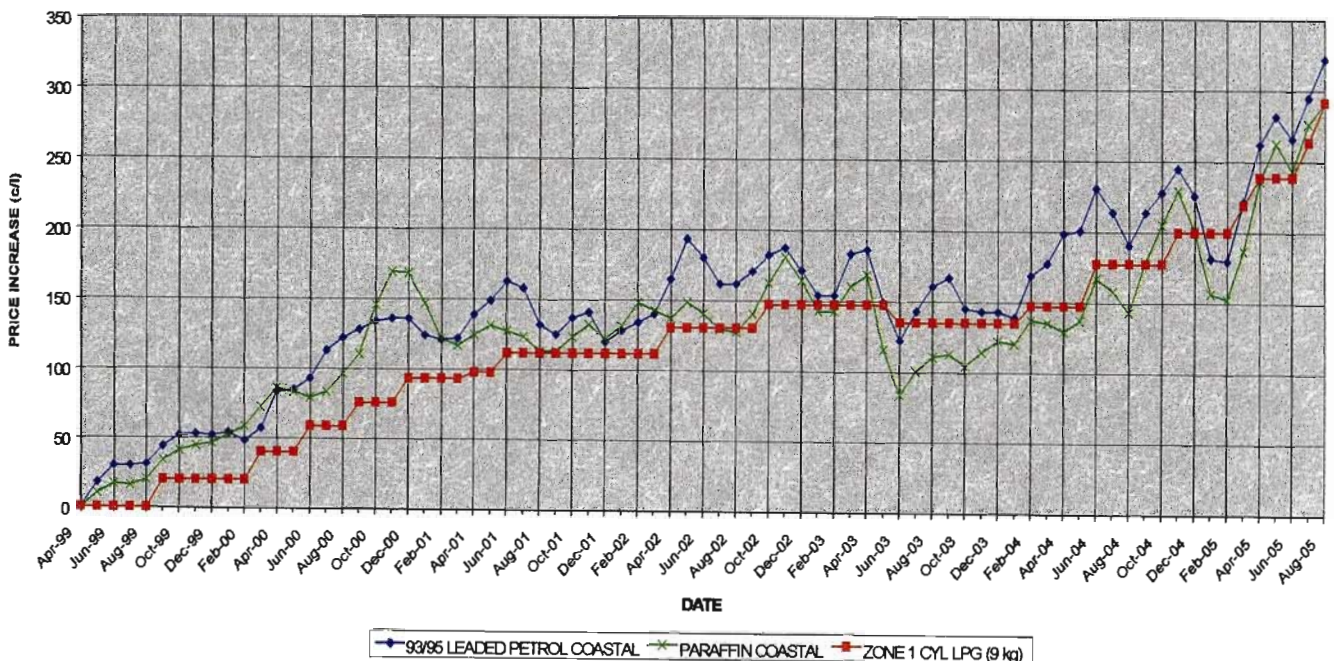
The following Figure 4.1 shows the trending of the price of crude oil for the last year and the increase in fuel pricing over that period. The price of crude oil in January 2005 was \$40 a barrel and it peaked in April 2005 to \$57 a barrel. For May 2005 the prices reduced by \$10 a barrel and since then has steadily moved up to \$58 a barrel. It is evident that the trending shows that pricing is set to rise and there is no immediate relief in the near future on the costs of fuel.

FIGURE 4.1: Brent Oil prices

*IPE Brent and Brent Spot Oil Prices - US\$/bbl
January 2005 - July 2005*



**CUMULATIVE PRICE INCREASES OF FUELS
(START POINT APRIL 1990 - ZERO BASE FOR INCREASES)**



4.3.1 The effects of the environmental factors:

- The size of the LPGas market is dependent on the volumes that consumers purchase. The market available is approximately three million households, which equates to fifteen million kilograms.
- The price of LPGas will be out of the reach of the low-income households.
- Consumers will continue to purchase Illuminating Paraffin, or use fuel wood as their main source of energy.

4.4 AFROX'S POSITION WITHIN SOUTH AFRICA

The South African gas business environment is highly concentrated with larger companies making it difficult for smaller companies to penetrate this market. High capital infrastructure for storage, cylinders and distribution, characterise the LPGas market resulting in high barriers to entry. Legislation is stringent in the regulations on storage and transportation of gas. All companies have to follow the SABS 087 standards or face huge fines, and closure of operations. Sales within the market can only be achieved once certain quality and safety standards are met, and obtaining approval from the local authorities. The potential new entrants in this market are identified as Sasol or BEE development. In a market where buyers have difficulty distinguishing between products, price and availability become the key drivers of differentiation.

Afrox is well established in the LPGas market. It is considered synonymous with quality and safety, which is a prerequisite for success in this market. Suppliers, being the major refineries in South Africa, have a reasonably high bargaining power. Aprox has managed to secure deals to negate some of this power, ensuring product availability at negotiated prices terms and conditions.

Buyers in this market have a high bargaining power, as competition is fierce. Switching costs from other energy sources to LPG is expensive making entry into this market more difficult. The substitute products available to this market are Solar, Electricity, natural gas, paraffin and biomass products. Developing relationships and buying loyalty in this market is almost non-existent due to price and availability driving this product.

Afrox is a well-established brand in the welding and gases industry, however is not the household brand for domestic use. This means that Afrox Handigas will not have the same brand equity as the welding arm of the business. Handigas will need to expose its brand to this market to piggyback on the good branding of Afrox.

4.5 AFROX HANDIGAS COMPETITIVE POSITION

The main competitors in this market are the petroleum companies, with the future possibility of natural gas targeting this market. Across the different sectors of the LPGas market, Afrox definitely earns the position of being the market leaders nationally. Figure 4.2 reflects the percentage market share per company without including the Mega bulk business for all competitors. Mega bulk has been one of the fastest growing areas for the last year with end user bulk following. Reseller business has been volatile due to pricing and we have grown to lesser degree, in comparison to mega bulk and end user bulk. Cylinder business adopted a more defensive strategy to hold our market share, as the most volatility is seen in this sector. This is due to the ease with which the buyer can switch supply.

Customer service does give Afrox the edge in this market but it is largely untested. No major initiatives have yet come to fruition to extract learning's from. Some of the initiative was the funeral cookery scheme, which was not supported and sustained. Selling through the Cash and Carry's outlets and distributors has removed Afrox from the end user resulting in the lack of brand loyalty.

Totalgaz is using a penetration-pricing model to buy market share as they have refocused on their cylinder business. This has only been destructive to the industry in terms of pricing and did not gain market share following this initiative. Totalgaz was very active in trying new initiatives but because of lack of support from consumers and control over the projects its efforts fell flat. BP is sporadic in its approach and seems to target areas at random, and in some areas have no presence. Easigas are also trying a few initiatives but essentially have followed the same approach as Afrox.

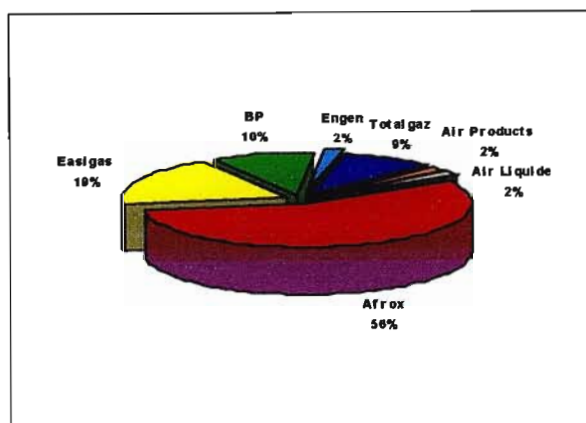
Afrox has not yet made a name in the market with initiatives to promote LPGas in this sector of the market. Competitors who have implemented initiatives have been unsuccessful. The supply of

LPGas to Low Income households is new to all competitors in South Africa and at entry level. There is no other pilot study currently under way that offers a packaged balanced energy solution that satisfies all basic energy needs.

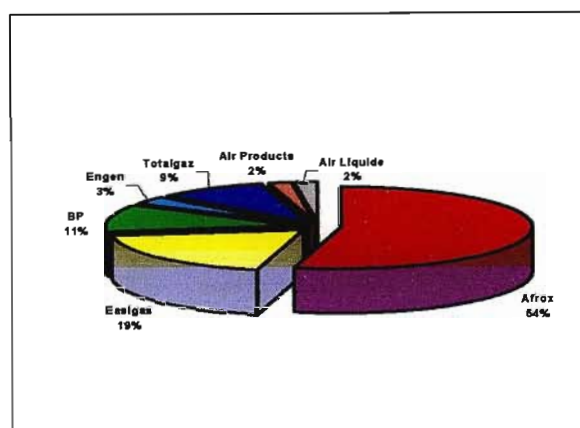
Figure 4.2 shows the various competitors and their market share for the entire LPGas market in South Africa. This shows the strong position Afrox finds itself in, however, their challenge is to defend their market share while pursuing new business.

FIGURE 4.2: Market Share

Market Share LPG 2004



Market Share LPG 2005



4.6 EVALUATION OF AFROX HANDIGAS INTERNAL ENVIRONMENT

The value chain analysis and value model illustrated the emphasis Afrox places on Customer care. The main areas where Afrox Handigas sees itself as having a competitive advantage and providing its customers with value are noted below:

- Extensive distribution network and to further the introduction of its retail outlets in Gas and Gear Centers.
- Purchasing power at the refineries.
- Engineering department, which provides global solutions nationally.
- Competent people who understand the power of the consumer.
- Training and education on the safe use of their products.

- Partnership their major clients in cost saving exercises and production solutions.
- Afrox is a premium brand offering quality and safety.

4.6.1 Review of SWOT Analysis of Afrox Handigas Division

Understanding the customer needs of this segment of the market will allow for leverage of the strengths of Afrox, and to address the weaknesses and opportunities. Afrox's strengths lay firstly in its brand name and to a lesser degree the Handigas name. The infrastructure, logistics and distribution will give them a competitive edge and would be easier to extend to this market by building on their existing model. Having the expertise means that the service levels will definitely be the benchmark for the industry. Synonymous with Afrox is quality and safety. Being market leaders, means achieving large volumes, and economies of scale would be achieved.

The biggest risks that face Afrox will be the lack of market knowledge, as it has been seen that market intelligence varies by geographical area, and inferring research done in one area, may not be applicable in another community or geography.

Price regulation by government could be a serious threat if prices are set not taking into account collective costs and may not achieve the desired affect of fair pricing. Due to the portability of the cylinders cross filling of cylinders is a huge threat, as the capital outlay is high and should competitors fill Afrox cylinders, it reduces their capital investment. This allows competitors to abuse the assets and trade at low prices. Taking the environment in which business is conducted, it could be seen as a high risk (hijacking, theft, cash management). The areas for concern for Afrox is the Handigas Brand, as the marketers have not been able to develop this as a household name for domestic cooking. Easigas has successfully managed to achieve this. The channel to the market with distributors has an effect on price to the end user and margins are eroded, and possible loss of price control. By having a channel to the market Afrox tends to lack focus on the end user being the customer. Afrox tends to service the channel rather than the customer, resulting in it not knowing the needs of the consumer. Companies are requesting as a prerequisite a presence of BEE to do business with your company. Afrox has not been successful in appointing a BEE partner within the organization. Even though Afrox have a vast network and delivery service, the systems tend to be inflexible and are rigid about delivery schedules, sometimes resulting in poor customer service.

Afrox is not geared to service the lower end of the market as most of their sales are in big companies and the channel to the market is via distributors. The operational issues need to be identified, structured and prioritized so that an appropriate plan of action can be formulated.

4.7 SURVEYS CONDUCTED TO EVALUATE THE LOW INCOME HOUSING

Research has shown that LPGas is an energy that many rural people aspire to. However due to the costs it becomes unattainable. As the distribution of income gradually becomes more equal the purchasing power of consumers will increase and this trend could eventually lead to more potential sales of LPGas. In the interim education on the safe use of the product will eradicate the perception that LPGas is unsafe. With the changes in lifestyle, strengthening the role of energy in sustainable development will require paying attention to women's participation in energy activities and the relationship between women's needs, roles and concern as part of the energy system. Women should be seen as the key drivers in rural development, and be used as energy enterprises and other SMME ventures. Women should be the target market as energy users and their input in the design and application of renewable energy, efficiency improvements, stoves and appliances (Internet Strategy for renewable Energy in South Africa).

An important priority is the development of technology locally or increasing the local content in technology development. For the energy sector, this is closely related to local manufacture of cylinders and equipment. This will also create local jobs and avoid reliance on imported components or products (Internet Journal South Africa's Energy Future Energy and Development Centre).

4.7.1 Overview of the survey done by Perry and Associates and Objectives

Perry and Associates had been appointed by Afrox Limited to carry out the market research on establishing the perception of consumers in relation to LPGas, and what issues surround the use of LPGas as an alternate fuel to their current energy supply.

In any study of this nature consumer research is going to be key in establishing what real consumer issues are versus the perceptions Afrox have.

Programme of research:

- **Focus group:**
 - Ten residents from a rural area
 - Persons responsible for purchasing/using fuel in household
 - Aim of the group would be to ascertain:
 - Which type(s) of fuel the residents use, for what purpose and why?
 - Where purchased, how often, the quantity, and monthly purchase
 - Experience with the use of gas and for what purpose;
 - Attitudes towards the use of gas (fears, costs, ease of use, availability etc.)
 - How could consumers be encouraged to start using gas
 - Live demonstration of the use and safety of LPGas.

Face to face consumer interview

- Interviews will be conducted in qualitative, open-minded manner, in the language of respondent's choice.
- Interviews with about 50 residents of informal settlements/low cost housing;
- Investigate similar issues as in focus group.

Interviews with traders in the informal settlements

Trader insights will augment consumer research and distribution issues

- Aims of the interviews:
 - Exactly what products are sold and why
 - Which fuels are most commonly used in the area
 - If they sell gas consumer attitude, type of consumer purchasing and cost implications
 - How they feel that more consumers can be encouraged to purchase gas.

4.7.1.1 Results of the surveys

- The convenience, cost and ease of distribution make paraffin a viable energy source for the lower end of the market.

- Affordability - Cheap Product and appliances – No cylinder deposit or start up costs
- Portability - easy to carry no specific container required
- Social - It's cleaner than wood and coal. Actual hazards overlooked because of costs
- Accessibility – Almost all spaza traders stock Paraffin or wood and coal
- Acceptability - Seen as an energy source - supported by government no vat price regulated but not enforced
- Perceived to be safer than gas.
- Traders:
 - Dispensing equipment cheaper and didn't need a qualified filler
 - Easy to sell and dispense any container can be filled, and can route via vehicles no regulations
 - Storage is easy and cost to distribute is lower than gas
- Consumer Buying Patterns:
 - Biggest quantity +/- 2 l at a time
 - Fill any available container
 - Buy daily, or weekly mostly when necessary
 - No fear to storage of paraffin
 - Cases of paraffin incidents not reported
 - Perception – affordable easy to use and store so has to be the best
 - Availability and accessibility determines pattern

More rural have to buy in bulk cost and availability
- Electricity is considered expensive yet aspirational.
 - Electricity seen as a well-driven initiative by Government. Eskom doing a good job on driving safety of electricity and its advantages
 - Electricity is aspirational – better class, higher standard of living, excited when installed however is expensive.
 - Electricity card system is well received and very convenient.

- Concerns about using LPGas:
 - Affordability - Switching costs are high – cylinder and cooker top. Cannot buy in small quantities according to income and need.
 - Use of resellers means price to end user is high
 - Portability – Cylinders are heavy and sometimes have to pay extra to transport in taxis.
 - Accessibility – Not all spaza shops stock gas
 - Acceptability – Perception that gas is unsafe have no education and very little experience in the use of LPGas. Do not believe that gas is a more efficient form of energy.
 - Social – Ramifications of gas accidents more than for other sources. Everyone hears about an explosion or fire etc. through media or word of mouth. Do not see the benefit to less medical problems with children or the fumes inhaled causing lung illnesses.

4.7.1.2 Typical energy Use patterns for different kinds of households

Low Income households will always choose fuels that are most affordable and useful in the short term. Table 4.1 shows the different categories of usage of energy in relation to affordability. The more affluent generally opt for electricity in comparison to households that have minimum finance available for energy resources.

TABLE 4.1: Energy Use Patterns

	Wealthy Households with electricity	Poor urban Households with Electricity	Poor urban Households without Electricity	Sustainable Energy Use Some Options
Cooking	Generally use electrical appliances –stoves, microwaves ovens	Often use a combination of appliances, such as hot plates as well as flame stoves or both	Sometimes use coal or gas stoves, but most rely on paraffin cookers or flame stoves.	Hotboxes and solar cookers are very affordable and easy to use.
Lighting	Use electrical lighting	Use electrical lights, as paraffin lamps or candles	Use paraffin lamps, incandescent bulb or candles	CFL’s use ¼ the energy and lasts 8 times longer than incandescent bulbs.
Heating the Home	Electrical bar or oil heaters.	Electrical heaters maybe used but coal and paraffin heaters are more popular	Paraffin stoves double up as heaters. Gas and Coal heaters may be used.	Build an energy efficient house. Install a ceiling low cost big savings.
Heating Water	Electrical geysers. Solar water heaters are becoming more popular	Few geysers installed. Water heated on the stove.	Cooking stoves used for water heating	Solar water heating saves huge money.
Fridges	Use electrical fridges	Few have fridges, but then electrical ones are used	No fridges, some gas fridges are used	Electrical and gas fridges in Sa not efficient as their overseas counterparts
Media Appliances	Electricity or Battery	Electricity or battery	Batteries for radio, car Batteries for TV	Solar or wind-up radios more effective than batteries.

Source: The energy book for urban development in South Africa

4.7.1.3 The high inconvenience value and refilling costs were the major hurdles to increasing gas usage. Tackling these will be essential to making in-roads to low-income users.

Table 4.2 compares the average energy usage and the expenditure per resource. It can be seen that no one energy resource is used in a household, therefore it is important in research to understand the usage and the inconvenience factors that influence the consumer buying patterns. Convenience and affordability will be key in switching consumers from their current energy source to LPGas.

Table 4.2: Energy Usage and Average Expenditure by Resource Type per Month

Fuel	Percentage of Families	Resource Costs (Rand/Month)	Transport Cost (Rand/Month)	Combined Costs (Rand/Month)	Inconvenience Value (Minutes)
Wood	76	2.19	0	2.19	95
Charcoal	6.5	9.85	4.67	14.52	25
Dung	11.5	1.3	0	1.3	23
Paraffin	50.5	31.43	5.81	37.24	50
Gas	15.5	83.28	34.15	117.43	137

Source: James and James Science Publishers Maphetheni Study 2001

4.7.1.4 Interviews were conducted with some of the major distributors and Industry regulators to obtain their views on the consumers and their needs.

A discussion document with topics to be discussed was drawn up and personal interviews took place with senior personnel of these various organizations.

The key points from interviews with businesses trading in the rural areas with products that could be compared to LPGas were:

- Afrox may not be a brand in household gas, but people will be willing and able to associate it with safety in an area of a gas supplier.
- For consumers today it is a question of quality and people are prepared to pay a little more for this quality.
- People will tend to buy the best quality that they can afford.
- One of the key success factors is, on time deliveries. You have to have a constant supply otherwise people will leave your brand.
- In this market, it's a question of quality, service and building brand-awareness.
- In some areas the corner café is becoming obsolete and the forecourts of garages, which are open 24 hours are taking over this business. Afrox should look at using them as a distribution arm.
- In rural areas the key salesmen are all contractors. Privatization of the drivers was a development in empowerment that works well.
- At Spaza shops the owners would also like to see more than the rep, as senior to feel important and also have an alternate contact.

- Township trading times are very early in the morning before eight and then in the late afternoon.
- The consumers during the week are children and the old folk. The weekends see the breadwinners of the family doing the shopping.
- People are cautious to change, so if you have better product, you need to convey that message very clearly why it is better and people will be willing to pay. You have to change the culture.
- Need to show the savings in gas compared to wood. Wood needs to be feed constantly whereas gas is instant no wastage.

Some of the salient points that came out of the interview with personnel from Department of Minerals and Energy and director of Electricity policy analysis Regulation were:

- The minimum supply of electricity is now 8 amps, which is enough for most things but cannot be used for space heating or too many applications at the same time. The minimum required for convenience is 20 amps, and very few homes are receiving this.
- It is the role of the industry (service provider of electricity/gas) to make sure that there is a system to access energy in rural areas.
- Pricing is a key issue when comparing to the other sources.
- Pollution is a problem especially in winter as coal is the primary energy for space heating. However South Africa does not have severe winters in most part of the country.
- There is a social issue that needs to be addressed in collaboration with government.
- Opportunity for BEE empowerment, whether that be through the creation of energy stations or some form of distribution system.
- It is understood that initially the industry is also going to be capital intensive.
- Training of providers, or franchisees, or whatever is going to be done, as well as infrastructure.
- Need to integrate with existing programmes of government, and further communication with the community regarding the safety of gas is needed to encourage the usage of it.

- In the lower end of the market, it is certainly the cost and convenience issues driving the usage of paraffin.
- Paraffin is also versatile – cooking, to polish or scrub items. Portable and can be transferred from the stove to a lamp. It is not necessarily seen as the fuel of choice, but it is very convenient for the poor.
- There are talks with the LPG association as an independent looking for subsidy instruments to put LPG at the same footing as the other fuels.
- Government would be more proponent of the LPGas Association pushing an agenda rather than a single company.
- Companies in the industry should consider looking at establishing something like Exel where all the companies can support the initiatives, and all the companies are shareholders, rather than trying to clash for the low margins and risk.

Interviews with major businesses that service the lower LSM market nationally (included were distributors of LPGas):

- Buying patterns in the Lower LSM market differ between commodity and luxury item:
 - Its survival so commodity items will win over luxury items. However people are prepared to pay more for a known brand that is kind of worth it.
 - The key is affordability in rural areas its purely subsistence whereas in more urban areas aspirations are much higher.
- Pricing is a consideration in the lower end of the market:
 - If not priced right the gas market will diminish. Paraffin on the other hand has huge volumes and is well established
 - Afrox should introduce a 3kg cylinder as it would be more affordable, and will compare with paraffin
 - Pricing in the market should be market related and consistent.
 - Affordability is a real issue, and consumers buy what they can afford and not what they aspire to.
 - Paraffin stoves are much cheaper than gas cylinders.
 - Trade-offs are a great consideration. Also the application and appliances

- For effective distribution you need to directly reach the end consumer:
 - Third party distributors are fairly effective in this market, however you must get a balance in the right area or you would lose certain control of the market, making it difficult to manage. Not true, you need active consumer education pull-through communication and promotions and some form of sales vehicle that is branded.
 - Success factor to selling product in this market is accessibility in terms of distribution.
 - Where dealers at Spaza shops fetch from the bigger distributors and have to add their costs, making the gas that much more expensive.

- The consumer is prepared to pay a premium for the convenience of better distribution:
 - Often consumers do not have much choice, if they can't get gas in their home they will choose the more expensive alternative because it is more accessible.
 - In some cases definitely not, as it comes down to price, there is no loyalty.
 - If you have an effective distribution your product will always be available and you will therefore have a competitive advantage.
 - Customers need a reliable form of energy.

- Safety and education:
 - There is a degree of skepticism about gas, as the consumer does not really understand it. They cannot see the product.
 - There is a lack of understanding safety as well as the proper usage of gas.
 - A competitive advantage – revolves around a perceived status – the cleanest way to cook, the hygiene and its safety

- Branding and marketing:
 - Afrox do not do enough in terms of point of sale material and making gas more available in the consumer's mind.

- Not seen as an aspirational product in the minds of rural folk.
 - No perceived benefits such as not having to go to a communal cooking area, rather the housewife can cook in her own home with no smoke or health hazards.
 - Afrox should have a cylinder that “talks” to the people – change the look and express the safety factor. A “Mr.Afrox” running around the township talking to the women and children on how to use gas
 - It doesn’t have brand value – it’s a basic commodity
 - As a marketer it is important to combine the human need for bonding and aspirations with the pragmatic aspects of daily living.
 - Women tend to buy products on a holistic nature and attributes rather than technically, as opposed to men.
 - Known branded products sell better in this market than non-branded.
- General:
 - Consumers have evolved over the last ten years, LSM 3 area are benefiting from the more equitable South Africa. Opportunity is about 10 million consumers within this bracket. LSM 1 to 3 low penetration. LSM 4 to 6 we have the biggest penetration.
 - The lower LSM market wants to be treated with respect.
 - It’s not so much about price. Its about service, respect and delivery.
 - LSM 3 to 4 aspirations is towards electricity rather than gas.
 - Afrox are not close to their customers as their main market for gas is big business, industrial and hospitals, the domestic market forms a very small part of their business and even smaller contribution to their profits.
 - Afrox should start stocking appliances and be able to offer a service to test and repair the cylinders when consumers need to refill.
 - Afrox are not exploiting the opportunities available to them.
 - Crime due to unemployment is high in these areas so precautions must be taken on deliveries and the collection of cash.

- Aids is becoming a major factor with homes being run by women and in some households by the children themselves, resulting in no income to sustain themselves.

4.7.1.5 Overview of the survey done by PRIMEDIA FACE to FACE and Objectives

Primedia is a company that specialises in conducting road shows and face to face interviews. Afrox used their services to conducted a promobile road show during August 2004 to October 2004 in four areas, Motswaledi, Freedom Park, Braamfisherville and Thulane.

Target Market

- LSM 1 to 6 within the informal settlement areas.

Objective of the Promobile

- Create an awareness of Safety Gas and the cooker in the local language of the communities in the targeted area, taking the literacy level into account.
- Demonstrate the safety, efficiency and value for money of the new Safety cooker, thus negating the perception of gas being an unsafe energy source.
- Inform target market of the physical location and details of the distribution network available for their convenience.
- Distribute relevant literature on a door-to-door basis as well as promotional areas.

Consumer Feedback

- Brand was more acceptable and known in Motswaledi in comparison to the other areas.
- Clarity was requested if the launch price of R87.00 would be increased.
- Concern that cylinders could be refilled outside their areas, due to workers going home during the December period etc.
- Some of the dealers were not clearly sign posted.
- Complaints were received that unscrupulous dealers were selling product above the launce price.
- Campaign was to short due to some of the areas being fairly large.

- If prizes were offered more of the community would participate, no incentive for them to switch to LPGas.
- Complaints that some of the stockists run out of product hence they have to use alternate product or come back from long distances.
- Complaints from dealers that Afrox deliveries were not always on time and this lead to lost sales opportunities.

4.8 CONCLUSION

The evaluation of the penetration of LPGas in the Lower LSM Domestic segments has shown that success hinges on being in touch with the consumer needs and understanding the buying dynamics as well as the decision making process. There are clear differences in the consumer fuel needs depending on his type of dwelling and location. The fear of gas is one of the major critical issues that need to be over come. There is a huge demand for knowledge and upliftment amongst the consumers, however, it must be affordable and available.

There are a number of compelling facts regarding rural communities and the provision of energy to them. Current energy forms used met these needs, but each has a disadvantage:

- **Wood:**
 - Takes time and effort to gather
 - Women are vulnerable to attack when collecting wood
 - Needs time to dry if wet
 - Is no longer readily available- scarce commodity
 - Cooking on an open fire gives food a smoky taste
 - Exposes the eyes and respiratory systems to the dangerous fumes.
- **Paraffin:**
 - Dangerous to children due to ingestion
 - Does not enhance the taste of the food
 - Health hazard causing respiratory problems
 - Paraffin is known to be a poor man's energy.

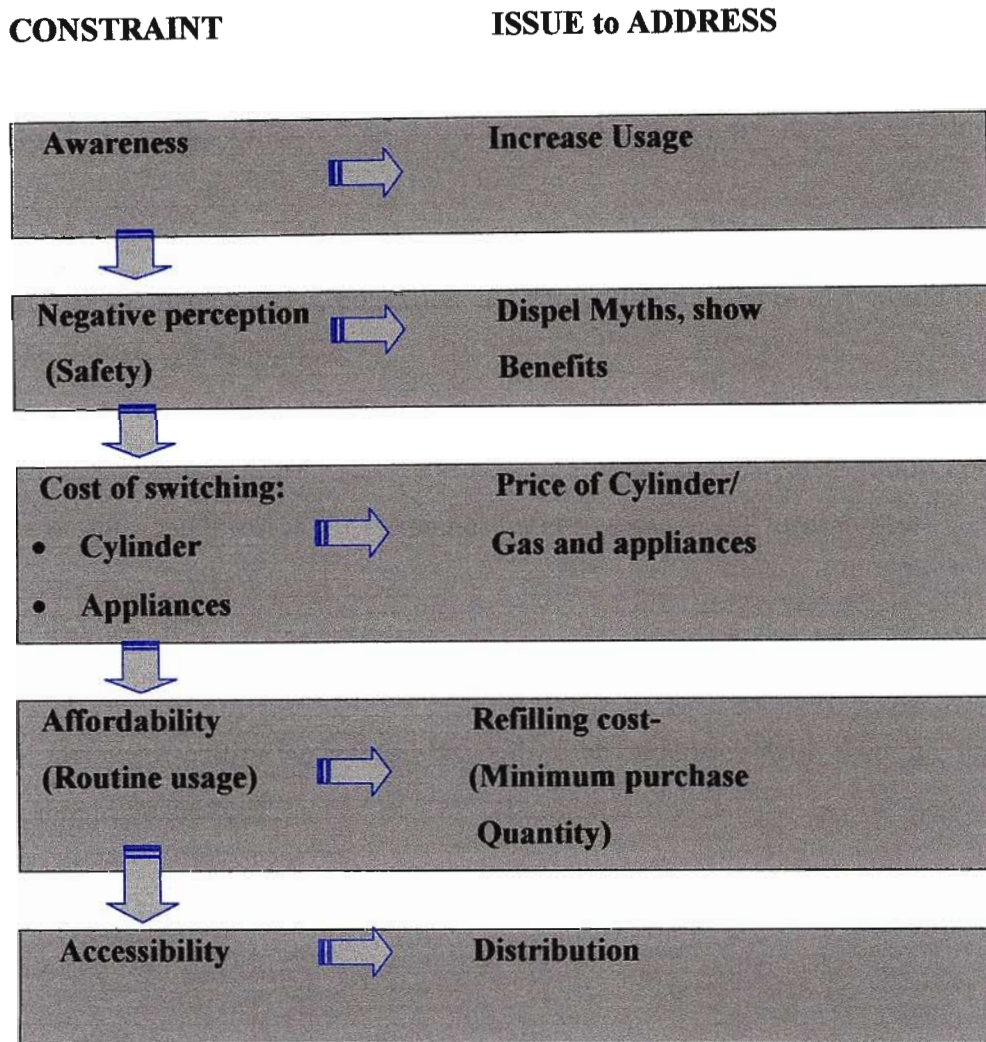
- **Candles:**
 - Are a fire hazard
 - Do not burn evenly
 - Do not give off acceptable light for long hours of reading
 - Can generally only be used indoors.
- **Electricity:**
 - Over 3 million households remain unelectrified
 - As electrification moves into rural areas the costs per connection increases due to lower densities and increased remoteness from the electricity grid.
 - To fully electrify the country could take 20 to 30 years.

In light of these, South Africa faces the following problems when addressing rural energy provision:

- Rural connections cost more than the available resources allocated.
- Rural communities need access to “energy services” which can provide economic development opportunities for longer-term sustainability.

What South Africa needs is a balanced energy offer, therefore when looking at the potential of this market of 3 million kg per annum, it needs to be carefully researched and the implementation process has to be done efficiently and effectively. Pricing cannot be as volatile as the fuel price as the income for this sector of the market is low and cannot accommodate such changes.

In summary the key consumer restraints, from the consumer research and data, for Afrox Handigas Division to address are:



Within the South African Market Afrox is a very strong competitor, holding majority market share. With its large distribution network that is already structured and with minor changes it will be adequate to service this market. How will Afrox differentiate itself in this market knowing that it is the market leader, and competitors copy or imitate initiatives almost immediately? Optimizing its cost to service is key, and community involvement and below the line programmes that include a cultural element will be required. Afrox is in the position to use the first mover advantage, as this would buy loyalty for the brand and trust in the product.

If a gap analysis were to be conducted for the Afrox Handigas division, the main strategy that the Handigas division has to overcome is its reducing gross margins in this product for the whole market.

The first gap in the Low-Income Housing market is to make the product affordable (pricing and financing). Look at means to overcome the switching costs from wood and paraffin to LPGas, for example by pursuing the alliance with government to assist as it has done with Eskom.

The second gap would be to make the product “safe” and sellable (product concept). The extreme perception that gas is dangerous, education and promotion of the product would be crucial to the success of penetrating this market.

The third major gap would be to develop business opportunities (distribution concept). This is getting the product as closest to the consumer for convenience and availability.

Chapter 5 first discusses the identification of possible strategies for Afrox Handigas Division in view of the evaluation presented in this chapter. The strategies are then ranked for suitability and evaluated for acceptability and feasibility. Recommendations will then be made of which strategies should be pursued.

CHAPTER 5

PRESENTATION OF STRATEGIES AND RECOMMENDATIONS

5.1 INTRODUCTION

This study has provided valuable insight into how Afrox should respond to a changing external environment. It will identify how Afrox should use its resources and capabilities internally to exploit its core competencies relative to opportunities in the external environment.

The problem statement: How can Afrox as a Liquefied Petroleum Gas company devise strategies and position itself to ensure that LPG is a viable option, as an alternate energy fuel in the low income housing domestic sector, with increasing competition?

This study focused on using LPGas as an alternate fuel for cooking, heating and refrigeration. The objective of this study was defined as follows:

1. To identify the market for LPGas in the Low Income Housing and its impact on total business.
2. To evaluate the affordability, safety and substitution issues around the product.
3. To assess the options in terms of whether or not it is acceptable or desirable by the consumer.
4. Identify and develop how Afrox should position itself from a marketing perspective and,
5. Establish what marketing tools should it employ to support its chosen option.
6. How sustainable will this strategy be in the long – term.

In evaluating how successful the study has been and what was achieved, it has been identified that there is an opportunity for Afrox to enter this segment of the market. Should Afrox be able to achieve the volume estimated in this segment the impact on its total market share will increased by 5% over a period of two years. With the crude oil pricing leveling at the \$57 per barrel, the price of LPGas has escalated by 30% in the last year. Affordability of the product is still an issue that needs to be investigated in more detail. The DME are strongly recommending the switch of energy to LPGas for domestic use. Afrox needs to pursue the subsidy process with the DME as

they have done with electricity to make LPGas more affordable. The promotions have shown that once consumers understand the safety and convenience of LPGas there is a strong desire to change if it is affordable. Afrox should use the first mover advantage and capture this window of opportunity to establish themselves in this market.

The evaluation in chapter 4 has led to the identification of certain gaps that the Afrox Handigas Division has to overcome in order to successfully implement plans for LPGas penetration of the lower LSM domestic Segments in Rural and Urban areas.

A review and identification of possible strategies that Afrox can pursue in the short term and long term will be discussed based on the evaluation conducted in Chapter 4.

5.2 IDENTIFICATION OF STRATEGIES

The strategies selected by Afrox are based on the evaluation in chapter 4 and the matrices presented in chapter 2. The external environment and Afrox's core competencies are two of the major factors influencing these choices.

5.2.1 Identification of Grand Strategies

The grand strategy matrix is a popular tool used to formulate alternative strategies. As discussed in chapter 2 each quadrant lists the strategies based on two evaluative dimensions: competitive position and market growth. Afrox is in a strong competitive position due to its market share however LPGas in low- income housing is in the early stages of development making it a slow-growth market. Based on this Afrox will find itself in quadrant IV, where businesses have characteristically high cash flow levels and limited internal growth needs.

The following strategic options are available to Afrox:

- Concentric diversification
- Conglomerate diversification
- Joint ventures

5.2.2 Identification of Business Unit Strategies

From the evaluation in chapter 4 it can be seen that the product solution lies in differentiation with more emphasis on availability and affordability. In considering some of the other matrices discussed in chapter 2 the following have been considered in identifying the strategies to be followed. Considering the life-cycle matrix, Afrox is in a strong growth stage of the industry. In the life cycle portfolio matrix, Afrox finds itself at the embryonic/growth stage, hence Afrox needs to:

- Attain cost leadership
- Differentiate and grow fast

The SWOT matrix develops four types of strategies, and for this product Afrox fits in the second quadrant (ST) where it has identified several key strengths in an unfavorable environment. Considering the BCG matrix it focuses on the relative market share of the company and the market growth rate. Afrox's market share is high, however the growth rate in this segment is low. LPGas as a product is a cash cow for Afrox, and should the low- income housing product offer be acceptable and affordable it can only enhance the position of Afrox in this market. The GE portfolio model takes the following industry attractiveness into account: market growth rate, market size, industry profitability and rivalry, demand and global opportunities. A comprehensive study had not been undertaken with all of the above factors within Afrox for a single product of its business, but based on history and knowledge of the industry it would be safe to rank the risk as medium and the business unit strength as medium to high. The deduction from this would be to follow a strategy to selectively identify growth areas and invest to grow.

5.2.3 Strategies Identified for Afrox Handigas Division

In analyzing the various matrices the following have been identified as strategies that Afrox Handigas should follow to develop the supply of LPGas to low-income housing:

- Grand Strategy – Joint Venture with a BEE Partner/Company.
- Business unit Strategy – Focus and differentiate the product. At present Afrox has on offer the 6kg cylinder and needs to augment the product and the service to suit this particular market.
- Business unit Strategy – Build on the existing logistic and distribution model to address issues of portability and convenience, in order to make gas accessible.

- Business unit Strategy – Assess existing brand and develop robust promotional and marketing campaigns with emphasis on safety, and the tangible and salient aspects of the product.

5.3 PRESENTATION OF THE STRATEGIES

Several strategies have been identified. The most important strategies that will benefit Afrox in the short term as well as the long term will now be discussed.

5.3.1 Grand Strategy – Joint Venture

Afrox's current channel to the market for this segment has been through dealers and distributors, resulting in Afrox not knowing their consumer. This was very evident in the market research carried out in the interviews and focus groups. The company was vaguely known, and consumers were not aware that Afrox supplied direct into this market. Afrox found itself in a position of not knowing exactly the needs of the consumer. Afrox is the market leaders in industry, as it enters into partnerships with its clients, listens to and understands the solutions they are looking for. To adopt the same principle Afrox needs to find a partner who is experienced and has the knowledge of this market segment.

In addition the LPGas challenge is one of the initiatives that the South African Government is undertaking in the field of energy. Mr. N. Mthethwa chairperson of the Parliamentary portfolio committee on Minerals and Energy stated in his annual report, that government expects industry to take more responsibility for its products (hazardous effects of paraffin) and to address the issues of LPGas being a dangerous fuel. LPGas to become a prominent energy fuel for cooking in the low- income group. The other issue of concern is, in industry accelerating its progress in certain areas of empowerment. These are the advancement of women in the industry and the involvement of BEE companies in the procurement of services and goods including crude and refined oil products.

Assessing the suitability of Afrox entering into a Joint Venture with a BEE company.

It has been recognized that through past practices the South African economy is characterized by a concentration of economic wealth and inequalities in employment, education and skills. Afrox have committed to contribute towards uplifting the broader population through black

empowerment initiatives at various levels and aspects of the business, continued focus on developing skills at all levels and corporate social responsibility. Afrox need to seek BEE partners to add value in the business, particularly where growth, including expansion into new markets and in any new business enterprise that they may embark on.

An acquisition of the right partner can enable a company to satisfy supply and demand within a market sector and also acquire competencies and economics of scale. Their employees should be from the market sector that Afrox envisage penetrating. Afrox should look at women being energy users to be key drivers in rural development. It should look at an SMME venture with women being the entrepreneurs of the future.

The Strategy of Afrox to enter into joint venture with a BEE company would be suitable from the following prospective:

- Afrox will be looked upon as a company that is embracing change and are in line with Government's proposals.
- In South Africa most business awarded is based on your BEE status and percentage of race groups as shareholders of the company.
- Afrox could become market leaders in this sector of the market, as well as maintaining their position in industry.
- Women being the major energy users, their input in design, application and needs will benefit the joint venture.
- Afrox could benefit from first hand information at grass root levels. The use of LPgas as a safe product for domestic use will be more acceptable to the community should it be promoted by one of their local residents than from a complete stranger.
- Afrox will be in a better position to service both the higher and lower ends of the market simultaneously by offering products with a range of prices to satisfy all the needs of its consumers.
- Resources within Afrox could be tailored to add value into the value chain, to service this market more effectively.
- Afrox could begin to achieve some form of economies of scale.

This strategy will only be viable, if Afrox can find a partner that has something to offer in the joint venture. It needs to have the expertise of the market, be able to set up operations within the community. To be financially viable, per area be able to sell at least a minimum of 25 tons in the first three months and increasing at a rate of 10% turnover in the ensuing months. The initial costs of set up should be borne by Afrox with a view of the Joint Venture paying it back over a period of time.

5.3.2 Business unit Strategy – Focus and Differentiate the Product

For Afrox to have an edge on its competitors, it needs to differentiate itself in its product and service offer. The Key differentiators should be in the cylinder, its size, portability and aesthetic features. The service offer should be based on distribution, its availability, reliability, affordability and safety. The Handigas Brand is used across the whole spectra of LPGas sales. Even though known in the hospitality and industrial market, it was not known in this sector.

Afrox currently markets the 6kg cylinder that has been well received. It has a sturdy foot ring and the cooker top is built to accommodate a small or large vessel. The cost of the cylinder and cooker top is in the range of R199. The cylinder weighs about 6.6kg empty and with gas about 13 kilograms. All consumers in this sector could not afford it nor did they find the cylinder easy to transport. Afrox needs to create the awareness and interest in the product, and the consumer really needs to know what they are buying, and the added value they are receiving.

To suit the consumer needs the cylinder needs to be redesigned. Emphasis should be placed on the brand to enable it to stand out from the competitors, as well as making it affordable and portable.

- Differentiate by using safety as a marketing tool:
 - Redesign the valve versus using a regulator
 - Use a push and turn safety valve
 - Automatic shut off should the cylinder not be in an upright position (should it fall over accidentally).
 - Ensure that the fitting for filling is unique so that Afrox or Afrox dealers can only fill the cylinder
 - All cylinders must have the safety instructions attached to the body of the cylinder

- Develop concepts that address the portability aspect of the gas:
 - Manufacture cylinder with lighter steel reducing the weight of the cylinder.
 - Painted with easy to clean material.
 - Use a clip on to carry the cylinder.
 - Wheels on foot ring of cylinder increasing portability.

- The size of the cylinder:
 - Have multi size cylinders ranging from 3kg to 6kg.
 - The cylinder to be sturdy and should not fall over easily if a large vessel is being used.

The service offer has to ensure that it is affordable, available and accessible. Maintenance of the cylinders needs to be done at the point of sale, or cylinders need to be exchanged. With the different sized cylinders affordability within the target market, becomes their choice. It will also be relative to compare with the purchase of paraffin. In offering the above services, the major benefit for Afrox will be building relationships of reliability and service with the consumer. Beyond the core product, these are the layers of less tangible product and service offerings that will be the key differentiators for Afrox.

Assessing the suitability of focusing on investing in different size and type of cylinders for the Low-income domestic segment of the market.

With more than 20% of rural homes not having access to Electricity and the diminishing availability of fire- wood, paraffin is the only alternative fuel that is still available to many. The severe health hazards caused by paraffin ingestion and the quality of food cooked on paraffin stoves is cause for concern. Government has also highlighted the problem and it is high on the agenda for LPgas to become the preferred energy use for cooking and heating.

- **Positioning** - Afrox is in the ideal position to make this strategy viable to the company as well as the community it serves. Afrox has over 90 branches and are in the process of opening up a further 30 gas and gear outlets. Afrox presently have over 500 major distributors, of which some are already servicing the target group. No competitor has come up with a good offering to this target market, and

those who have tried have not been very successful therefore Afrox could use first mover advantage.

- **Business Profile** - If the current market switched to LPGas the annual volume will be over 3 million kg. This business is volume driven with low margins, but with 30% of the market share this will become a viable proposition.
- **Market Share** - The volume growth will be sufficient to be a good financial performer. Afrox needs to find a suitable manufacturer to reduce the cost of the cylinder as well as make them lighter for portability.
- **Portfolio Analysis** - Afrox being the market leader means that it has sufficient sites set up to refill gas cylinders and service this market. Afrox could really optimise the assets to its maximal level, and will strengthen the activities of the company.
- **Value Chain Analysis** - 45% of Afrox's sales is LPGas, and the business is designed to handle and transport the product. The strength of Afrox is in its distribution network and its core competence is in the skills of its people. Its processes are world class and Afrox will service a huge untapped market with no need to create any major infrastructure in its processes.
- **Life Cycle Analysis** - For this market the product usage is in its early stages and once consumers can see the benefit of LPGas there will be rapid growth to the next phase. This will suit Afrox, as it can be innovative in its offer, by using differentiators that are not easy to imitate and if it is focused will captivate the market prior to its competitors catching up with its market.

The strategy to differentiate the cylinder for this market sector also shows the consumer that the company is serious to do business with them. Has adapted the product to suit their needs and it will be more affordable and can be compared with other fuels on pricing and convenience.

5.3.3 Business unit Strategy- Logistics and Distribution network

Afrox has an infrastructure in place that gives it the competitive edge in its current market. A successful route to the consumer is going to be highly dependent on an effective distribution system.

The service provision “should Afrox deal through distributors or go straight to the market itself” needs to be evaluated financially as well as meeting consumer needs. Alternatively it could be that we do a percentage of direct selling (60%) and do indirect sales via indirect independent distributors.

For consumers to want to switch from other energy fuels to LPGas, it has been seen clearly from the surveys that they are willing to pay a little more for the convenience and accessibility. This eliminates the burden of transportation and manual labor.

The models that can be adopted for indirect independent distributors can take the format of one or a combination of:

- Franchising forming partnerships with already established businesses that are servicing these segments
- Strategically place depots/distributors in targeted areas
- “Owner –driver” programme – developing local entrepreneurs who will be keen to grow their business and be loyal to Afrox.

Model 1 Franchising – The Partnership

Afrox at present supply major franchise chains such as Spar group, CCW group, and Cash Builds etc.

WHAT	HOW?	BENEFITS
<ul style="list-style-type: none"> Develop franchise type agreements with strategic dealers/distributors. 	<ul style="list-style-type: none"> Eligible Distributors ‘buy’ into the Afrox Franchise and brand. Eligibility criteria to include Location Business acumen, initiative to drive and grow gas business Payment of initial investment Distribution Plan Gas cannot be the sole source Retail income- stall within the store Dealer pays a small “levy”, priced into the product – reinvested into promotions In return dealer gets brand and branding support – point of sale material, training, and promotional support Afrox to ensure that franchisees are adequately spread out to allow for equal growth opportunity. 	<ul style="list-style-type: none"> If franchisee is making a sizeable investment he will be drawn into a long term relationship instead of a year’s renewable contract Investment will drive the right behavior to succeed in the venture resulting in sales of Afrox gas Agreement allows Afrox to dictate products (sole supplier) Ensures uniformity and consistency across network in terms of: <ul style="list-style-type: none"> Pricing Product availability Standards and regulations Safety and education It may seem that Afrox is prescribing, however this type of arrangement guarantees loyalty as the franchisee will be looking for return on his investment. If sales of L Pgas do not take off initially franchisee will not close, as he is not solely reliant on this income.

Model 2 - Strategically located outlets

Afrox can take advantage of strategically located outlets that have established customer and are effectively servicing this market. This model allows for further penetration, particularly in more rural areas where road infrastructure is poor.

WHAT?	HOW?	BENEFITS
<ul style="list-style-type: none"> Strategically placed depots and distributors in targeted areas An existing wholesaler, hardware store, or general dealer 	<ul style="list-style-type: none"> Locate already existing outlets in target areas that are accessible to consumers Link into dealers that also act as pension pay points Afrox needs to invest in the dealer and incentives to be given to encourage growth in sales Be sure to be part of the bundle of commodities promoted to customers Outlets to be branded with Afrox signage informing consumers of availability of gas Nominal deposit on cylinders, and look at profit on the gas. Train dealer and educate on the safe use and benefits of gas 	<ul style="list-style-type: none"> Able to reach a wider range of consumers that are already the client of the outlet Competitive/launch pricing to the consumer to enjoy repeat purchase of product Loyalty from the consumer as they have a relationship of trust with the owner. Training done by the owner and the benefits of gas will be well received from a known person in the community.
<ul style="list-style-type: none"> Newly placed container/cages in an area 	<ul style="list-style-type: none"> Apply the cell phone container concept and set up satellite depots in high volume areas Design package to be an empowerment deal that supports and invests in the community Container to be Afrox branded ensuring consumers know that gas is available at these outlets Initial launch pricing to allow him to get into the market Training to the dealer on safety and benefits of LPgas Point of sale material. Promotional programmes in the community involving the dealers and consumers as an awareness campaign. 	<ul style="list-style-type: none"> Able to reach a wider range of consumers that the dealer may have relationships with Competitive/launch pricing to the consumer to enjoy repeat purchase of product Able to train the community at promotional activities on the safe use and benefits of LPgas Community involvement and support Containers become great branding tools.

Model 3 - The Owner-Driver Program

The owner-driver program is about developing individuals into becoming entrepreneurs within the community. This is in keeping with one of Afrox's goals of upliftment of previously disadvantaged people. The principles of setting up an SMME within Afrox can be extended to this program. Afrox will finance the purchase of the vehicle and will assist in the financial running of the business to ensure that all administration and costs are well managed. Financial and business training will be given to make sure that the individual has the skills to run a business. This type of program will develop entrepreneurs who will be loyal to Afrox and will be keen to grow the business.

WHAT?	HOW?	BENEFITS
<ul style="list-style-type: none"> • Strategically placed distributor in targeted areas • Pure LPGas distributor 	<ul style="list-style-type: none"> • Develop pure distributors who will supply spaza shops and consumers directly (milk run) • Invest in his distribution network by providing a business solution that allows him to be an entrepreneur aided by Afrox • Finance or sell a vehicle to him that he can pay off over a fixed period of time • Afrox to supply him with gas at almost cost so that he can make his margins to run the business • Have agreement to distribute only Afrox products 	<ul style="list-style-type: none"> • Able to reach a wider range of consumers the distributor can access • Loyalty from distributor, buying and distributing Afrox products only • Training of consumers at their households by someone the trust • Higher volume sales – distributor will be incentivised to sell more because he can grow his business

For any of the above models to be successful, the options must be viable for both Afrox and for the business partner. In some communities Afrox may have to consider other non-traditional forms of distribution channels in order to effectively reach the consumers. Link into women's groups and development programmes that they are running in the communities to supply them with a gas solution. Burial Societies, Stokvels, Catering companies. Could possibly engage with allies – local municipalities on local housing projects.

Assessing the suitability of the strategy

Afrox currently supply the major cash and carry businesses in the rural areas. This has increased our market share in those areas for calling customers and small dealers who have transport to

fetch the gas from these stores. Since transport is a major obstacle for consumers, to extend our market to a wider range of consumers it would mean making the product available closer to their homes. Secondly it must be a reliable supply that is affordable, and will be available at the times that they require it. Afrox needs to implement a combination of the above models to service the various areas effectively and derive the benefits of each of these models. Afrox will indirectly be creating jobs, empowering entrepreneurs within these communities and will be contributing to the upliftment of the people in South Africa.

The major benefit to Afrox will be the increased sales of LPGas in a new market that has the potential of generating volumes over one million kilograms in the next three years. This will be the start to a better life for many that have not been able to have access to amenities that so many of us take for granted.

5.3.4 Business unit Strategy – Branding, Promotion and Marketing

Current Branding that the Handigas division have for domestic use:



6kg Handipak Cylinder



Handigas Logo

In considering the outcomes of the surveys done, it is evident that the Handigas brand is not a household name. Afrox as a brand is far better known and is associated with quality, safety and reliability. Afrox has two options available:

- Develop new branding on new business arrangement and become the differentiator from competitor products
- Use existing brand name Handigas for business, as it is a known brand name, example call it “Handigas Business Centre”. However, this makes it easier for competitors to imitate.

Afrox is in the process of developing and launching a new cylinder for this market. Research has shown that the cylinder should be white and aesthetically appealing to the woman of the household. It must be easy to clean and portable. To drive the misconception that LPGas is unsafe and harmful, Afrox has designed a cylinder taking all of the above into account, and is promoting the product under the name of “Safety Gas”.

The benefit of using a new logo and brand name will enable Afrox to focus on its target market of domestic use only and not incorporate the total sales of LPGas in the industry. Afrox needs to use the first mover advantage to build the Safety Gas brand in the market and leverage the current market share:

- Be involved primarily in activities that will educate and train consumers and distributors on LPGas, its usage and safety aspects
- Use the concept of “group selling” to target the consumers in a collective environment:
 - Stockvels
 - Shebeens
 - Community programmes
 - Church and Weekend activities
 - Addressing employees at the workplace or learners at schools
- Build credibility in the community; sponsor some trial packages selectively to the influencers in the community.

Promotion and Marketing

New branding for the domestic market:



Safety Gas Logo



5kg White Domestic Cylinder

The different tools available for promoting products in a market are discussed. They all have their pros and cons and some are more acceptable to certain markets than others. The activities used to communicate with others about products and services to convince them to use it are:

- Personal Selling:
 - The sales force need to pursue an educational, selling pitch to secure sales.
 - Should be able to give demonstrations and educate consumers on the safety and the benefits of LPGas, compare costs and the value add.
 - The benefit is in it facilitates two way communication and can foster long term relationships (with consumers and intermediaries).
- Sales promotion:
 - To ensure the target market retains knowledge of Afrox and its unique product offerings.
 - Should include coupons; free fill club, demonstrations, discounts, and competitions.
 - The benefit is to keep the Afrox Safety Gas in the mind of the consumer resulting in additional sales, and eventually the brand will buy loyalty.
- Advertising:
 - To generate awareness and understanding of Afrox Safety Gas the brand, and LPGas usage in the home
 - Benefits have not been as well as other media, as its non- personal and a one-way communication.
- Media Publicity:
 - Has a wide reach, easily reaching target market and communicating message.
 - Should include usage of local publication, flyers, radio and TV to a lesser degree
 - Benefits – proven to be more credible than advertising. Flyers and local paper written in the preferred language of the community.

When choosing a combination of media in which to promote safety gas, Afrox must remember the consumer profile of the target market and focus all communications accordingly. The budget at hand will also determine the media used.

The message has to be simple, visible and persuasive. It should be repetitive to encourage gas usage in the home and be credible. If the AIDA model is adopted the most important issue is to create the awareness and interest. Once the consumer begins to desire the product, the action to purchase must be available and affordable to the consumer.

In the advert Afrox needs to decide if it is promoting the product or its brand to its target audience. In the case of safety gas the decision is a bit complex as Afrox is trying to make its target audience aware of the product as well as the new image of its branding. The benefit of targeting the consumer with the product first means they have a desire to use LPGas and the name will be associated with quality and safety.

5.4 ASSESSING THE STRATEGIES FOR ACCEPTABILITY

The strategies that are considered suitable and possible for Afrox Handigas division are now assessed for their acceptability. Acceptability is concerned with the expected performance outcomes if the strategy were implemented. The criteria used to assess the limitations of the strategy are analyzing the return, the risk and reaction of stakeholders.

5.4.1 Assessing the acceptability of Logistics and Distribution

One of the key factors for making this project sustainable is the availability and convenience to consumers. Afrox has a large distribution network and is presently capable of supplying nationally to all of its current consumers. To service this sector of the market Afrox needs to implement one or a combination of the recommended models. It will be financially beneficial for Afrox to extend its distribution network via these channels. For Afrox to set up depots and sell directly to the consumers will take a fairly long time, and at present will not be may not be a financially viable option.

Afrox already supplies the major cash and carry stores. It has an infrastructure and already supplies the consumers in this target market. Afrox needs to take them on as formal partners, brand a portion of their store and offer incentives for growth sales. This will be well received by the stores as they would be uniformed and identified as gas outlets to the consumers. Afrox was one of the first companies to set up SMME's within the industry and presently SMME's service other divisions within the company.

Using the same principle, Afrox finances the vehicle and the SMME pays it back in a predetermined period. Afrox oversees the operational and administrative activities of the SMME's business. This format of business is very well received and is financially viable for both parties. Risk is minimal, as ownership of the vehicles will only pass to the entrepreneur once it is fully paid. Since the vehicles will be frequently in the branches of Afrox, it should be managed as the fleet at that branch for all the safety checks and correct loading procedures.

This arrangement will see LPGas going to those areas that Afrox cannot service. The consumer will be prepared to pay a small premium for the convenience and also knowing that the supply of LPGas will be available on a regular basis. Once the SMME develops a relationship and has built up a reputation for reliability, in making LPGas available and convenient, consumers will become more aware of the brand and loyalty will be one of the positive spin offs of this relationship.

Overall the strategy to expand the distribution network for Afrox will develop the LPGas business in the Low- Income housing faster than any other strategy. It will have to be seen as a long- term project and the profitability of a project of this nature will take at least three years before the project will be able to sustain itself. The first two years will be about promoting the product, the brand, establishing the distribution network, and achieving economy of scale. Thereafter in a fast growth market the cash flow statements will reflect a positive.

5.4.2 Assessing the Acceptability of Differentiating the Product

Companies that sell a commodity trade on low prices. Consumers then do not look at or believe that the commodity has a value add or benefits that are worth paying for. No loyalty, nor is "brand" an issue, the whole sale hinges on price. To offer consumers a product where they can see the added value (quality, service, safety, convenience) he will be prepared to pay a

premium. LPGas by itself can be classified as a commodity, therefore differentiating the product is of high importance for the customer to see the value in the offer rather than a commodity. Using safety as a differentiator will absolve a consumer of his fears of gas. As an added benefit giving them a portable “safe” cylinder that is affordable and available, coupled with educating the consumer on its benefits means that the consumer will find LPGas more acceptable as an alternate energy to present fuels being used.

LPGas will become the preferred energy in comparison to paraffin or coal, even though LPGas maybe slightly more expensive than paraffin or coal. It will become a fuel that many will start to aspire towards. If cylinders are manufactured in different sizes, this makes them more portable and also affordable. This will give consumers a choice on their purchase. This will make LPGas more available and affordable to this market sector. For Afrox this will mean extending its market into areas that they are presently not servicing, resulting in increased sales and profit.

5.4.3 Assessing the Acceptability of establishing a Joint Venture with a BEE Partner.

Afrox is a well-established company that produces above average returns for its shareholders. It is a market leader in the LPGas market and has embraced change internally as well as externally. Afrox has undertaken to contribute towards uplifting the broader population through black empowerment initiatives at various levels and aspects of the business.

There is no direct financial benefit to Afrox for taking on a BEE partner, however, the benefits are more in what a BEE partner will be able to offer in terms of experience, information, know how and culture in areas of the market that Afrox has not dealt with and has little or no knowledge of. Secondly having a BEE partner means Government will be more responsive to entertaining the requests for subsidy in respect of switching costs from paraffin to LPGas. The BEE partner will be able to communicate with the local community leaders, the women and educate the consumer on the safety gas concept far better than a major company will be able to do. Competitors have set up operations with BEE partners and have been well received both by the consumer and government. To be able to have the competitive edge Afrox needs to be able to have a partner that will add value to its business as well as satisfy the needs of the consumer.

Shareholders will also find this arrangement agreeable as tenders, and business are requesting a BEE status prior to awarding business. Afrox could be missing out on opportunities by not having the BEE partner in place in its business.

5.5 ASSESSING THE STRATEGIES FOR FEASIBILITY

The final assessment of a strategy is to determine if Afrox has the resources and competencies to deliver the strategy. The tools commonly used to assess strategies include fund flow analysis, resource deployment and a breakeven analysis. Afrox has all the resources required to extend its logistics and distribution network to incorporate the additional volume of the low-income housing project. Sufficient cylinders have been purchased to support this business. In assessing the operational scorecard of Afrox the efficiency levels are at 78% indicating that Afrox has sufficient resources to support its current operations and hence be able to handle more to reach its optimum levels.

Competitors being major companies also have similar competencies as Afrox. A distinctive core competence that Afrox has is its distribution network, and the number of outlets and branches that Afrox has. Afrox is also synonymous with quality, reliability as well as safety. With regards to funds available to support this strategy, Afrox will fund the business as well as the finance for vehicles required, to extend the distribution via SMME's in the owner- driver model. The joint venture with a BEE partner will not financially be a burden to Afrox, as the agreement in place would be based on the volume of sales brought in by the partnership of the BEE company.

If the supply of LPGas to the low-income project is acceptable and is affordable to the consumer, it is estimated that the costs to put this project together with the promotions and education programs, conservatively put Afrox will reach its breakeven and profitability after three years of implementation.

5.6 RECOMMENDATIONS

The primary purpose of this study has been to evaluate the suitability of LPGas as an alternate energy fuel for domestic use in the lower LSM domestic segments in the rural and urban areas. Evaluate the environments in which Afrox operates and its position within these parameters. For this project to be successful, all elements of the supply chain need to be in place, not only the energy infrastructure, but also the finance for the SMME model, user information and affordable product. The critical enablers are community acceptance, finance, and accessibility. With this in place it will be the platform from which a plan can be put in motion. In the LPGas industry Afrox is the market leader with dominance in its market share in the industrial and hospitality sectors. The supply of LPGas to the lower LSM groups in rural areas is in its early stages of growth. Neither Afrox nor its competitors have been very successful in sustaining growth in this market. The concerning factors identified are that this is a low gross margin product as well as consumers are not informed and have a misconception that LPGas is unsafe and more expensive.

The evaluation of Afrox Handigas division led to the identification of strategies that could be considered for the future. The suitability of three of the strategies was conducted in order of its priority. These strategies were further assessed for acceptability and its feasibility. Due to the volatility in which the LPGas market operates, these strategies need to be reevaluated annually to ensure that it suits the environment in which the company operates.

Recommendations for Afrox Handigas Division are based on the findings of:

- The evaluation of the environments in which the Handigas division operates
- The findings of the surveys conducted by Perry and Associates and Primedia
- The identification and assessment of strategies for the Handigas Division.

The recommendations presented are in two phases, the short-term being one to two years, thereafter the mid- to long term plans of three to five years.

5.6.1 Recommendations for the Short-Term

Government has made a commitment to establishing an enabling environment to facilitate the roll out of energisation programmes to rural and under developed parts of South Africa. LPGas is a major part of this package. Despite the suitability of LPGas, up to now it has not penetrated this market. The main contributory factors are poor supply, accessibility, and price fluctuation. Cylinders are heavy and are difficult to transport and LPGas is perceived by rural and low-income households to be dangerous. There is also no purpose in offering a solution that is way beyond the means of the community. All the challenges need to be addressed and overcome for LPGas to become a major source of energy in a low-income household.

For Afrox to take up these challenges and be successful, Afrox Handigas Division has to focus on the target market. Ensure that the offering made to the community is acceptable, meeting their needs, their affordability levels, and also their cultural values. Identify priority areas to be targeted first and choose potentially high volume areas for its trial concepts. Build a distribution network in addition to Afrox's current system. Invest in:

- Franchise like operations
- Strategic supply depots and distributors
- Utilize existing customer network
- Implement the concept of the owner-driver model
- Include women as part of this strategy as they are the influencers and are playing a major role in developing rural areas.

This will make gas more accessible, and desirable.

Training Programmes:

Sustainability of a project like this hinges on the ability for Afrox to train its distributors and dealers to be competent in the selling and filling of small cylinders. They should be able to carry out minor maintenance on the cylinders and be reliable outlets.

The target market needs to be educated on the safe use and the tangible benefits of LPGas. The perception that gas is unsafe needs to be addressed to the whole community. An awareness campaign needs to be done continuously to make LPGas a desired form of energy that consumers would want to use now or in the future for all their domestic needs.

Use safety as a differentiator in the product to give Afrox the competitive edge. This will also give consumers a sense of trust and will allow them to feel comfortable that LPGas is a safe product to use.

Government has very strongly reiterated that the achievement of affordable, accessible and the sustainable supply of LPGas to low-income households, will be done through fair competition which will include investment and Black Economic Empowerment participation.

Afrox needs to appoint a BEE partner in order to first meet the requirements of government. This will also be a positive step in the right direction to the commitment that Afrox has made to the upliftment of the previously disadvantaged group, and it would be recommended that Afrox look at employing women in these roles. However the BEE partner that Afrox appoint must be able to add value to the partnership, rather than be a financial burden, as this could lead to failure of the project.

5.6.2 Recommendations for the Mid- to Long Term

LPGas in the low-income household is presently in its early stages of growth. Once Afrox has launched its pilot projects and has educated the consumer on the benefits of using LPGas, this market will start to grow very rapidly. Afrox needs to be able to sustain this market into the future. The total market is estimated at 3 million kilograms. Growth plans need to be carefully drawn up based on the initial projects.

The volumes and costs to deliver need to be managed, and Afrox would have to consider mini bulk tanks into areas of high volume. A target evaluation (Break-even) on each area of supply must be done to ensure economy of scale is achieved.

In the long term Afrox would have to redesign or augment its cylinder to stand out from its competitors. Most beneficial would be to develop concepts to address the “portability” aspect of the cylinder:

- Alternate cylinder materials to make it lighter and it must be easy to clean
- A clip on mechanism to carry the cylinder
- Wheels on bottom of the cylinder
- Disposable materials – disposable cylinder (already available overseas, India).

Ensure that competitors do not imitate the initiatives taken by Afrox, by being effective in launching and captivating the market. Sign contracts with the dealers and their customers, as well as incentivise them into developing a relationship with Afrox and building the brand and ultimately loyalty.

The LPGas market is a fairly volatile market and is very dependent on the crude oil pricing. Government has made many suggestions that the pricing of LPGas may be regulated in the future due to the disparity of pricing in the different areas. If this happens Afrox has to ensure that it secures its current and future business as volume plays a major role in a regulated market. In a regulated market, service in the form of availability, continuous supply and dependability of a supplier becomes extremely important to the consumer. Afrox has started a programme on “Customer First” to address this in the industrial side of the business. This needs to be extended to the LPGas division to give Afrox an edge on its competitors.

As mentioned earlier, LPgas is a volatile market and plans for this market need to be reviewed annually, to take into account the changes of the external environment and making adjustments to the internal resources to accommodate these changes.

5.7 FURTHER RESEARCH

Further research needs to be conducted to obtain insight into this market, as the research done has been to a specified area, and the results from this cannot be inferred on the entire market segment. Culture and lifestyle behaviours change from area to area, and it would be beneficial to survey an area first prior to launching the product, to understand the needs of that community. The questions developed and the interviews held by Perry and Associates have not been validated, so the reliability and validity has been a limiting factor.

5.8 CONCLUSION

From the evaluation conducted in chapter 4 it was possible to identify strategies that are available to the Afrox Handigas division. The grand strategy considered was the possibility of a Joint venture with a black empowerment entity. The three business unit strategies were identified. Focus and differentiate the product, build on the existing logistic and distribution of Afrox and assess the existing brand and develop robust promotions.

The suitability assessment and ranking determined that three of the strategies were suitable at this stage. A joint venture with a BEE company is possible and very viable. Focusing on and differentiating the product as well as extending the logistics and distribution network will give Afrox a competitive edge as well as get closer to the consumer. These strategies were then tested for its acceptability and feasibility.

The strategy of a Joint Venture with a BEE company is acceptable, provided Afrox finds a partner that will add value to the business in particular to this segment of the business. The other two strategies were found to be acceptable and feasible.

The recommendations given in this paper is based on the information researched in chapter 4, allowing for strategies to be formulated and on closing the gaps identified and discussed in Chapter 4. The recommendations given are in two phases, from the short term to a longer term to allow for potential changes in the market.

Afrox needs to use its first mover advantage into launching its product based on the recommendations and follow up to ensure its sustainability. It must be noted that the strategies discussed contributes to the aspirations of a better standard of living for the many disadvantaged South Africans.

BIBLIOGRAPHY

BOOKS

- Ambrosini, V, with Johnson, G. and Scholes, K. 1998, Exploring Techniques of Analysis and Evaluation in Strategic Management, Prentice Hall Britain.
- Beulens, M. 2002 Organizational Behaviour, 2nd European Edition, McGraw-Hill, UK.
- Bhowan K., Hosking C., Msweli-Mbanga P. & Naidu K., 2001, Marketing Management Book 2: Marketing Mix Strategies 2001/2 Edition, Natal Business School Publishers, South Africa.
- Cooper Donald R., Pamela S. Schindler 2003, Business Research Methods, 8th Ed. McGraw Hill
- Fleisher Craig S., Babbette and Bensoussan 2003, Strategic and Competitive Analysis, Prentice Hall
- Hitt, Ireland and Hoskisson. 2004, Strategic Management, Competitiveness and Globalisation: concepts and cases 6th Edition Power point slides R. Dennis Middlemist.
- James C. Anderson and James A. Narus. 1999, Business Market Management, Prentice Hall USA.
- Johnson G. & Scholes K., 2000, Exploring Corporate Strategy 5th Edition, Prentice Hall Europe.
- Johnson G. & Scholes K., 1999, Exploring Corporate Strategy 6th Edition, Prentice Hall Europe.
- Kotler P., Marketing Management, The Millennium Edition, Prentice Hall
- Kotler P. & Armstrong G., 1993, Marketing An introduction 3rd edition Prentice Hall New Germany.
- Lynch R. 2000, Corporate Strategy 2nd Edition Prentice Hall, Europe.
- Mintzberg, H 1994. The Rise and Fall of Strategic Planning. The free press, New York.
- Pearce J.A. & Robinson R.B. 1997, Formulation, Implementation, and Control of Competitive Strategy 6th Edition, Irwin, USA.
- Pearce J.A. & Robinson R.B. 2003, Formulation, Implementation, and Control of Competitive Strategy 8th Edition, Irwin, USA.

- Robbins, S.P. and Decenzo, D.A., 2001, Fundamentals of Management, 3rd Edition, Prentice Hall, Europe
- Schiller B.P.,2000, The Economy Today 8th Edition, McGraw Hill, USA.
- Thompson A.A. & Strickland A.J.,2001, crafting and Executing Strategy 12th Edition, McGraw Hill, USA.
- Zeithaml Valerie A., Mary Jo Bitner, 2000, Services Marketing 2nd Ed. McGraw Hill

JOURNALS AND PUBLICATIONS

- CMA Magazine, June 1993 published by the Society of Management accountants of Canada.
- Engineering News 20 June 2005
- Randall Spalding-fecher and Anthony Williams UCT and Clive van Horen Board of Executors: Energy and environment in South Africa: charting a course to sustainability. Volume IV No.4 December 2000.
- Howells, Allstad, cross and Jeftha, Rural Energy Modeling, Energy Research Institute, UCT.
- Lang Cathy A. and Rosselli Glynne, Eskom Jhb South Africa. A collaborative application of conventional Energy Resources WEC Information World energy council publication.
- LPG Challenge South Africa Workshop Report – Appendix C –Address by Dr Rod Crompton 20 April 2004.
- LPGas Rural Energy Challenge Workshop South Africa Workshop Report 28 May 2004
- LPGas Africa Magazine 2Q 2004 Volume 2 Number 3.
- LPGas Africa Magazine 4Q 2004 Volume 3 Number 1.
- LPGas Africa Magazine 1Q 2005 Volume 3 Number 2.
- LPGas for Low income Households – Capital Fund Prospectus version 3.1, 20 October 2004
- Primedia Face 2 Face Safety Gas community Events Marketing Report
- Sapia: South African Petroleum Industry Association 2004 Annual Report.
- Safety Gas Business Case Study June 2005 – Afrox Handigas Division
- Walter & Power planners A/s Palmer Development Consultant Nov 2001, Capacitating Local Government for the Rural Energy Development.

AFROX INTRANET

- Afrox Going forward presentation 2005
- Afrox annual financial statements 2004/2005
- Proactive Marketing research 2002 - The Value equation

SURVEYS

- Perry and Associates 2003
- Roots 2004 for Wild Orchard Holdings 2004
- Primedia Face to Face 2004

REFERENCES

INTERNET

1. Energy and the environment in South Africa
<http://www.greennature.com/article>
2. Porters Five Forces
<http://www.quickmba.com/strategy/porter>
3. Strategy Consulting Limited
<http://www.strategy.nildram.co.uk/most.html>
4. The strategic planning process
<http://www.quickmba.com.strategy/strategic-planning/>
5. Strategy – analyzing competitive industry structure
http://www.tutor2u.net/business/porter_five_forces.htm
6. Porters 5 Forces
<http://www.themanager.org/Models/p5f.htm>
7. Analyzing Competitive Forces using Michael Porters 5 Forces
<http://www.bnet.com>
8. Strategic management Pest analysis
<http://www.quickmba.com/strategy/pest>
9. Mindshifts Strategy and Competitive Intelligence
<http://www.mindshifts.com>
10. Competitive strategy and Industry analysis
<http://home.att.net/~nickols/articles.htm>
11. Gap analysis
<http://www.family-business-experts.com>
12. Value based management ADL matrix
<http://www.valuebasedmanagement.net/methods>
12. Seven steps to effective Competitor Benchmarking
<http://www.aurorawdc.com>
13. New business models - Resource base view of firms
<http://www.1000ventures.com>

INTERNET CONTINUED:

- 14 Strategic marketing and the resource based view of the firm
<http://www.vancouver.wsu.edu>
- 15 NetMBA - The value chain
<http://www.netmba.com>
16. QuickMBA – Strategic management Swot Analysis
<http://www.quickmba.com/strategy/swot>
17. Strategy – Benchmarking
<http://www.tutor2.net/business/strategy/benchmarking>
18. Strategy – what is strategy
<http://www.tutor2u.net/business/strategy>
- 18/1 Alliance – Strategic planning
<http://www.allianceonline.org>
19. Group works Vision, Mission, Goals and Objectives
<http://www.umext.maine.edu>
- 20 The Mission Statement
<http://www.businessplans.org/mission/htm>
21. BCG Growth-Share Matrix
<http://www.quickmba.com/strategy/matrix>
22. Strategic management GE/ McKinsey Matrix
<http://www.quickmba.com/strategy/matrix>
23. ADL matrix Arthur D Little
<http://.valuebasedmanagement.net/methods>
24. Developing your marketing mix
<http://marketing.about.com/od>
25. Digital X 4P's Marketing mix strategy
<http://www.digital-x.com/mktg>
26. Pricing Energy In Developing Countries – South Africa:
<http://www.worldenergy.org>
27. Government white papers 1998
<http://www.info.gov.za/whitepapers/1998>

INTERNET CONTINUED:

28. Dana Knight
<http://www.danaknight@indystar.com>
 29. Business Coach Strategic management
<http://www.1000ventures.com/business>
 30. Alliance for nonprofit management frequently asked questions
<http://www.allianceonline.org/faq/strategic>
 31. Business coaches the 7 P's of marketing
<http://www.entrepreneur.com>
 32. RBMA
info@rbma.org
 33. Adams six sigma
<http://www.adamsixsigma.com/newsletters/customers>
 34. The Three crises: oil prices, climate change and international debt
<http://www.feasta.org/documents/energy>
 35. The Challenge of Rural Energy Poverty in Developing Countries.at:
<http://www.worldenergy.org>
 36. Peak Oil, energy, and local solutions
<http://www.globalpublicmedia.com>
 37. Multiple Cultures within a company
<http://www.csuchico.edu/mgmt/strategy>
 38. Vision beyond Excellence
<http://www.pyrotec.co.za>
 39. Engineering News Firm takes up the liquified gas gauntlet
<http://www.engineeringnews.co.za>
- Safety Caps- South Africa:
<http://www.hands>
- State of Environment:
<http://www.cmc.gov.za/peh/soe/energy>
- Poverty and Inequality in South Africa – Summary Report
<http://www.polity.org.za>

Energy and the Environment in South Africa.
<http://www.greennature.com/article1185.html>

Rural Electrification in South Africa.
<http://www.rsvp.nrel.gov>