THE APPLICATION OF THE MARKETING CONCEPT TO INDEPENDENT RADIO AND APPLIANCE RETAILERS

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ABSTRACT

Independent Radio and Appliance retailers face very strong competition from chain groups, discounters and hypermarkets. These organisations rely on bulk-buying and negotiated deals to elicit favourable terms from suppliers. Due to the volume of their turnover they can afford to work on lower profit margins than the independent operator. Large marketing organisations also benefit from economies of scale in advertising and promotions. In short the large groups have a differential advantage over the smaller independents in that their cost of sales and overhead structure is generally lower.

The purpose of this study is to develop a marketing strategy for independent radio and appliance retailers which will enable them to survive, grow and trade profitably under current highly competitive conditions.

The methodology will involve establishing the marketing strengths and weaknesses of the average independent retailer, the wants and needs of the target market, an ideal product mix, locational strategy, pricing policies, promotional strategy and also the role of the human element as a potential marketing advantage for the smaller business.

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CHAPTER ONE

INTRODUCTION

1.1. Background

According to figures produced by the Department of Statistics there were Four Thousand One Hundred and Twenty Five dealers in furniture and household appliances in the Republic of South Africa in 1977. (See Table 1.1) This represented a 36,7 per cent growth in the number of establishments since the previous survey was undertaken in 1971. During the same period the number of working proprietors grew from One Thousand Three Hundred and Twenty Four to Two Thousand and Fifteen i.e. an increase of 52,7 per cent. The conclusion can be drawn that there has been a healthy increase in the number of independent retail establishments selling furniture and household appliances throughout the Republic. However, although numbers have grown there is evidence that the smaller traders are not holding their market share in competition with the larger establishments. In an article on the retail trade in the Republic, the Barclays Bank Business Brief, reported as follows:-

> Figures for the larger retail establishments appear to have been markedly better in recent months than results for the retail trade as a whole. One factor accounting for this could be a loss in market share by the small and medium sized retail business to the larger establishments, where there is also a greater concentration of hire purchase sales which have increased noticeably of late.

It is felt that this trend is also noticeable in the field of household appliances. Small retailers of appliances are vulnerable to competition from these two sources:-

(i) Large discount-type operations which are prepared to sell at very low mark-ups.

(ii) Large chain operations which do not emphasise price, but offer easy credit terms and a pleasant shopping atmosphere.

TABLE 1.1

SELECTED STATISTICS REGARDING DEALERS IN FURNITURE AND HOUSEHOLD APPLIANCES

Census Year	1971	1977	% Change
Number of establishments	3018	4125	+36,7
Number of working proprietors	1324	2015	+52,2
Number of employees	30330	38653	+27,4
Sales (R1000's)	422744	1032613	+144,3
Net profit (R1000's)	22390	67615	+202,0

From : Department of Statistics - Census of Wholesale and Retail Trade 1977. Published 30th July, 1980.

These groups benefit from the marketing policies of manufacturers and distributors who seem to be prepared to give preferential treatment to bulk buyers and mass merchandisers. The small independent is caught in the middle, without the buying power to match the discounter on price, nor the financial resources to compete with the chain groups when it comes to granting extensive credit terms to consumers.

A recent trend is for the national chain groups to establish a foothold in both the discount and hire-purchase markets. For example the listed Beares Group of furniture stores arranged a takeover of Game Discount World in 1979. Similarly, the Russels national chain group is in the process of building a chain of furniture warehouse operations under the name, Joshua Doore. O.K. Bazaars, which is the biggest retail operation in the sub-continent, has a chain of Hyperama's which complement it's traditional one-stop shopping facilities. These large multiple-store groups all adopt aggressive and sophisticated marketing strategies and tactics. If they follow the American trend then they will become more and more vertically orientated. In the face of these and other developments it was hypothesised that the very existence of the small independent appliance retailer was in jeopardy.

1.2 Purpose

It was felt that the developing structure of appliance retailing in South Africa deserved closer analysis. Many questions arise regarding the role and strategy of the small and independent appliance retailer in this changing situation. The main purpose of this study was to develop a conceptual framework whereby the small independent radio and appliance retailer can formulate successful marketing strategies.

The model prescribed should meet the following criteria:-

1. Be rooted in the marketing concept.
2. Recognise a possible lack of marketing skills on the part of the practitioner.
3. Anticipate the need to satisfy the entrepreneurs expectations.
4. Prescribe the business performance requirements.
5. Meet the industry's success requirements.
6. Be dynamic to allow for change.

It is felt that such a conceptual tool will produce more consistent results as opposed to an intuitive flair which might have produced brilliant results in past less turbulant times.

Joseph L. Hudson, Chairman, of the J.L. Hudson Company, of Detroit, is quoted as follows:-

> As retailers, we are in existence at the pleasure of our customers. We always have to ask ourselves, "What more am I offering or providing the customer than my competitors?" The degree to which we answer this question correctly for the benefit of the customer determines our success as individual retailers.
>
> It is important, therefore, that the future wants, needs and desires of customers be determined in order to better serve them. The size of the various customer segments must also be quantified and projected. Four trends in consumer behaviour are particularly evident today. They are:-
>
> 1. The increasing importance of value to the customer.
> 2. Consumerism.
> 3. The growing importance of lifestyle merchandise to the customer.
> 4. The equally important regard of the customer for a clearly focused marketing strategy.

These trends are expected to have long-term impact, and the more quickly we, as retailers recognise and respond to them, the more effective we will be in serving customers. (Mason and Mayer P3).

1.3 Data Gathering Methods and Procedures

Data has been gathered in the following ways:-

1. Survey of existing material in secondary sources such as marketing/management books and periodicals, trade publications, research reports, seminar handouts and official statistics.

2. Survey of the market structure of a specific trading area.

3. Analysis of the implicit strategy of independent appliance retailers on the basis of case study material.

1.4 Definition of a Small Independent Appliance Retailer

For the purpose of this study a small independent appliance retailer is defined on the basis of the following descriptive and quantitative criteria:-

(i) Ownership and management

This means that the establishment is neither a subsidiary nor associated in any way with a chain group or large public company.

(ii) The short-term growth objective does not exceed the following parameters:-

(a) Maximum annual sales : R3 000 000
(b) Maximum number of branches : 5

c. Maximum asset value : R1 000 000

d. Maximum number of employees : 100

The above criteria are similar to those applied by the Small Business Advisory Bureau of the University of Potchefstroom for Christian Higher Education. (See Exhibit 1.1)

EXHIBIT 1.1

DEFINITION OF A SMALL BUSINESS

There are a number of views in regard to the precise definition of a small business. On the one hand there is a referral to an economic definition that has a bearing on the independence of a business, autonomy of management and the involvement of the owners (suppliers of capital) in the business. On the other hand a small business may be defined statistically in terms of number of employees, annual turnover, total assets, number of branches etc. The type of business undertaking viz. retailing, wholesaling or industrial will inevitably play a role in the definition of a particular small business.

Generally speaking a business can be considered small if it is privately owned, privately managed and privately operated. A working definition can also be formulated for a small business as one that can be considered a small business if it is independently owned; independently managed; has an annual turnover of not more than R1 million; is not part of more than five operating units or branches; has a total asset value of less than 1/2 million Rand and does not employ more than 100 persons. To provide for extreme and unforeseen circumstances, a business should comply with only 5 of these requirements to be considered small.

(From : Small Business Advisory Bureau)

CHAPTER TWO

2. SUMMARY OF MAIN FINDINGS AND RECOMMENDATIONS

The findings are based on a survey of a specific trading area, namely the Pinetown-Highway area, together with conclusions drawn from in-depth studies of more than one hundred small businesses over a period of nearly six years. Two of these case histories are analysed in Chapter 6, while the survey of the Highway trading area is described in Chapter 5.

2.1 Main Findings

The main findings can be summarised as follows:-

(i) Strategic planning - very few small retailers engage in a systematic process of developing business plans, which are committed to writing and are based on a detailed analysis of internal strengths and environmental opportunities. The business style of most small entrepreneurs favours the intuitive approach. As a result contingencies are not foreseen or planned for and the risk of failure is high. If a major strategic error is made the small firm does not usually get a second opportunity to solve the strategic problem.

(ii) Positioning - choosing the right posture or position for a product or store in the market place is probably the most important strategic marketing decision and will be a major determinant of success or failure. Many writers advise small firms not to compete head-on with the large chains and discount stores. The market survey of a specific trading area revealed that in that area the majority of independent appliance retailers were positioned in direct competition with the big groups.

(iii) People - the "People" element in a small retail business is a potential differential advantage when in competition with large stores. However, the appliance retailers in the case studies, did not seem aware of this potential advantage and in fact had poor "People" policies.

(iv) Presentation - the market survey revealed that independent appliance retailers compare unfavourable with large stores on attributes such as, merchandising, layout, promotions, physical facilities, location and store-hygiene. In general they did not present an image that encouraged consumer identification.

(v) Environmental opportunities - this study revealed that independent appliance retailers are either unaware of or do not have the resources to capitalise on many environmental opportunities. For example the market survey revealed that only one independent furnisher was positioned directly in competition with the national furniture chains for the growing Black consumer market. In addition several potential store types were not represented in the specific trading area studied. These included appliance warehouse type operations.

One in-depth case study revealed management inertia in the face of structural changes in the market.

(vi) Chain store dominance - as a result of the above factors the conclusion could be drawn that small independents have largely given up the fight for the high ground in the consumer retail appliance market. Except for the peripheral services the chain groups dominated the specific trading area described in Chapter 5.

2.2 Recommendations

Burstiner (P9) lists four requirements for small business success:-

(i) A qualified entrepreneur
(ii) A potential business opportunity
(iii) A detailed plan
(iv) Sufficient capital.

Recommendations regarding these four aspects are discussed below:-

(i) A qualified entrepreneur

The first and most important requirement in a small business is the ability and motivation of the entrepreneur. Therefore, the entrepreneur should engage in a searching self-analysis. The entrepreneur should ascertain his strengths and weaknesses with regard to the following attributes:-

a. Experience
b. Work ethic
c. Human relations
d. Communications ability
e. Managerial skills
f. Decision-making methods
g. Creativity
h. Time management
i. Record-keeping.

The entrepreneur should make an inventory of his strengths and weakpoints, then embark on a program of self-development. Where necessary, he should be prepared to call in outside assistance to help him solve problems.

(ii) Potential business opportunity

The trend in retailing has been towards one-stop shopping in bigger and bigger stores. Because of economies of scale larger retail operations could offer large assortment plus lower prices. However, rising costs will, inevitably, force large retail operations to reduce the variety of merchandise on offer. At the same time rising standards of living will lead to a greater diversity of consumers with special interests and divergent life-styles. This will create new opportunities for the speciality retailer. The small independent must gear himself to take advantage of these opportunities through the following measures:-

a. Market surveys
b. Consumer research
c. Product innovation
d. Building supplier relationships
e. Identification of market structure changes and opportunities
f. Greater customer orientation

(iii) Detailed plan

The main thrust of this study is that the independent appliance retailer should devote greater attention to planning. A strategic retailing methodology is outlined which follows these steps:-

Step One - Capability analysis.
Step Two - Prepare a written statement of owner's expectations.
Step Three - Market opportunity analysis.
Step Four - Determine store posture and select a target market.
Step Five - Set retailing objectives.

<u>Step Six</u> - Formulate a retailing mix.

<u>Step Seven</u> - Prepare action plans or budgets.

<u>Step Eight</u> - Analyse the financial and resource implications of the plans.

The retailing mix is represented by a "Wheel of Retailing" with the store at the hub and six spokes comprising the controllable variables of the mix. They are:-

a. Product strategy
b. Place strategy
c. Price strategy
d. Promotion strategy
e. People strategy
f. Presentation strategy

(iv) <u>Sufficient capital</u>

It is felt that if the manager takes the trouble to prepare sound plans then sources of outside capital will be more willing to advance the necessary capital required for implementation. Experience has proved that small firms often have scarce capital tied up in the idle assets such as fixed assets, slow-moving stocks and debtors. Efficient management will greatly reduce the capital requirements of a small business. The independent appliance store can take these steps to reduce the capital shortage problem:-

a. Install an efficient information system.
b. Establish ratios and control points to measure efficiency and productivity.
c. Analyse internal operations to establish the sectors that contribute greatly to profits.
d. Improve productivity through follow-up synergy.
e. Maintain realistic profit margins.
f. Plough back profits to allow for the effects of inflation and growing working capital requirements.

CHAPTER THREE

3. LITERATURE SURVEY - PART ONE

In this chapter relevant theories, concepts and techniques in the fields of management, marketing and retailing are reviewed. The focus of this survey is on those elements of theory that will provide the components for a strategic marketing model for small retailers.

3.1 Relationship between Marketing and Retailing

In 1960 the American Marketing Association defined marketing as 'The performance of business activities that affect the flow of goods and services from producer to consumer or user' (Brannen P18). Since then formulating definitions of marketing has become a popular pastime for writers on the subject. The following three definitions emphasise the customer orientation of marketing. McCarthy gives this definition:-

> Marketing is the performance of business activities which direct the flow of goods and services from producer to consumer or user in order to satisfy customer wants and needs and to accomplish the company's objective.(P19)

Kotler proposes a definition that is rooted in human behaviour. He says 'Marketing is human activity directed at satisfying needs and wants through exchange processes' (P5).

Stanton looks at marketing from a systems point of view. According to his definition marketing is:-

> ....a total system of interacting business activities designed to plan, price, promote and distribute want satisfying products and services to present and potential customers. (P5).

Marketing activities are conducted by producers, middlemen, service organisations, consumers and even governments. Retail establishments are specialised institutions which conduct marketing activities at the consumer end of the channel of distribution. Davidson, Doody and Sweeney give this definition of retailing:-

> Retailing is the final part of the marketing process in which various functions of the seller, usually a store or service establishment, and the buyer, an individual consumer, are primarily orientated to accomplishing, the exchange of economic goods and services, for purposes of personal, family or household use. (P4)

Mason and Mayer prefer to define retailing from three points of view:-

a. The discipline of retailing - as a social discipline, retailing is the study of interaction of consumers and their social institutions as they conduct transactions in the market place.

b. The science of retailing - retailing as a science is the attempt to organise our knowledge about retailing through observation, study and experimentation and to use this information to broaden our base of knowledge.

c. The managerial view of retailing - for the manager, retailing is the attempt to manage transactions at the point of ultimate consumption for the benefit of the organisation and society. (P17)

In this study we look at retailing from a micro viewpoint by focusing on the management of retail firms.

According to Davidson, Doody and Sweeney retailing differs in several ways from marketing activities conducted by institutions which do not have direct contact with consumers:-

(i) Consumer motivation -'In a generally prosperous society where the gratification of basic physical needs is more or less taken for granted by the overwhelming majority, the values sought by consumers tends to have a high psychological or subjective component, including matters such as knowledge, convenience, distinctiveness, assurance, timeliness, prestige or social appropriateness.' (P4)

On the other hand the business buyer is better informed, less emotionally biased, deals in larger quantities, aims to accomplish a business purpose and is more likely to make objective comparisons. Other writers have also pointed out that shopping can be a leisure activity for the consumer, thus it may be an end in itself.

(ii) Quantities - 'The ultimate consumer's purchases tend to be in small quantities, giving rise to a very large number of transactions relative to the sales volume of an establishment.' (P4)

It should be pointed out that this might not apply in the case of a small retailer selling large appliances.

(iii) Immediacy - 'Many purchases are the result of impulsive reaction to a display of merchandise.' (P4)

Conversely transactions by business firms are characterised by forward planning, scheduling and awareness of normal lead times. For example, a consumer might have in mind the purchase of a new home appliance for a long time, but once the decision is made, and the means are available, then the want must be satisfied more or less immediately.

(iv) Consumer initiative - 'In retailing, the usual situation is that the consumer initiates the marketing contact, as compared with marketing on the wholesale level, where an outside salesman commonly seeks out or maintains continuing relationships with business buyers.' (P5)

(v) Business location - as a result of (iv) above, store location is unusually significant and can be substantially modified by new competition, the rerouting of a highway or the deterioration of surroundings. In general it can be said that a small retailer will not be able to conduct a successful marketing strategy from the wrong location. Location is of less vital importance to marketers of intermediate products and services.

(vi) External and internal atmosphere of store - The authors write that:-

> .... the values sought by the individual consumer are not merely those of the physical product per se: they are in a large part values contributed by the retailing organization itself. (P4)

Other writers have referred to the fact that the store itself becomes a total product.

(vii) Time and place - 'Stores must establish hours of operation that will serve the wants of it's clientele, in view of the prevailing alternative shopping opportunities available to potential customers. And, more so than any other marketing, retailing is local.' (P5)

Factors such as store size, architecture, composition of the merchandise assortments, and the nature of the promotional effort must be adjusted to local environmental and competitive conditions.

I have added to the above list two more important ways in which retailing differs from other marketing activities.

(viii) Cost structure - Mason and Mayer point out that:-

'Retailing is much more labour-intensive than many other industries, and cash flow is thus produced primarily by earnings.' (P105)

Investment decisions in capital-intensive industries require a long-term planning horizon. Also large capital investments in plant and machines produce cash flows through depreciation allowances. The major investment in retailing is traditionally in stock and debtors. In a typical small retail undertaking stock can account for up to seventy per cent of the total investment. The result is that retailers have tended to neglect long-range strategic planning and have adopted a short-term planning horizon.

(ix) Retailing management - the question of whether retailing management is an art or a science took longer to resolve than in many other industries. There are many examples of enterprising retailers rising from obscurity to achieve national prominance seemingly on the basis of flair and intuition. However, one feels that those who have achieved long-term success have done so by the adoption of modern principles of management.

To sum up we can say that the marketing activity conducted by retailers is distinctive in several ways from that under taken by other institutions in the overall marketing system.

3.2 Marketing Concept Applied to Retailing

The marketing concept was born in the United States as a concept for big business. Historically the production orientation of the 19th and early part of this century gave way to a sales orientation during the 1920's. For the next thirty years the dominant concern of management in big American corporations was the pursuit of growth in sales. However, by the early 1950's some firms began to realise that a new perspective was needed. According to Myers, the 'marketing concept' was first articulated by Ralph Cordiner of General Electric in 1952.

Kotler defines the marketing concept as follows:-

> The marketing concept is a management orientation that holds that the key task of the organization is to determine the needs, wants and values of a target market and to adapt the organisation to delivering the desired satisfactions more effectively than it's competitors. (P14)

The marketing concept is described in Davidson, Doody and Sweeney in the following words:-

> In current marketing literature reference frequently is made to the "marketing concept". While this term has been used with various shades of meaning, it is used primarily to denote the manner in which the management of a company is shaped by a sense of marketing orientation. For our purposes, it may be defined as a business commitment to the planning, organising and integration of functions carried on in a firm with the objective of insuring the profitability of the firm by the substantial satisfaction of customer requirements. (P10)

The above definition highlights the three fundamental principles underpinning the marketing concept. According to van der Merwe (P4) these three basic characteristics are:-

1. Consumer orientation
2. Profit
3. Organisation integration

Consumer orientation means that the focus of marketing management attention and efforts is directed towards the satisfaction of consumer wants and needs. Van der Merwe says:-

> The second fundamental principle underlying the marketing philosophy is profit. The marketing concept ensures that loss is reduced due to inadequate information and planning, and that companies recognise their purpose as survival, profit and long-term growth rather than purely sales volume.' (P5)

Thus the end is to maximize profits rather than sales. With regard to organizational integration van der Merwe writes 'Implementing the marketing concept required an overall business structure organized and staffed to serve customers efficiently.' (P5) In other words all the marketing activities performed by the business are integrated and co-ordinated in a unified strategy in order to achieve maximum impact.

The marketing concept can be contrasted with alternative philosophies which may underpin the firm's marketing mission.

Kotler lists four alternative concepts which can have a bearing on the nature and direction of marketing activity. These are:-

1. The product concept
2. The selling concept
3. The marketing concept
4. The societal marketing concept

Figure 3.2.1 is a matrix which summarises and contrasts the focus, means and ends of the above four concepts.

The assumption underlying the product concept is that the right product, at the right price and in the right place will sell itself. In addition it implies that these crucial marketing decisions can be made without referring to the ultimate users of the product.

This philosophy is fairly prevalent in the retail trade. It is typified by the retailer who chooses a location, orders merchandise, adds a fixed mark-up on all goods and then sits back to rely on whatever passing customers enter the store.

It is felt that in this day of rapidly escalating overheads, such as rent and wages, very few retailers can afford to rely solely on the passing trade. It is becoming more and more essential to attract custom from further afield.

The selling concept assumes that long-term profitability will automatically be assured provided a high sales turnover can be achieved in the short-term. In addition the way to achieve high sales is to subject all potential users to an aggressive and sustained selling and promotional effort. This philosophy has a firm foothold in the appliance retailing industry. That is why so many appliance retailers, big and small, slavishly follow marketing strategies based on low mark-ups and high sales turnovers. One of the intentions of this study is to examine the feasibility of alternative strategies for appliance retailers.

"Making-a-sale" is the single-minded purpose of firms who conduct marketing activity under the selling concept. Also the consumer must be persuaded to buy the product that best suits the needs of the seller and not necessarily the buyer's needs. For example, a retailer might have negotiated a special deal or arrangement with a certain supplier. This resulted in a commitment on the part of the retailer to buy-in stock above the normal requirements. Marketing effort then concentrates on reducing the abnormal stock pressure. To quote Theodore Levitt:-

> The difference between marketing and selling is more than semantic. Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is preoccupied

> with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it. (Kotler P15)

Peter Drucker presents a strong argument as to why the marketing concept is preferable to the selling concept. He writes:-

> But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available ....(Kotler P16)

The marketing concept which was hailed at the time as a major step forward in the development of marketing management theory came in for criticism from a number of writers during the 1970's. They feel that many firms gave lip-service to the marketing concept but in practice failed to achieve commitment to a total consumer orientation. Many writers cite the rise of consumerism during the 1960's and 1970's as evidence of the failure to achieve a true consumer orientation in most organisations.

Mason and Mayer hold that one of the main causes of 'the lack of a true consumer orientation can be traced to managements' failure to look at customers (markets) as part of the social environment.' (P9)

They go on to state that:-

> It is impossible for an individual's consumer-self to be separated from the social-self. Consequently, to develop a successful consumer orientation, a sensitivity to the changing values of society must be developed. (P10).

Other writers go one step further. Not only must marketeers develop a sensitivity to changing social values but they should anticipate what Kotler calls the long-run public interest. These writers are influenced by pollution, ecology, energy, demographic and economic issues. They point out that the pursuit of customer satisfaction at all costs can be detrimental to the long-run interests of society. Some notable examples are:-

(i) The American car industry failed to anticipate the looming energy crisis.

(ii) Many fast-food products have little nutritional value.

(iii) Detergents promise a marginal increase in "whiteness", but pollute our rivers.

(iv) Most packaging is not bio-degradeable.

(v) More and more electrical appliances for the home when Escom is forced to introduce power-cuts as a result of the shortage of electric power.

(vi) Failure to introduce appliances based on renewable energy to the mass market.

Kotler proposes a 'societal marketing concept' which is 'a management orientation aimed at generating customer satisfaction and long-run consumer and public welfare as the key to satisfying organisational goals and responsibilities.' (P18)

The implication is that the retailer must be prepared to take a longer-term view and not concentrate on the pursuit of short-term profits via satisfaction of every little consumer whim. Mason and Mayer, cite the growth of corporate giving as evidence that retailers in the United States are becoming more socially responsive. They point out that many national chains in the United States of America now allocate up to five per cent of pre-tax income for philanthropic purposes and community welfare programs as evidence that retailers in the United States of America are becoming more socially responsive.

FIGURE 3.2.1

ALTERNATIVE CONCEPTS TO DESCRIBE MARKETING ORIENTATION

	PRODUCT CONCEPT	SELLING CONCEPT	MARKETING CONCEPT	SOCIETAL MARKETING CONCEPT
FOCUS	PRODUCT QUALITY	SELLERS NEEDS	CUSTOMERS NEEDS AND WANTS	SOCIETIES NEEDS
MEANS	FAIR PRICE	SELLING AND PROMOTING	INTEGRATED MARKETING	WELFARE MARKETING
ENDS	PROFITS THROUGH EFFICIENCY	PROFITS THROUGH SALES VOLUME	PROFITS THROUGH CUSTOMER SATISFACTION	SATISFACTORY PROFITS

(Adapted from: Kotler, Philip: Marketing Management, Prentice-Hall, 1976, P15)

It seems necessary to examine the future of the marketing concept. Some observers feel that there are more efficient ways of operating a business than under the marketing concept. The following developments raise a question mark regarding the future of the marketing concept.

Consider the following propositions:-

(i) Corporate planning - the growing popularity of total corporate planning, to achieve the most efficient use of resources, increased growth and maximum return on investment, will downgrade the role of the marketing planner.

(ii) Cost of capital - the high cost and shortage of capital will make finance the most critical function in the firm of tomorrow.

(iii) Information systems - the introduction of computerisation will facilitate the introduction of an integrated functional approach.

(iv) Economic environment - turbulence in the economy and double digit inflation will shift managements' attention to strategies for survival.

(v) Social values - changing social values will force firms to adopt the societal marketing concept.

The writer recently attended a seminar, given by the National Cash Register Company, where the results of a study amongst American food retailing executives were given. When asked to list, in order of importance, the problems facing them, in the immediate future, they listed the four main problems as:-

(i) Operating problems due to high interest rates
(ii) Difficulty in maintaining the current net profit margin
(iii) Difficulty in achieving enough sales to offset inflation
(iv) Difficulty in obtaining enough capital from outside sources

Although environmental changes will produce swings of the pendulum regarding which functional area of the firm will receive priority attention by top management, this writer agrees with Crisp when he says 'All the business of retailers is marketing.' (P702) In addition Mason and Meyer point out that marketing and retailing are inseparable (P6). It is worthwhile to quote Myers:-

> No matter what direction the firm moves in the future, it must have the marketing capabilities to operate effectively in highly competitive marketing environments. The basic tenets and tools of modern marketing must be understood and implemented effectively, no matter what direction the firm goes. As firms find themselves operating more effectively as marketeers, they will turn their attention to other more pressing problems within the firm. This is exactly what happened when firms went to the marketing concept, after they had solved production problems. The pendulum of emphasis must swing through marketing on it's way to the future. (Sturdivant P323)

The question is whether the marketing concept as defined by Kotler and others is sufficient to guide the thinking of modern retailers when developing marketing strategies. Mason and Mayer prefer to use the term 'Retailing Management Concept' as a philosophy for the management of retail organisations. The components of this concept can be summarised as follows:-

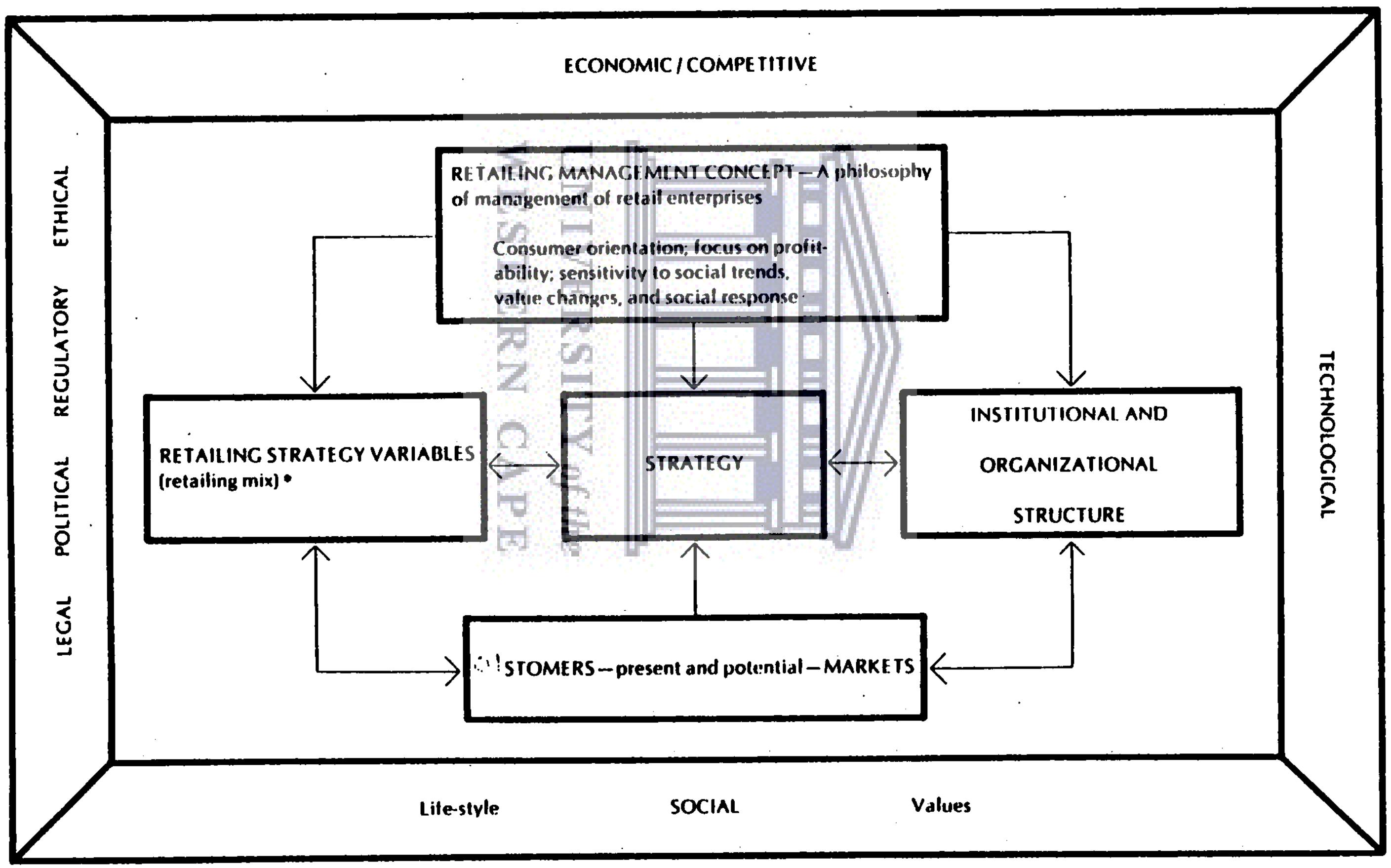
(i) Consumer orientation
(ii) Profit orientation
(iii) Integration of the marketing functions under a key executive.
(iv) Social responsibility.

The framework for their concept is shown in Figure 3.2.2. They write that:-

> The central placement of strategy in the framework dramatizes the critical relationships between the retailing management

FIGURE 3.2.2

FRAMEWORK OF RETAILING MANAGEMENT CONCEPT



* These variables include product, pricing, vendor relationships and merchandise handling, channel decisions, communication, sales generating and supporting activities, locations, store planning, and human resources management.

(From : Mason and Mayer P7)

concept and the market. Strategy is the posture assumed by management as it attempts to accomplish the objectives of the firm. (P13)

This writer feels that it will be impossible to apply the concept of social responsibility to a small retail business. The average small business manager is not in a position to interpret what is in the best long-run interests of society. We can say that the small retailer can only be expected to aim to meet his personal objective, by ensuring the satisfaction of the wants and needs of a selected target group of customers, while at the same time running a well managed business within the constraints of the law and his conscience.

We conclude that the marketing concept is the most promising orientation for the small retailer who sells appliances. From the literature we have summarised the marketing concept as follows:-

(i) The marketing concept is a philosophy that should permeate the entire business, but in particular the thinking of top management.

(ii) The firm's mission is defined as satisfying the wants and needs of a target group of customers.

(iii) In order to define a target market and understand the wants and needs of the target group it is necessary to conduct a programme of market research.

(iv) The whole firm is committed to customer satisfaction, which means that the whole organisation is integrated and operating procedures are geared to achieve this end.

(v) Profitable sales volume is the objective and not sales volume per se.

3.3 Strategic Retailing

3.3.1 Introduction

In this section the literature on the process of strategy development is examined with a view to building a strategic retailing model for the independent appliance retailer.

Morkel defines strategy as follows:-

> A strategy is a consistent set of guidelines usually consisting of objectives, policies, rules and direction which guide the strategic decisions of the firm. (P11)

He notes that strategy has a 'competitive connotation and is concerned with the way in which a firm establishes a long term relationship with it's counterparts in the environment.' All firms have a set of guidelines which guide important strategic decisions. However, not all firms have adopted a formal and systematic process of developing strategies. Therefore, we must distinguish between what Morkel refers to as an implicit strategy and a formal planned strategy. An implicit retailing strategy is reflected in repetitive modes of behaviour and can be ascertained by observation of the retailers location, pricing methods, advertising and so on. An explicit strategy results in a written marketing program or plan.

Steiner and Miner (P19) point out that the word strategy derives from the Greek strategos which literally meant the art of the general.

> It refers to that which is of major concern to top managements of organisations. Specifically, strategy is the forging of company missions, setting objectives for the organisation in the light of external and internal forces, formulating specific policies and strategies to achieve objectives, and assuring proper implementation so that the basic purposes and objectives of the organisation will be achieved.

Their model of a company wide planning process is shown in Figure 3.3.1.

Other writers have used conflicting words to convey basically the same meaning. Words such as business policy, long-range planning, corporate planning and strategic management are more or less interchangeable. It is not necessary to enter this debate since the concern here is in the field of marketing and more specifically, retailing. The term used here will be strategic retailing which is derived from strategic marketing.

3.3.2 Meaning of Strategic Retailing

Kotler (P45) defines strategic marketing as a process of analysing opportunities, choosing objectives, developing strategy, formulating plans and carrying out implementation and control. These steps are illustrated in Figure 3.3.5.1. When applied to a retailing firm it encompasses the planning, organising, activating and controlling of activities in order to act out the firm's mission and achieve it's objectives in the long run.

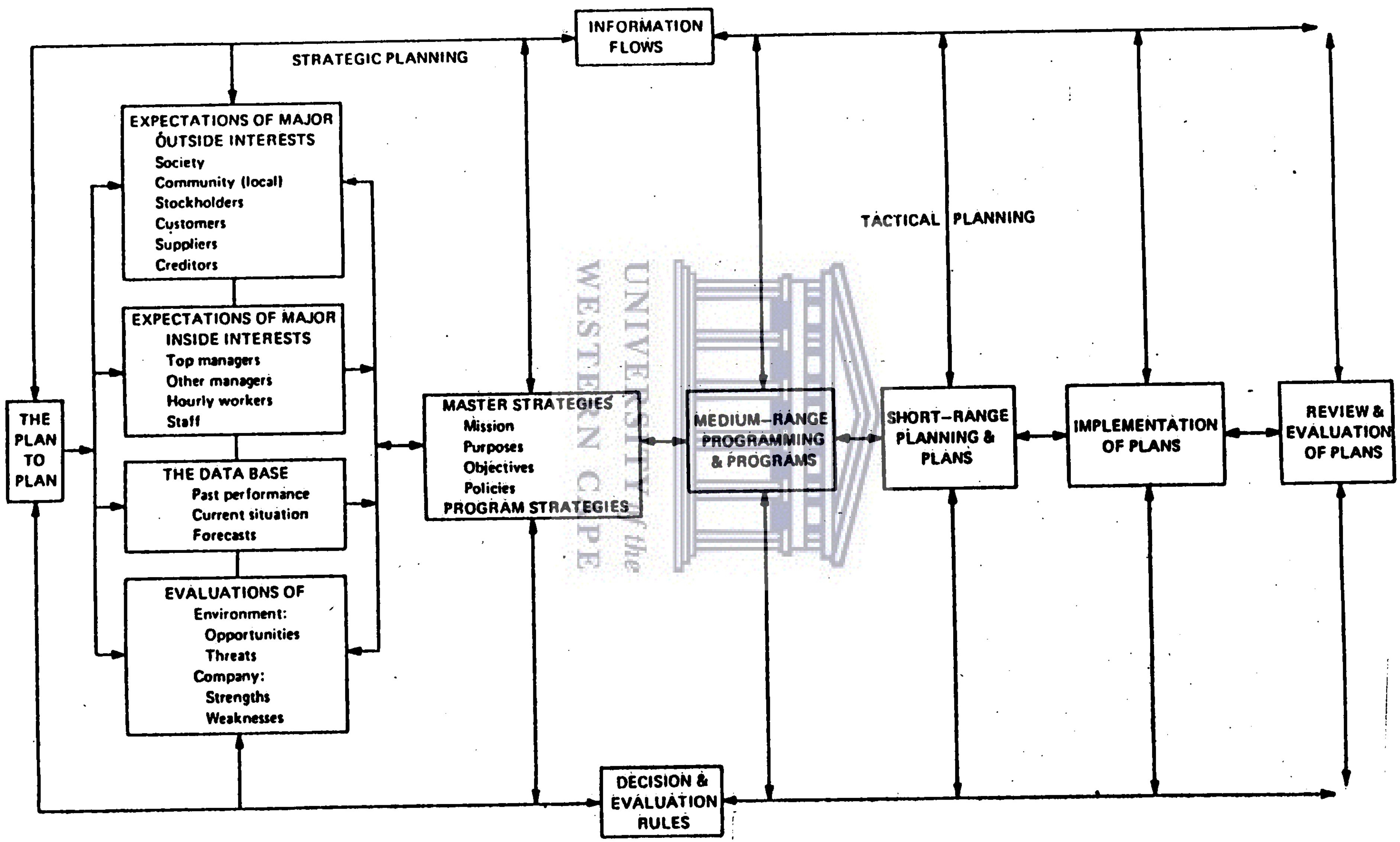
Ansoff, DeClerck and Hayes identify two ways in which the firm relates to it's environment.

a. Competitive behaviour - whereby the firm makes profitable goods/rewards exchanges with the environment.
b. Entrepreneurial or strategic behaviour - in which the firm replaces obsolete products with new ones which offer higher potential for future profits.

Due partly to the slowdown of growth in many markets and environmental change, attention today, is shifting from the competitive mode to the entrepreneurial mode. Through the process of strategic planning firms can revise their strategic posture. When a firm transforms itself from a focus on competitive behaviour to focus on entrepreneurial behaviour, a cultural transformation takes place.

FIGURE 3.3.1

STRUCTURE AND PROCESS OF BUSINESS COMPANY-WIDE PLANNING



(From : Steiner and Miner P18)

In other words firms which operate under the competitive mode have different profiles to firms which operate under the entrepreneurial mode. This applies to a number of attributes such as objectives, rewards, leadership styles, organisational structures, problem-solving processes, attitudes towards risk, values, skills, etcetera. Therefore, strategic planning is not sufficient by itself. The outcome of strategic planning is only a set of plans and intentions. It produces no actions, no visible changes in the firm. To effect changes the firm needs appropriate capabilities i.e. trained and motivated management and staff, information systems,and responsive organisational structures. A firm lacking these capabilities will resist the introduction of the plans. Such a firm will concentrate on the operational elements of marketing such as advertising, selling and so on, to the detriment of long-term profits.

Therefore, a major advantage of implementing a system of strategic management is that it will lead to a better understanding of the firm's capabilities and the development of a desirable strategic market posture.

Steiner and Miner (P31) state that the elements of the strategic planning process concern:-

> An understanding of the changing environment in which a company finds itself, the basic missions of the organisation, basic company purposes, long-range planning objectives and program/policies and strategies. (See Figure 3.3.1.)

Ansoff and other stress the substantial distinction between Strategic management, administrative and operations management (P21). Steiner and Miner concur and go on to say:-

> Strategic planning is one major aspect of strategic management. The two are inextricably interrelated. It is wrong to speak of strategic planning as a "tool" of management or as a "technique" for decision-making. It is a new concept of management. It is a new way to manage. (P33)

To sum up this section we can say that the concept of strategic retailing includes the following components:-

(i) Analysis of the internal capability of the retail firm.
(ii) Analysis of the external environment of the retail firm.
(iii) Formulating the firm's mission.
(iv) Setting long-range objectives.
(v) Devising retailing programs and strategies to reach the objectives.
(vi) Implementing the programs.
(vii) Controlling the results.

3.3.3 Need for Strategic Retailing

Grant Robinson (P53) says that:-

> Every organisation has a strategy, be it explicit or implicit. The strategy is a product of evolution in the market place, and the company which sets it's own strategy and attempts to be master of it's own destiny and not just a passive passenger, subject to the whims of competition and market place, will consistently out perform companies which adopt the SPORT approach (Simply Press on Regardless Technique)

The reactive organisation will spend most of it's energy and time responding to threats and putting out yesterday's fires and in general responding to outside inputs. The innovative organisation identifies it's needs and spends more time on searching for present and future opportunities.

Without specification of organisational needs there can be very little of what Nasser (P25) calls origin behaviour i.e. when the organisation which is faced with a seemingly insurmountable obstacle, searches for and finds a pathway around the obstacle and achieves it's objectives. Without the identification and specification of organisational needs there can be very little commitment towards goal achievement. This is likely to result in defeatist type of behaviour when large obstacles are encountered.

Mason and Mayer stipulate that the need to plan effectively for the future has arrived in retailing. (P104) They quote the following paragraph from an article in Chain Store Age Executive:-

> The future of retailing has never been so hazy. Volatile demographic trends, energy uncertainty, and tougher competition make corporate planning more essential than ever. The ability to whiff-out future trends, plan strategies accordingly and to do so with accuracy will determine which (stores) do best over the next decade. (P104)

> Retailing can no longer be regarded as an art dependent on the intuition and experience of management instead of a science carefully guided by hard facts and sound research. (P104)

Hofer and Schendel see the following benefits flowing from a formalised system of strategy development:-

1. Formulating organisational goals and objectives.
2. Identifying major strategic issues.
3. Allocating discretionary strategic resources.
4. Integrating diverse administrative and operating activities of the organisation.
5. Developing and training future general managers.

Ansoff (P102) lists five specific consequences of ignoring strategy:-

(i) In the absence of strategy there are no rules to guide the search for new opportunities both inside and outside the firm.

(ii) Project decisions will be of poorer quality than firms with strategy.

(iii) The firm will have no formal provision for partial ignorance.

(iv) Without benefit of formal appraisal, the firm would have no assurance that it's overall resource allocation pattern is efficient and that some product lines are obsolete.

(v) The firm will lack an internal ability to anticipate change.

Other writers have stressed the need to monitor the changing environment of business.The present and future environment of business is described by such adjectives as turbulent, complex, sea-change and so on.Peter Drucker has written a book with the title "Managing in Turbulent Times". He points out (P61) that in the past the concept of planning proved highly productive. Planners project into the future on the assumption that tomorrow will have much the same configuration as today. 'The most probable assumption today is the unique event, which changes the configuration drastically.'(P62)

> Unique events cannot be "planned". They can, however, be forseen, or rather, one can prepare to take advantage of them. One can have strategies for tomorrow that anticipate the areas in which the greatest changes are likely to occur, strategies that enable a business or public service institution to take advantage of the unforseen and unforseeable. Planning tries to optimise tomorrow the trends of today. Strategy aims to exploit the new and different opportunities of tomorrow.

Rhenman is a Professor of Business Administration in Sweden. He made a study of long-range planning and organisational change in 20 companies between 1963 and 1972. As a result of this study they came to the following conclusions:-

(i) Organisations are subject to social control and sanctions.

(ii) Organisational problems are symptomatic of difficulties in satisfying the demands of the environment.

(iii) The Company is a social and technical system with various stakeholders. Inside stakeholders include management, employees and shareholders.

(iv) Two types of change take place. These are cyclical changes and structural changes. Cyclical changes are analagous to fluctuations resulting from the business cycle. Structural changes are irreversible and require adaption on the part of the company.

Irreversible changes in the environment give rise to dissonance between the organisation and the environment. This starts a chain reaction that leads to inefficiency, viz:-

Structural change in the Environment
Dissonance
A reduction in internal and external efficiency
Disturbance or Disintegration
Sanctions
Gradual organisation awareness that a problem exists

Thus unless the organisation has an early warning system regarding impending structural changes in the environment it will only react to these changes once disintegration has set in.

Other writers regard components of the environment as uncontrollable variables in the process of strategy formulation. The individual business manager cannot change these variables but he can anticipate the opportunities and threats that follow drastic structural changes in the environment. Without a process of periodic reappraisal of the firm's strategic posture it will become like a ship without a rudder, completely at the mercy of the environmental forces.

Are there any disadvantages of adopting strategy as a tool of management? Ansoff (P101) points out that the alternative is to have no rules beyond the simple decision to look for profitable prospects that might come the firm's way. Under these conditions the firm does not select formal objectives, performs no appraisals, formulates no search and evaluation rules. There are several reasons that favour this approach:-

(i) The firm would save the time, money and executive talent which are required for a thorough strategic analysis.

(ii) The field of potential opportunities will be in no way restricted.

(iii) The firm reaps the full advantage of the "delay principle". By delaying commitment until an opportunity is on hand, it is able to act on the basis of the best possible information.

The fear is often expressed by managers of small firms that a formal planning process can too easily become a straight-jacket which will have the effect of negating one of their major advantages over big firms i.e. their greater flexibility and ability to take advantage of unexpected windfalls that come their way.

However, the intelligent implementation of the strategic planning process should never become a limiting factor. Nor can a formal systematic process ever guarantee success. To quote Mason and Mayer:- '.......the value of a formalised approach to strategic planning lies more in the process of planning than in the plan itself, planning is really only a series of successive approximations of the future.'

3.3.4 Some Viewpoints on Strategy Development

It is not the purpose of this section to conduct an exhaustive survey of the literature on this subject, but rather to examine some models in order to isolate those components that will provide the building blocks for a strategy for small retailers.

Ansoff (1965) was the first to publish a book on how to develop a corporate strategy (34). The process followed these steps:-

(i) Formulate objectives
(ii) Internal appraisal of the firm
(iii) Appraisal of the outside opportunities
(iv) Decision on whether to diversify
(v) Components of strategy.

Ansoff's components of strategy (P98) are:-

a. Product-market scope - specifies the industries the firm is in.
b. Growth vector - gives the direction of growth in the industry or across industry boundaries.
c. Competitive advantage - identifies the particular properties of product-markets that give the firm a strong competitive position.
d. Synergy - measures the firm's ability to make good on a new product-market entry.

Ansoff, DeClerck and Hayes point out that although strategic planning originated in the 1950's very few firms employ it in practice. The organisational culture will reject attempts to introduce formal and systematic methods of planning unless it is supported enthusiastically by top management.

In practice the decision-making behaviour in firms is hardly likely to be rational, but will be influenced by political factors as suggested by MacMillan. Cyert and March studied the actual behaviour of firms. Firstly firms do not have perfect knowledge and secondly, they seem to act on small portions of the total information available. These writers analysed firms as information processing and decision-making systems. They discovered that managers spend as much time in managing coalitions of interest groups within the firm as they do to problems dealing with the environment. The decision process concerns three basic characteristics of organisations:-

1. Organisational goals
2. Organisational expectations
3. Organisational choice.

Decisions are arrived at in the following ways:-

1. Quasi-resolution of conflict - rather than commit itself to one goal or another it attends to one goal and then the other in sequence.
2. Uncertainty avoidance - firms strive to avoid uncertainty by arranging for a negotiated environment. Examples are, supply contracts, resale price maintenance, supporting "good business practice" and so on.
3. Problemistic search - how firms determine what choices are available. Search is "simple-minded" so that when a problem arises the search for a solution is concentrated near the old solution.
4. Organisational learning - adaption of goals takes place.

In summary, organisational goals are a response to the sub-goals of those who form a coalition, after a restricted examination of a limited and selected range of information. In this way uncertainty is avoided and the full complexity of decision-making is reduced to what is regarded as practical.

Katz (1970) identified the operational steps in strategy development as:-

Step 1 Identify and describe present strategy

a. Identify current scope of company activities; delineate customer/product/market emphasis.
Examine past and existing resource deployment; determine where greatest sources of strength lie.
Deduce basis on which company is competing; find competitive advantages or distinctive competence.
Determine performance criteria, emphasis and priorities governing strategic choices made in the past.

Step 2 Evaluate past performance

a. Compare the criteria used by management to choose (qualitative and quantitative) and stated targets and goals.
b. Evaluate past performance for such elements as market share, return on investment and risk/reward tradeoff, and other parameters used to compare past performance with current targets.
c. Compare these performance records with those of competitors.
d. Compare past performance records with what could have been expected if company liquidated and funds used elsewhere.

Step 3 Planning future strategy

a. Examine environment rigorously to identify major opportunities, threats, changes in product life cycles, changes in customer desires, etc.
b. Define future product/market scope and explain how current strengths can be exploited.
c. Determine future performance specifications and choice criteria (choice criteria are objectives).
d. Develop plan for procurement and allocation of resources to achieve objectives. (Steiner and Miner P.125)

Hofer and Schendel see strategy formulation as a dynamic problem-solving process. They identify six steps:-

(i) Goal formulation
(ii) Issue identification
(iii) Generate alternatives
(iv) Evaluate alternatives
(v) Choice
(vi) Implementation

The problems to be solved are that the firm usually has multiple objectives, planning takes place with at least partial ignorance and there is also the problem of achieving synergy.

Deloitte, Haskins and Sells, a firm of auditors and management consultants, utilise a model that incorporates these stages:-

(i) Environmental review and assumptions
(ii) Industry review and assumptions
(iii) Review of firm's past performance
(iv) Review Shareholders expectations
(v) Set objectives and goals
(vi) Consider alternatives
(vii) Formulate strategies
(viii) Implementation of strategies or action plans
(ix) Implications of strategies
(x) Financial and operating statements

Their model is significant because of the emphasis on analysing past performance and the implications of the strategies. Other writers have referred to the examination of the implications of the chosen strategy as "impact analysis". Analysing past performance is particularly important in the case of a small business. Small firms invariably have an inadequate information system. Therefore, the logical starting point is to introduce an information system that will provide continuous feedback of information that is relevant and timely for planning and control purposes.

3.3.5 Some Viewpoints on Marketing Strategy

The first step in Kotler's strategic marketing process is to analyse marketing opportunities. It is necessary to distinguish between environmental opportunities and company opportunities. A company marketing opportunity is defined as:- 'An arena of relevant marketing action in which a particular company is likely to enjoy a differential advantage.' (P47) Kotler makes these assumptions:-

1. Every environmental opportunity has certain success requirements.

2. Every company has certain distinctive competences i.e. things that it can do especially well.

3. A company is likely to enjoy a differential advantage in an area of environmental opportunity if it's distinctive competences match the success requirements of the environmental opportunity better than it's potential competition. Each company has a set of marketing opportunities which define it's scope for future growth. Therefore, firms should develop a systematic opportunity generating procedure in order to identify growth opportunities. One systematic procedure is the Product-Market Matrix which is similar to the Growth Vector developed by Ansoff.

Van der Merwe (P9) identifies three primary tasks in designing a marketing strategy:-

(i) An analysis of the Macro and Micro environments.
(ii) The segmentation, identification and analysis of a particular group of customers.
(iii) The development and implementation of a market offering or "marketing mix" for the chosen market segment.

McCarthy (P35) states that:-

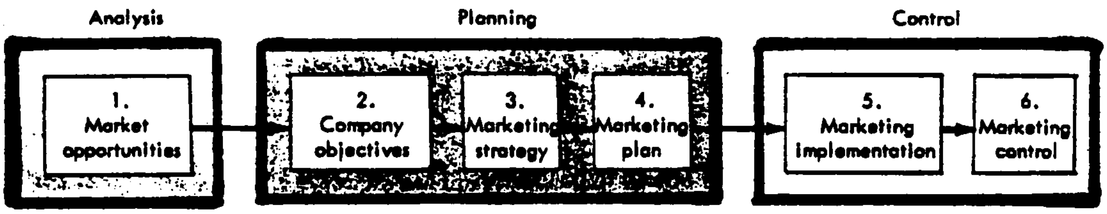
A marketing strategy consists of two distinct and yet interrelated parts:-

(i) <u>A target market</u> - a fairly homogenous group of customers to whom a company wishes to appeal.
(ii) <u>A marketing mix</u> - the controllable variables which the company combines in order to satisfy this target group.

See figure 3.3.5.2.

FIGURE 3.3.5.1

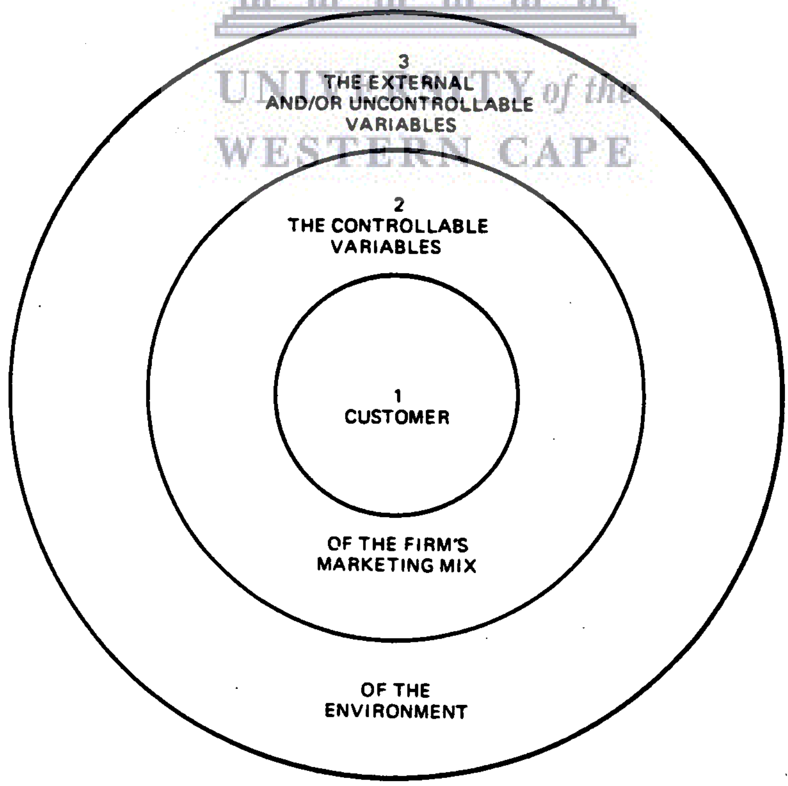
STEPS IN THE STRATEGIC MARKETING PROCESS



(From : Kotler P46)

FIGURE 3.3.5.2

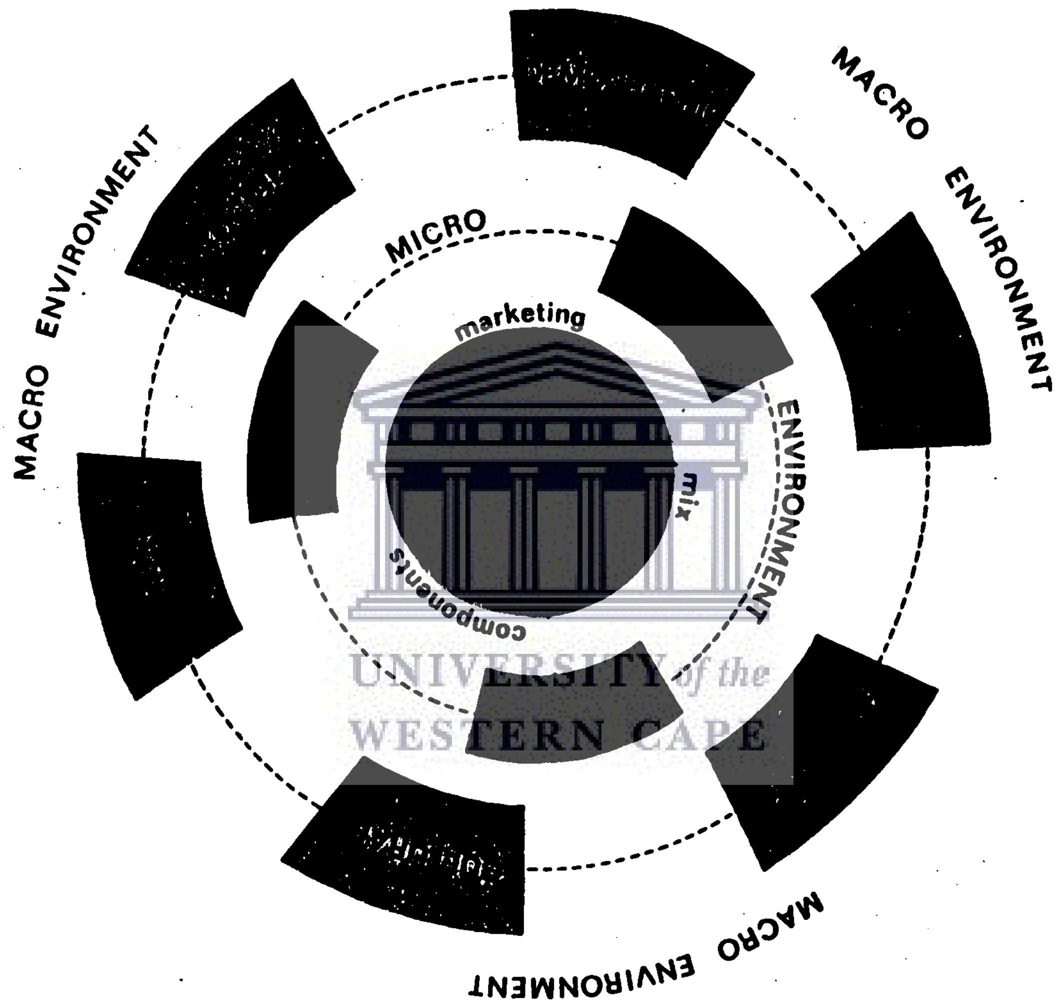
TYPICAL FRAMEWORK FOR MARKETING MANAGEMENT



(From : Brannen P26)

FIGURE 3.3.5.3

THE MARKETING STRATEGY FRAMEWORK



(From : van der Merwe P8)

3.3.6 Some Retailing Strategy Models and Concepts

Mason and Mayer have developed a strategic planning model for large multifirm retail organisations. See Figure 3.3.6.1.

In their model the formulation of strategy begins with the situational analysis. The idea is to identify the company's strengths and weaknesses and search for opportunities and threats in the environment. After completing the situational analysis, management forecasts performance under the existing strategies and measures the forecast against desired performance as reflected in the company's objectives. The difference between projected performance and desired performance points out the changes that must be made. This process is called Gap Analysis. It requires sophisticated forecasting techniques, and is, therefore, hardly suitable for smaller retailers.

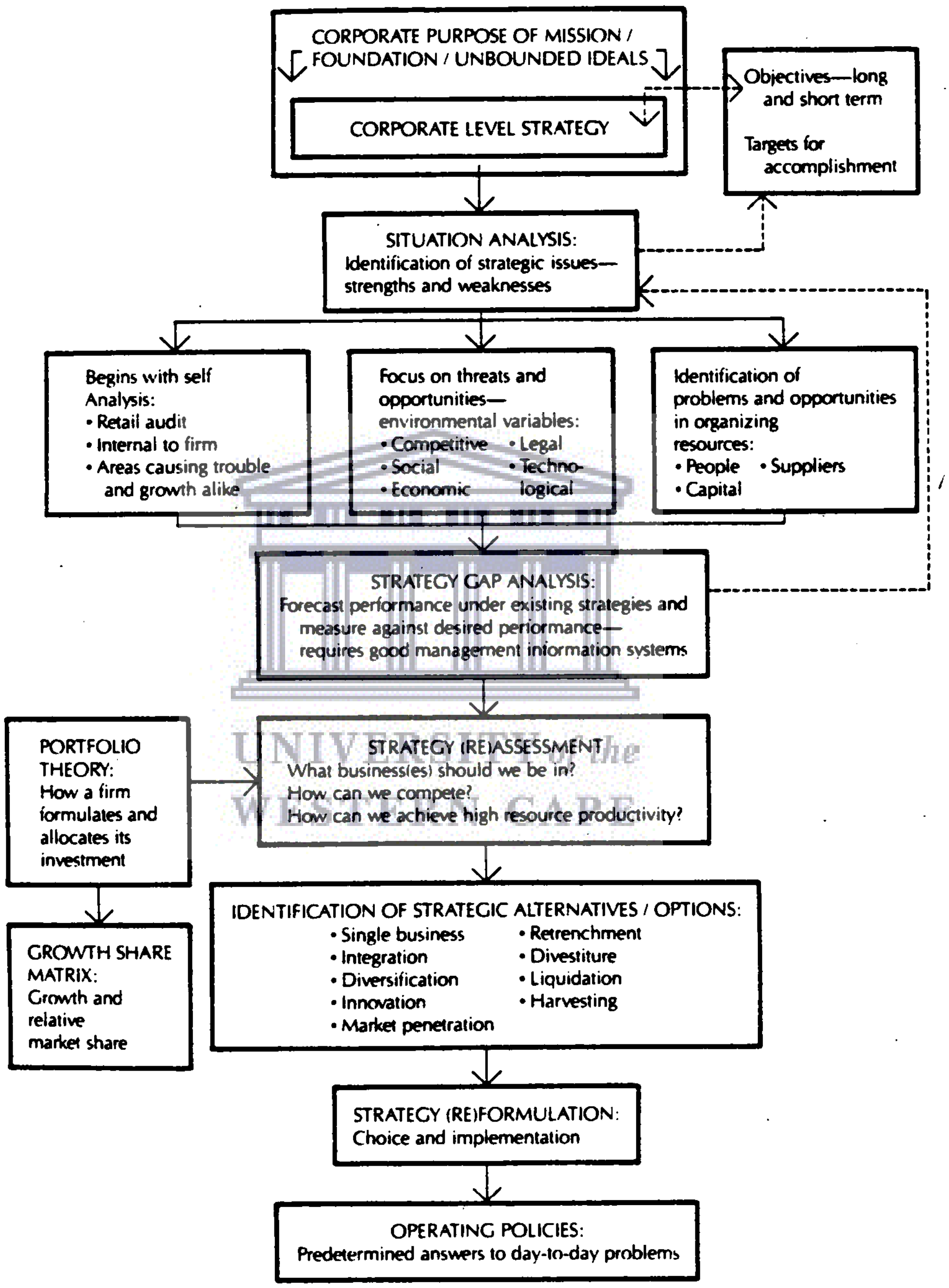
Davidson, Doody and Sweeney note that there are two major dimensions of strategy in retailing i.e. a market dimension and a financial dimension. Therefore, they propose 'a total performance model' in order to ensure that neither of these aspects is neglected. Their model (P84) depicts the key ingredients of the total performance management process i.e. strategic management, administrative management and operating management. The function of the firm is seen as adapting it's resources to the changing environment in such a way as to produce target performance results. The required performance results are multi-dimensional:-

(i) Market performance - this is measured in terms of sales volume, sales growth, competitive market share and strength of market position.

(ii) Financial performance - the owners and creditors expect the firm to produce certain financial results measured in terms of profitability, growth and liquidity.

FIGURE 3.3.6.1

A STRATEGIC PLANNING MODEL FOR AN ONGOING MULTIFIRM/DIVISION RETAIL ORGANIZATION



(From : Mason and Mayer P112)

(iii) Other stakeholders - employees, suppliers and the community expect certain performance results in terms of employment stability and advancement, merchandising effectiveness and good corporate citizenship.

Davidson, Doody and Sweeney list the following components of strategic management in retailing:-

(i) Development of a statement of purpose or mission of the enterprise.

(ii) Definition of specific goals and objectives for the firm.

(iii) Development of basic strategies that will direct and govern the firm's actions in achievement of it's objectives and the fulfilment of it's mission.

They continue and say:-

> The foundation of a strong market strategy is the identification of an opportunity to serve a group of consumers in a new, unique, and competitively advantageous way. Such opportunities are rarely discovered by merely examining the internal operations of an established retail firm, or by focusing exclusively on the conventional structure of an industry. Strategic market opportunities are to be found in the realities of a constantly changing environment. Because the retailer deals directly with the consumer, discovering strategic opportunities means being very sensitive to changing consumer preferences, demands, and expectations; that is, an effective retail market strategy can result only from matching consumer expectations with a retail market program which will fulfil these expectations better than any competing retail store. (P102)

Customer expectations vary widely among different groups or segments of customers. The following customer expectations provide a basis for segmenting the market:-

(i) Convenience
(ii) Merchandise assortment
(iii) Price
(iv) Store atmosphere
(v) Information and personal interaction
(vi) Service expectations

The first task of the marketing strategist is to:-

(i) Define different market segments.
(ii) Evaluate profitability of each alternative market segment.
(iii) Evaluate the competitive situation for each alternative market segment.
(iv) Select the most profitable market segment with the greatest competitive opportunity.

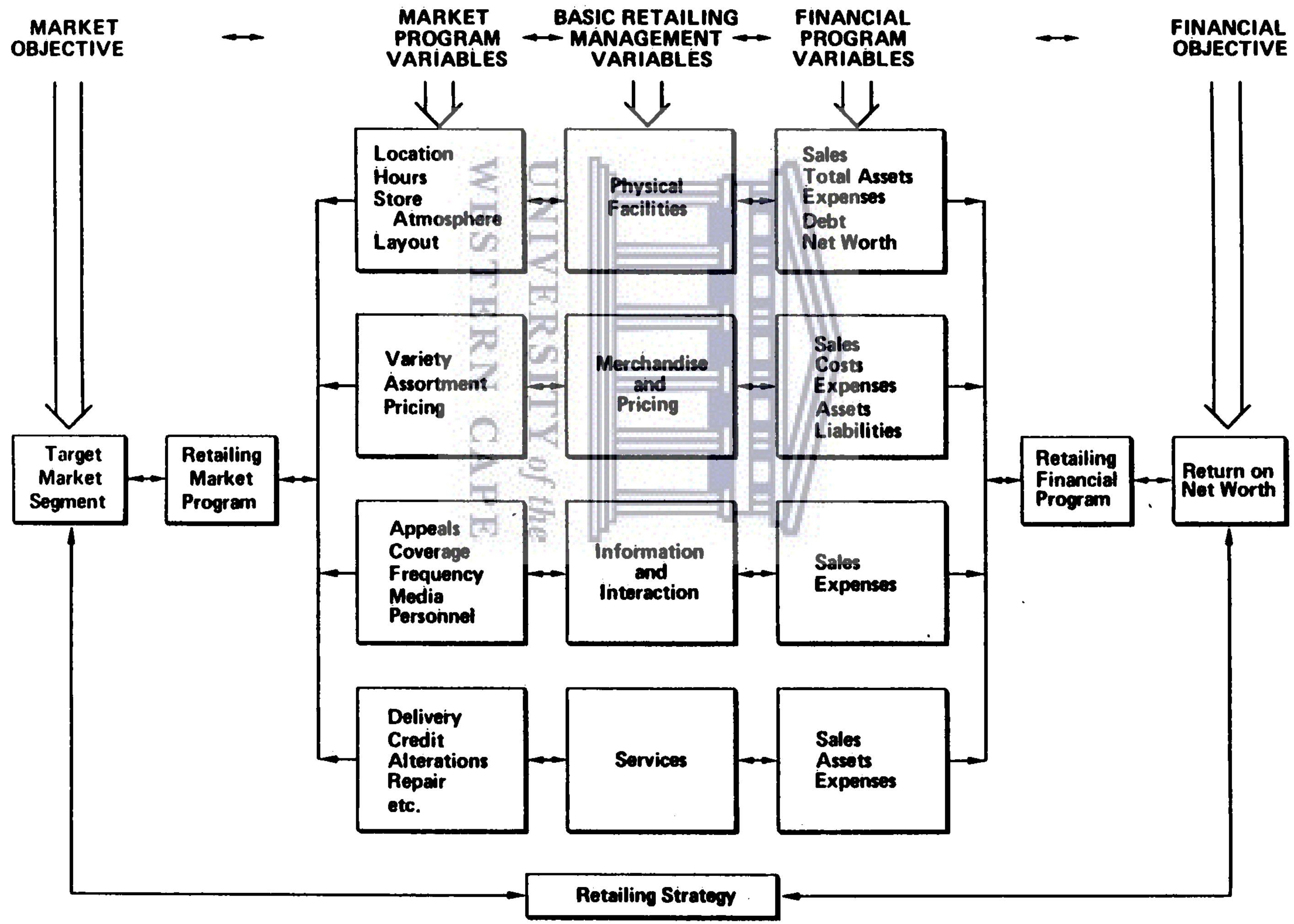
The next step is to design a market program which will fulfil the expectations of the target customers better than any competing retail store. The term 'retailing mix' is used to describe the retail management variables that are combined to meet the target customer's expectations.

Retailing mix is a term derived from the more widely used term 'marketing mix'. According to Brannen (P20) the concept of the marketing mix was first developed by Neil H. Borden (1964) to describe a list of important elements making up marketing programs. Kotler (P59) defines the marketing mix as:- 'The set of controllable variables that the firm can use to influence the buyer's response'. McCarthy is given credit for originating the following four-factor classification of the variables:-

Product
Place
Promotion
Price

FIGURE 3.3.6.2

MATCHING MARKET STRATEGY TO FINANCIAL STRATEGY: THE TOTAL RETAILING STRATEGY MODEL



(From : Davidson, Doody and Sweeney P156)

These four-factors are widely referred to as the '4-P's' of the firm's marketing mix and provide a profile of the firm's offering to a particular market.

Lazer and Kelley looked at the marketing mix for retailers. Their retailing mix is composed of the following three sub-mixes:-

(i) A goods and services mix
(ii) A communications mix
(iii) A distribution mix
(Brannen P20)

Pierre Martineau (1957) was the first to examine 'store image' as an important factor influencing customer support or lack thereof.

> Any store has a larger personality, a total image, of many more meanings in the consumer's mind than that of a place for day-to-day transactions. Price and savings only represent one area of what the customer thinks and feels about the store. Far more than any bargain triggers, this over-all store atmosphere (or personality, or image) is the determinant of regular buying, of the preselection of the customer body. (P184)

Some of the components of store image listed in the literature are:-

(i) Location, layout and store architecture
(ii) Symbols and colours used in the decor
(iii) Advertising and promotions
(iv) Attitude of sales personnel
(v) Prices of merchandise
(vi) Quality and assortment of merchandise
(vii) Convenience factors such as parking
(viii) Services offered
(ix) Reputation for making adjustments
(x) Method of dealing with complaints

Jooste (1977) found that the failure or success of many retail enterprises can be attributed to decisions regarding settlement, prices, promotions, products and so on. As a result of these decisions the consumer establishes an image of the retail business which largely determines whether it is to be an acceptable service point where he can satisfy his purchasing needs. Therefore, decisions about the controllable variables of the retailing mix create a subjective image of the retail store in the mind of the consumer. By implication the objective of the strategy formulation process must be to create a desirable and positive image for the store in the target consumer's mind.

We can sum up this discussion of the concept of store image by saying that it is the sum of beliefs, ideas and impressions that a person has of a store. These beliefs and attitudes are learned in the following ways:-

(i) By actual experience when shopping
(ii) By word of mouth from friends and relatives
(iii) By observation of the appearance of the store
(iv) By marketing communications
(v) By the behaviour and attitude of the personnel
(vi) By prices of certain items

The following tables on aspects of store image were obtained from Market Research Africa:-

FIGURE 3.3.6.3

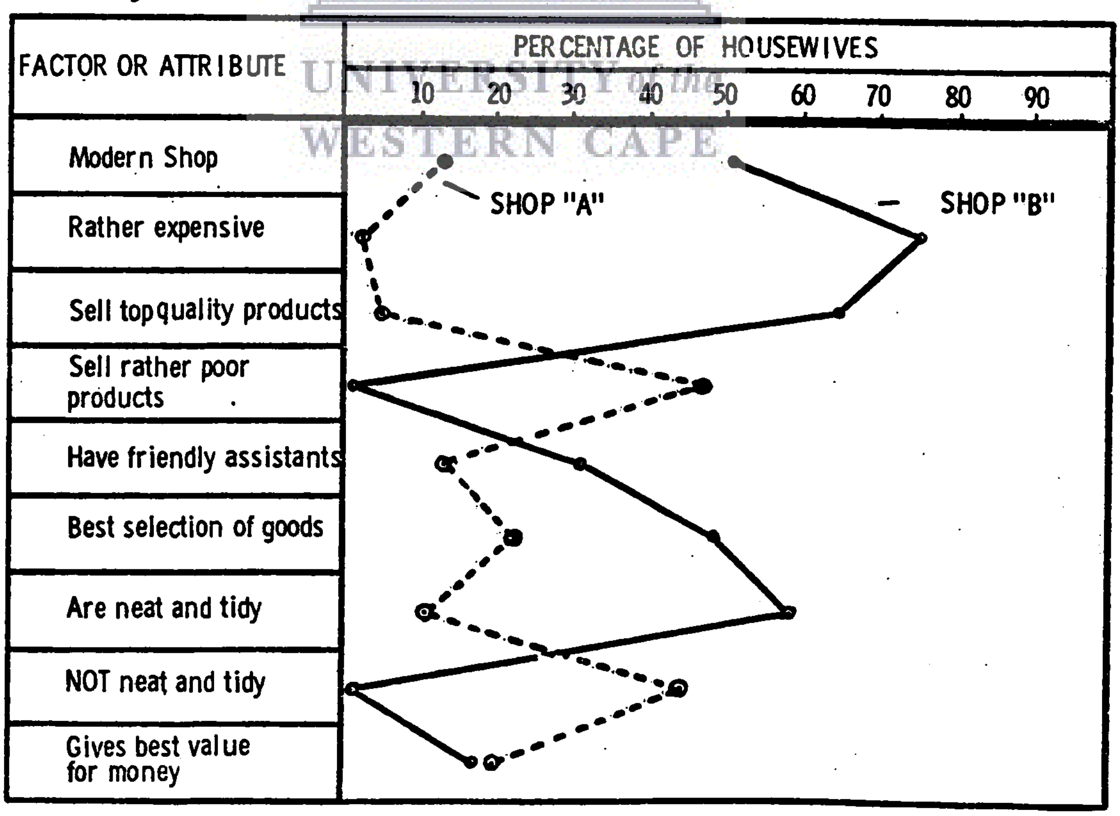
THE QUESTION OF STORE IMAGE

This table shows the market variations in the market variations in the Voting Patterns achieved by three well known Department Stores.

ATTRIBUTE OR ASSOCIATION	Store 'A'	Store 'B'	Store 'C'
	%	%	%
Have good parking facilities	25	1	36
Are good for women's clothing	5	37	28
Are good for men's clothing	3	22	8
Are good for children's clothing	11	8	60
Are good for household materials	31	31	8
Are good for furniture	26	25	1
Are good for groceries	68	15	34

EXTENT TO WHICH STORE IMAGES MAY VARY

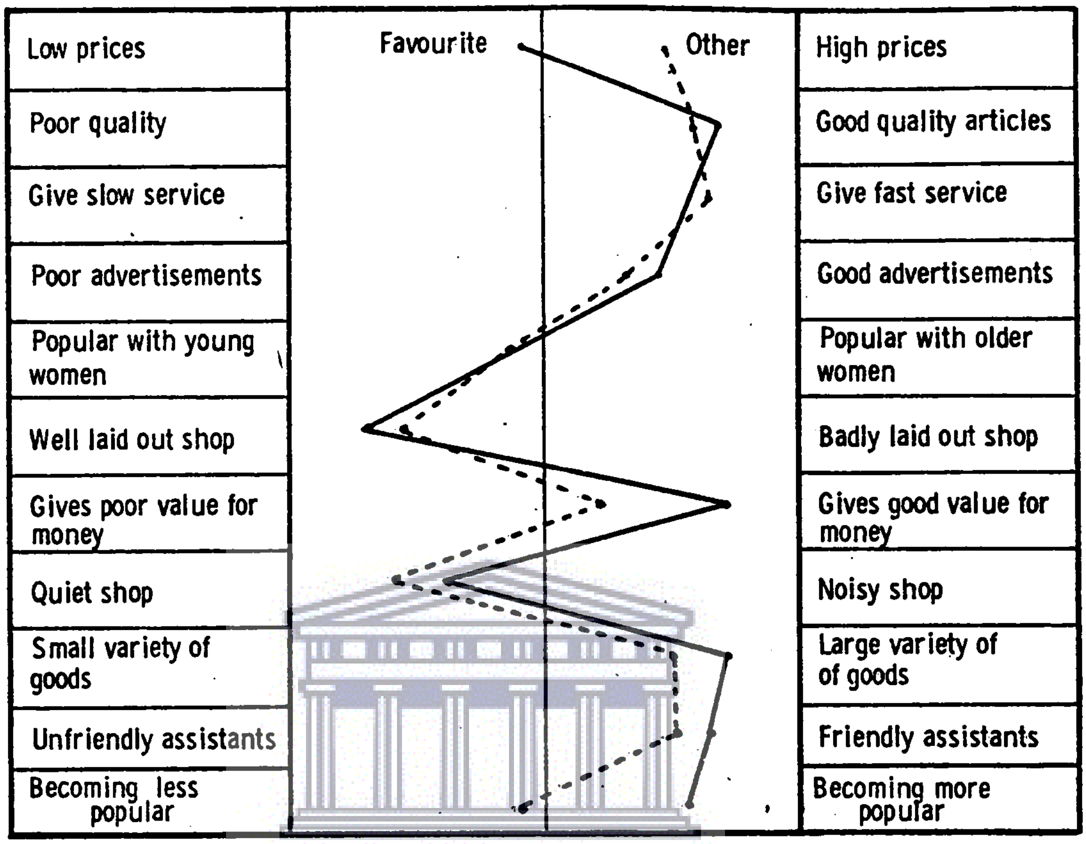
This chart shows how the image ratings of two well known shops in Johannesburg varies among at home housewives.



(From : Market Research Africa)

FIGURE 3.3.6.4

ATTITUDE PROFILE OF FAVOURITE SHOP COMPARED WITH A.N.OTHER SHOP



MAIN REASONS WHY HOUSEWIVES RATED A SPECIFIC SHOP AS THEIR FAVOURITE

	REASON	%
1.	They have everything/wide variety	43
2.	They give good value for money, prices are reasonable	35
3.	They have friendly assistants, give good service	35
4.	They have good quality goods/merchandise	34
5.	Clean, neat and tidy	19
6.	Good lay-out, easy to find one's way	13
7.	It has a pleasant atmosphere/surroundings	11
8.	The goods are well displayed	8
9.	They have lovely things	7
10.	Close to work/home/office	7

(From : Market Research Africa)

3.3.7 Some Viewpoints on Formulating Strategy in Small Firms

Most of the models presented up till now have been developed with the bigger firm in mind. Small businesses differ in a number of critical respects from big firms. A strategic model designed for small firms must take these differences into account.

Cohn and Lindberg did a survey of small and large firms to establish how management is different in the former. Their conclusions are reproduced by Brannen (P6) and are shown in Table 3.3.7. These findings can be summarised as follows:-

(i) Management - small firms do not have the depth of specialised management possessed by big firms.

(ii) Planning - small firms are deficient in executing the planning function. Small firms should rectify this weakness. When planning they should also concentrate on a shorter planning horizon.

(iii) Costs - small firms have the advantage of lower overheads than big firms.

(iv) Information - small firms do not usually have information systems which produce up-to-date data for planning and control purposes.

(v) People - the human resource is potentially the small business' main advantage in competition with big businesses

(vi) Growth - fast unplanned growth can become a noose on which the small business hangs itself if there is a deficiency in financial know-how.

Cohn and Lindberg identified the following factors as bearing critically on the survival and growth of small businesses:-

> A cautious attitude towards growth. A concern for liquidity. A focus on providing wanted products or services and satisfying work while keeping costs lean. Establishment and maintenance of an open system of communication and

decision-making. Creation of a rational organisation. Control over certain functions. Economical use of time. Control of owner-manager subjectivity.
(See Steiner and Miner P144)

Brannen (P8) examines the market-related advantages and disadvantages of small businesses in relation to big businesses:-

Small business marketers may employ combinations of marketing strategies and tactics, in comparison to Big Business, as follows:-

(i) Strategies similar, tactics similar
(ii) Strategies similar, tactics different
(iii) Strategies different, tactics similar
(iv) Strategies different, tactics different

He lists the small business marketing related advantages as:-

(i) Less goal conflict should take place in small businesses.
(ii) Limited markets are opportunities for small businesses.
(iii) Product characteristics sometimes favour small businesses. For example when products are perishable, individualised and customised.
(iv) Flexibility, or the ability to change rapidly with changing market situations.
(v) Closer customer contact is possible in a small business.

Conversely, the small business, has a number of market-related disadvantages. According to Brannen these are:-

(i) Competing head-on with mass marketers for mass markets is very difficult because of economies of scale in mass-marketing favour big businesses.
(ii) A lack of balance between marketing and the other functions may exist. For example a small business may lack the finances to take advantage of a marketing opportunity that presents itself.

(iii) Discrimination in the market place. For example, shopping centre developers tend to favour large national chains as tenants. Suppliers give discounts to encourage the purchasing of large quantities. Big firms can utilise mass advertising media more effectively. Therefore, to be successful the small business must learn to cope with monopolistic practices in the market place.

(iv) Lack of marketing expertise affects advertising, personal selling, marketing research and other marketing functions.

Brannen (P11) stresses the overriding importance of the 'People' element in the success or failure of small businesses. For the small business marketing strategy to work effectively it must employ an effective 'people strategy'. According to Brannen the people variable is a means whereby small business can achieve a differential advantage in competition with big firms. Small firms should aim for a share of the target market rather than for a share of the total market. In this way they can achieve dominance in·the selected target market. All the people in a small firm can be trained to meet customer's needs for personal attention in a highly automated society.

Tinsley notes:-

> Interaction of this type is increasingly important for retailers because of the customer's increasing search for self-actualisation through consumption. Interpreted as the expression of individual priorities and preferences reflecting different life styles and going beyond those related to satisfying basic wants and needs, self-actualisation implies a highly individualised approach to need-satisfaction which requires a high level of personal sales efforts. The selling efforts of the independent firm's top management should be more effective than those of the larger retailer's sales personnel, who are actually far removed from their own top managers and often unmotivated. (Brannen P323)

Brannen (P45) recommends a step-by-step approach to planning marketing strategies in a small firm. The eight steps are:-

(i) Record the current marketing strategy.
(ii) Identify strategic marketing problems.
(iii) Divide current strategic marketing problems into core strategy areas and supporting strategy areas.
(iv) Formulate alternative strategies at both core and support levels.
(v) Evaluate these alternatives in various combinations.
(vi) Choose the new marketing strategy.
(vii) Plan the details of implementation of the new strategy.
(viii) Set performance standards and monitor feedback.

Core strategy is based on the firm's differential advantage and is the central focus for competitive and innovative success.

Each of the above steps should be followed when planning each component of the marketing mix as shown in Table 3.3.7.1.

The eight-step approach advocated by Brannen was first formulated by Gilmore in an article in the Harvard Business Review (May-June 1971.)

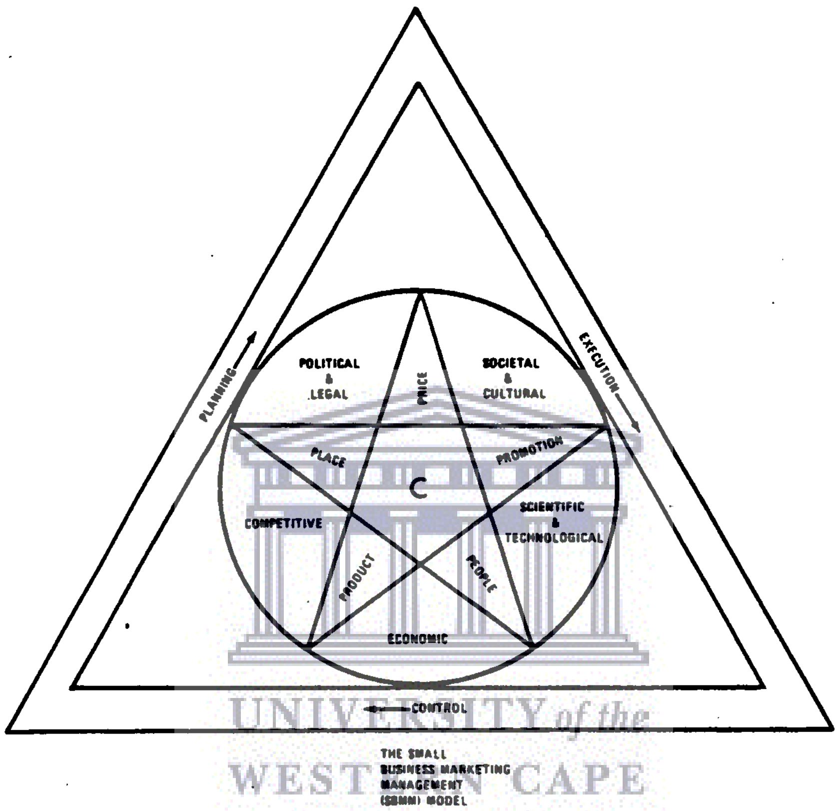
Gilmore felt that previous strategic models were not relevant for the small business managers. A simple, more practical approach was needed. The components of a six-step process in Gilmore's strategic model for small firms are:-

(i) Identify current strategy - determine implicit strategy from company trends and executive's behaviour. Ascertain values held by top management.

(ii) Identify problems - these are environmental problems. Operating problems in finance, marketing, production and organisation. Problems related to industry structure etc.

FIGURE 3.3.7.1

THE SMALL BUSINESS MARKETING MANAGEMENT (SBMM) MODEL



(From : Brannen P31)

TABLE 3.3.7.2

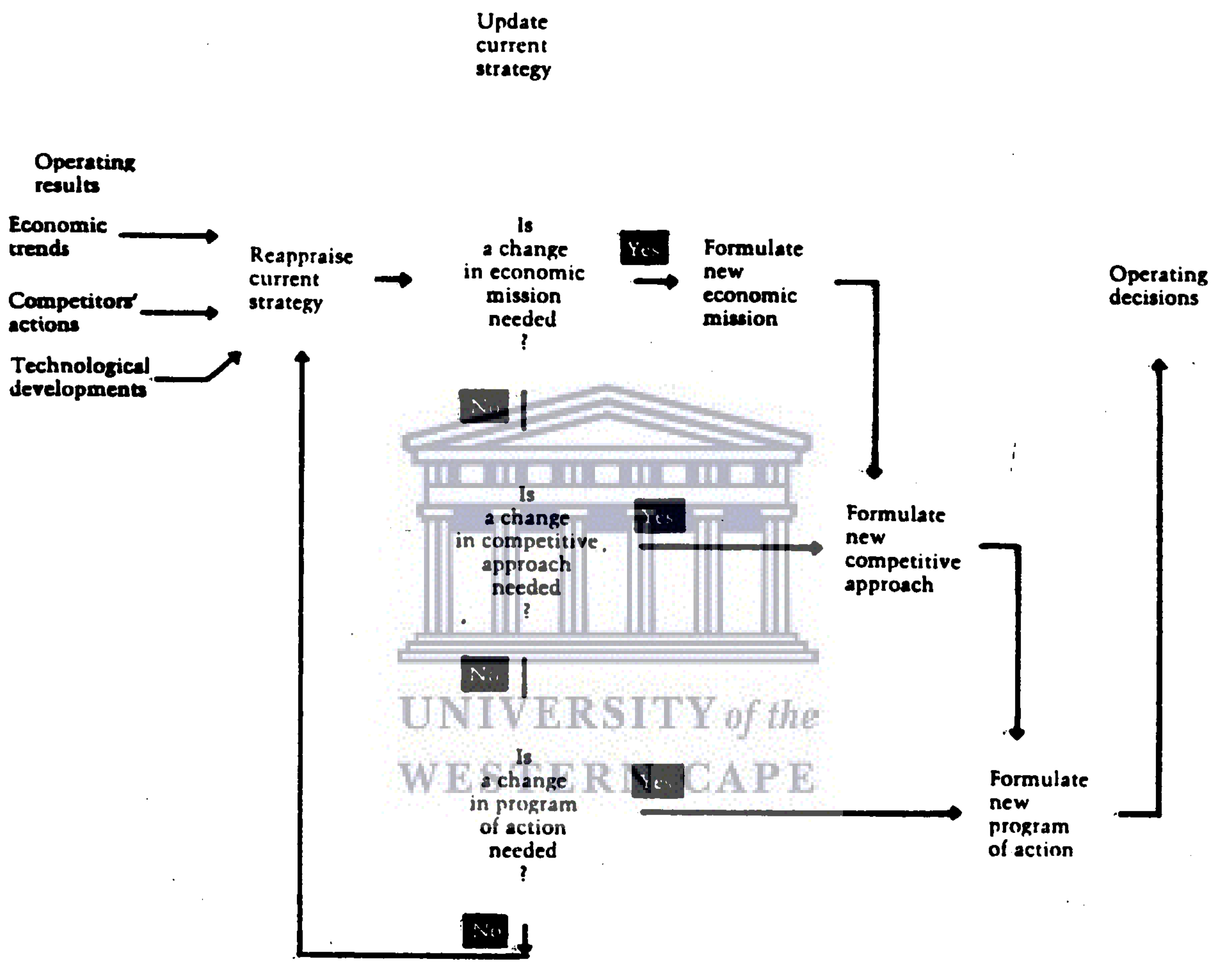
A BRIEF SUMMARY OF THE PEC PROCESS IN SBMM

1. Determine company goals and objectives.
2. Determine marketing goals and objectives.
3. Identify the differential advantage.
4. Define target markets.
5. Recognize the environment.
6. *Plan* marketing strategy (Steps 1–8).
   A. Plan product strategy (Steps 1–8).
   B. Plan place strategy (Steps 1–8).
   C. Plan price strategy (Steps 1–8).
   D. Plan promotion strategy (Steps 1–8).
   E. Plan people strategy (Steps 1–8).
7. Integrate marketing strategy plans into an overall marketing program.
8. *Execute* strategic marketing program.
   A. By organizing.
   B. By directing.
   C. By tactical adjustments.
9. *Control* strategic marketing program.
10. The result is SUCCESS in terms of customer satisfaction at a profit for the SB firm.

(From : Brannen P358)

FIGURE 3.3.7.3

MODEL OF STRATEGY FORMULATION APPROACH FOR SMALLER COMPANIES



(From : Gilmore in Harvard Business Review, May/June 1971, P75)

(iii) Discover the core elements - diagnose past performance and implications if no changes are made.

(iv) Formulate alternatives - try to innovate. Consider specialising, merging, adopting a more aggressive stance etc.

(v) Evaluate alternatives - consider alternatives in the light of company resources and competence, finding a competitive advantage, the preferences of top management and the alternative that offers the least potential problems.

(vi) Choose the new strategy.

Steiner and Miner write that an excellent strategy is to find a niche in the market that no one else is filling.

> A strategy for picking propitious niches begins with an analysis of demand for products and services, weaknesses and strengths of the company in meeting the demand, and evaluation of the competition. Naturally, the best strategy will match the company strengths with the requisites for success in filling the niche. (P142)

In most industries there are usually small specialised segments of market demand that large firms are not interested in satisfying because of diseconomies of scale. Small firms can fill these niches profitably.

A number of writers have identified the fact that products pass through a distinctive life cycle. During the market development stage big firms will often hang back before committing their resources to exploit the new opportunity. This has also been referred to as the 'used apple policy' i.e. a second bite of the apple is better than biting an apple full of worms. This means that adventurous small firms can often seize the initiative at an early stage of the product life cycle and grow with the tide.

Steinhoff (P22) prescribes a 'desired income approach' to the planning process for a new small business. He lists fourteen steps to follow when starting a new small business. The first step is to determine what profit or 'desired income' is required from the new venture. The second step is to match the income expectations of the entrepreneur against the marketing opportunity that exists.

Mason and Mayer examine several strategy options which the retail firm can choose in order to meet it's objectives. Since they were writing with the large mutiple retail firm in mind I have adapted the series of options to make them more applicable to the small retail enterprise. Briefly the strategy options are:-

(i) A single firm strategy - it is hypothesised that many small entrepreneurs started a business of their own in order to be independent. Growth in the number of stores is not desired, probably, because it will complicate management and control of the venture.

(ii) Integration - we distinguish between horizontal and backward integration. Backward integration occurs when a retailer starts to manufacture some products, provide a service that was previously rented or import products directly. Horizontal integration occurs when the retailer buys the assets of a competitor. Note that by definition, forward integration is not applicable in the case of a retailer.

(iii) Diversification - diversification involves expansion into products or markets that may or may not be related to current business operations. Kotler (P51) lists the alternative diversification strategies as:-

a. Concentric diversification - when a firm expands into new markets, but in closely related lines of business.

b. Horizontal diversification - finding new products that will appeal to existing customers even though they are technically unrelated to the existing lines.

c. Conglomerate diversification - finding new products for new types of customers.

(iv) Strategic innovation - firms that follow this strategy are seeking to bring entirely new retailing concepts to the consumer market. Recent examples have been warehouse retailers, catalogue showrooms, home improvement centres, hypermarkets etc.

(v) Operational evolution - this is a term to describe bringing the operating concepts more in line with changing customer shopping patterns and competitive action.

(vi) Market penetration - this is the pursuit of growth by selling more of existing products to existing customers.

(vii) Retrenchment and divestment - this is the withdrawal from certain markets in order to improve performance results.

(viii) Liquidation - if all alternatives examined do not meet the expectations of the stakeholders then liquidation might be the best option available.

(ix) Harvesting - this is a strategy for improving profits and cash flows by pruning costs and lowering the breakeven point. Sales are expected to decline, but it is hoped that the results along the bottom line will improve.

3.3.8 A Strategic Retailing Model for Small Retailers

In this section a strategic retailing model is developed in a step-by-step way. The model provides the framework for the balance of the literature survey. The method adopted was a three step approach:-

Step One - Establish the criteria for a valid model.

Step Two - Identify the steps in a comprehensive strategy formulation process.

Step Three- List the relevant concepts and tools of marketing and fit them in at the right stage of the strategic process.

The following criteria are regarded as pertinent in order to arrive at a model that can be implemented in practice:-

(a) Success requirements - it was hypothesised that in every industry there are certain key success factors. A practical model should highlight these factors.

(b) Performance requirements - marketing decisions impinge on other functional areas of a retail business. It is also hypothesised that not more than one strategic plan will be prepared in a small retail business. Therefore, a relevant model should cater for the impact of marketing decisions on other functional areas of the business specifically finance and people.

(c) Lack of expertise - it was hypothesised that a typical small retail firm would normally lack the complete range of marketing skills required to devise and implement a formal and systematic marketing strategy. Therefore, the model should highlight the need for outsiders to assist in the preparation and evaluation of strategy.

(d) Owner's expectations - the Inducement-Contribution Theory (Cyert and March) tells us that participants in a system will continue only if the inducements are greater or equal to the contributions made. Also the firm depends on the entrepreneur to be the battery, starter and generator to keep the business going. Therefore, unless the expectations of the owner/manager of the small retail business is being satisfied we can expect a feeble planning and implementation process.

(e) Change - in order to cope with change the model should be dynamic. The strategic planning process should not become a straight-jacket that inhibits flexibility.

(f) Prescriptive - a model can either be descriptive or prescriptive. However, it was fèlt that the small business manager requires a prescription to assist in the solution of problems.

Kotler (P46) remarks that there is an unresolved debate in the literature regarding the first step to take in the strategic marketing process. Steiner and Miner identify at least eleven alternative starting points. Many models begin with a situation analysis or situation audit. A major purpose of the situation audit is to identify the firm's strengths and weaknesses and to trigger the search for new opportunities. Therefore, it is felt that this is the logical starting point for a systematic and formal step-by-step approach to strategy development.

The step-by-step process outlined below recognises the basic differences between formulating strategies in small firms in comparison with big firms.

The prescription for strategy development in a small retail firm is:-

(i) Analyse your capabilities.

(ii) Prepare a statement listing the stakeholders expectations.

(iii) Analyse your market opportunities.

(iv) Select your store posture.

(v) Formulate a suitable retail strategy by:-

a. Setting objectives

b. Composing a 'Retail Mix'

(vi) Prepare action plans for implementation.

(vii) Analyse the personal, organisational and financial implications of the plans before final implementation.

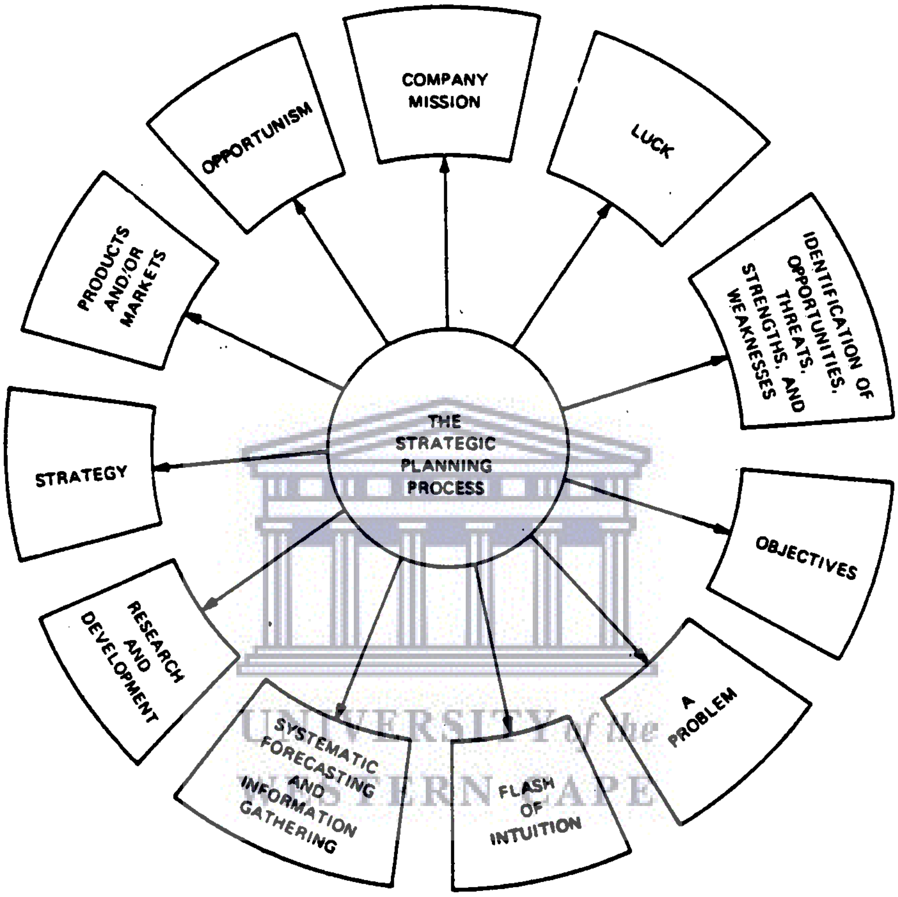
Table 3.3.8.1.

COMPONENTS OF ALTERNATIVE STRATEGIC PLANNING PROCESSES

KOTLER	DAVIDSON, DOODY & SWEENEY	MASON & MAYER	DELOITTES	SMUTS
-	-	1. Situation Analysis	1. Review Past Performance	1. Capability Analysis
-	1. Statement of Mission of Enterprise	2. Corporate Mission	2. Review Stakeholders Expectations	2. Statement of Owner's Expectations
1. Market Opportunities	-	3. Strategic Gap Analysis	3. Industry Review 4. Environmental Review	3. Market Opportunity Analysis 4. Store Posture
2. Company Objectives	2. Definition of Objectives	4. Strategic Option	5. Objectives & Goals	5. Set Objectives
3. Marketing Strategy	3. Develop Strategy	5. Strategy Reformulation	6. Formulate Strategies	6. Retail Mix
4. Marketing Plan	-	6. Operating Policies	7. Action Plans	7. Action Plans
5. Implementation and Control	-	-	8. Analyse Financial Implications	8. Impact Analysis

FIGURE 3.3.8.2

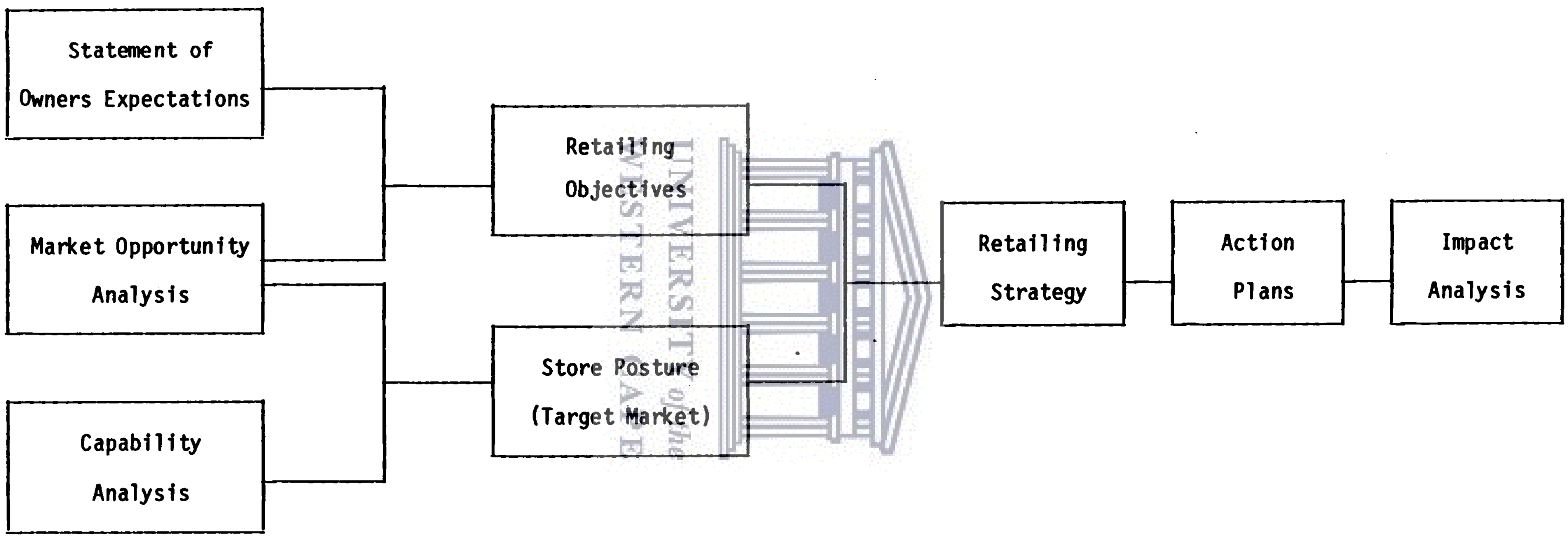
STARTING POINTS FOR FORMAL STRATEGIC PLANNING



(From : Steiner and Miner P126)

FIGURE 3.3.8.3

MODEL OF THE STRATEGIC RETAILING PROCESS FOR SMALL RETAILERS



CHAPTER FOUR

LITERATURE SURVEY - PART TWO

In this chapter we put together a battery of marketing and management tools and concepts that will assist the small retailer to develop a successful strategy. It was never envisaged that all these tools have to be used. It is the manager's prerogative to choose, from a fairly comprehensive list of available technology, those concepts applicable to a particular situation. The desirability of getting outside assistance is also a theme of this study. This compilation of suitable marketing technology should prove useful to the outside consultant.

4.1 Capability Analysis

4.1.1 Introduction

Marketing plans cannot be prepared in a vacuum. Marketing activity is designed to generate sales and profits. However, it requires a commitment in human and financial resources in order to be implemented effectively. In a typical small business shortages of these resources are bound to exist. This can be a major brake when it comes to the implementation of successful marketing programs. Also the marketing planner is usually faced with a choice of alternative approaches to reach a pre-determined objective. The capability constraint will then be the decisive factor in choosing between alternatives. For these reasons it is desirable that the small marketer starts the planning process with a clear idea of what is possible in a given situation.

With regard to a new small business Steinhoff writes:- 'One of the commonest causes of financial difficulty for a new firm is the owner's failure to look seriously at the total asset requirements of the firm in the planning stage.' His procedure for developing a list of asset requirements is mentioned in this section.

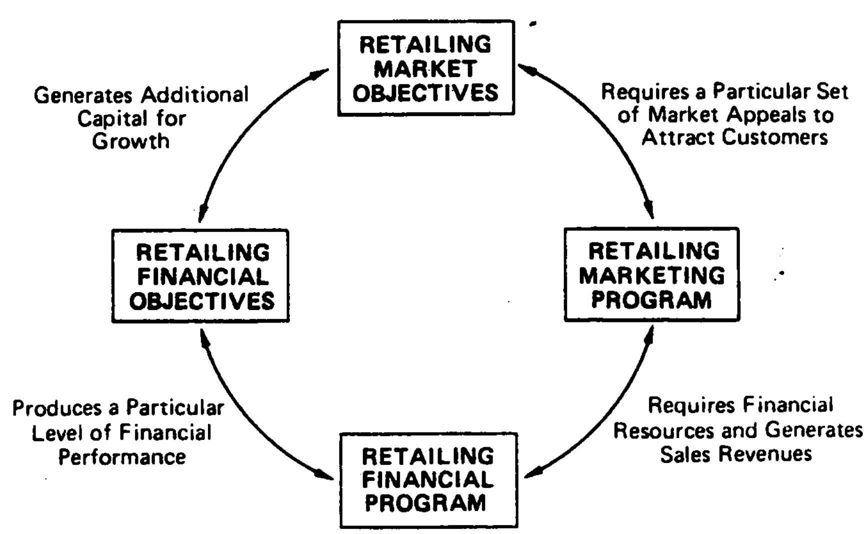
Davidson, Doody & Sweeney emphasise the need to synchronize the marketing strategy with the retailers financial strategy. See figure 4.1.1. They state:-

> Even the most innovative and well-designed market strategy cannot produce a viable retailing enterprise without an equally well-designed financial strategy to support the firm's marketing program. and;
>
> Implementing the marketing program requires financial resources, merchandise must be bought and inventoried, a store site must be acquired and prepared, promotional expenses must be incurred, and the right personnel must be hired and paid.

Limited resources is a major problem for the small entrepreneur. However, a problem can be turned into an opportunity. For example, the small marketer who takes the trouble to prepare a comprehensive and viable marketing plan (together with a financial plan) will be in a good position to obtain financial assistance from institutions such as the Small Business Development Corporation.

FIGURE 4.1.1

THE RETAILING STRATEGY CYCLE



(From : Davidson, Doody and Sweeney P124)

TABLE 4.1.1

A CLASSIFICATION OF MAJOR TOOLS AND TECHNIQUES FOR RATIONAL DECISION MAKING IN BUSINESS

1. Nonquantitative emphasis
   (a) Creative mental processes (e.g., creativity, experience, judgment, hunches, intuition, brain storming)
   (b) Finding the critical factor
      (1) The limiting factor
      (2) Simple decision chains and tables
      (3) Asking the right questions
   (c) Organization *per se* (e.g., planning organization and budget system)
   (d) Rules-of-thumb
   (e) Policies and procedures
   (f) Simple problem-solving steps
   (g) General knowledge of the field in which a decision is to be made (e.g., law, economics, physics, etc.)
2. General systems methods
   (a) Problem design
   (b) Nonquantitative simulation model building
      (1) Logical-analytical frameworks
      (2) Adaptive search
      (3) Work flows
   (c) Accounting systems and models
      (1) Over-all accounting system
      (2) Balance sheet and profit and loss statements
      (3) Cash-flow analysis
      (4) Accounting ratio analysis
      (5) Break-even analysis
   (d) Design of information systems
3. Older quantitative methods
   (a) Marginal analysis
   (b) Return on investment
      (1) Average rate of return
      (2) Present value methods
   (c) Quantitative forecasting
      (1) Trend extrapolation
      (2) Exponential smoothing
      (3) Correlation analysis
      (4) Econometric models
      (5) Input/output analysis
4. Nonquantitative forecasting
   (a) Delphi
   (b) Scenarios
5. Conventional scheduling models
   (a) GANTT charts
   (b) Milestone charts
   (c) Critical path method
   (d) Line-of-balance charts
6. Newer mathematical techniques
   (a) Computer simulation
   (b) Linear programming
   (c) Dynamic programming
   (d) Network analysis (pert/time and pert/cost)
   (e) Heuristic problem solving
   (f) Game theory
   (g) Risk analysis
7. Complex methods combining many tools
   (a) Systems analysis
   (b) Cost-benefit analysis
   (c) Social science research
   (d) Formal corporate planning
   (e) Program budgeting

(From : Steiner and Miner P159)

4.1.2 Past Performance

The small entrepreneur leads an isolated existence and needs a barometer whereby performance can be compared with industry standards and the competition. Katz gives a list of criteria which can be used to describe what has been obtained in the past:-

(i) Size and rate of growth
(ii) Market share
(iii) Return on investment
(iv) Survival capacity
(v) Other relevant criteria

The Small Business Advisory Bureau, of the University of Potchefstroom, uses two tools in order to analyse the past performance of a small business. Firstly, a structured interview, using a specially designed questionnaire form, is conducted with the owner/manager of the business. Secondly, the financial statements for a three year period are analysed using the normal financial ratios. The following performance areas are analysed:-

(i) Activity i.e. sales/profit growth and asset turnover
(ii) Efficiency i.e. profit margins and cost structures
(iii) Profitability
(iv) Liquidity
(v) Solvency
(vi) Credit management

The Bureau's efficiency ratios for small retailers are shown in Table 4.1.2.2.

This first step is essential because the outcome of performance analysis might indicate that the only strategy options are divestment, harvesting or even liquidation.

TABLE 4.1.2.1

KEY BUSINESS RATIOS— RETAILING,

Line of Business (and number of concerns reporting)	Current assets to current debt	Net profits on net sales	Net profits on tangible net worth	Net profits on net working capital	Net sales to tangible net worth	Net sales to net working capital	Collection period	Net sales to inventory	Fixed assets to tangible net worth	Current debt to tangible net worth	Total debt to tangible net worth	Inventory to net working capital	Current debt to inventory	Funded debts to net working capital
	Times	Per cent	Per cent	Per cent	Times	Times	Days	Times	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
5251 Hardware (99)	7.02	3.88	9.77	13.77	3.12	4.91	*	4.9	6.8	12.0	40.7	64.6	24.5	21.1
	3.62	2.16	5.49	7.17	2.36	2.96	*	3.4	18.7	30.0	94.0	85.6	47.3	46.8
	2.01	0.74	1.98	2.66	1.55	2.24	*	2.9	37.2	62.9	156.9	120.3	79.6	74.4
5722 Household Appliances (106)	3.39	4.13	14.88	19.58	5.71	7.37	24	8.2	5.1	38.4	74.5	53.6	69.5	6.9
	2.21	2.64	10.47	12.53	4.28	4.99	42	5.8	10.6	69.0	116.9	93.0	97.1	19.9
	1.70	1.29	5.56	5.71	2.62	3.09	69	3.9	23.4	106.4	158.3	129.0	131.3	55.5
5641 Infants' & Children's Wear (50)	4.83	2.63	17.16	20.75	5.48	6.66	*	6.6	7.3	20.7	70.2	74.7	35.2	11.4
	3.07	1.48	7.34	9.57	3.54	3.96	*	4.8	14.3	40.3	104.4	98.9	56.7	25.7
	1.99	0.57	1.73	2.10	2.38	2.87	*	3.0	30.7	74.7	136.4	129.5	83.6	37.1
5971 Jewelers (63)	4.23	5.69	11.76	12.15	3.13	3.30	*	4.3	2.4	34.2	65.0	54.5	42.9	9.7
	2.90	3.39	7.54	8.82	2.04	2.09	*	2.9	8.2	51.5	97.1	75.8	74.7	29.1
	2.05	1.46	4.23	4.44	1.47	1.52	*	1.9	20.2	116.0	198.6	116.3	138.0	49.7
5211 Lumber Yards (140)	7.29	3.73	8.17	11.24	3.36	4.53	43	6.8	12.2	14.4	42.5	47.8	29.9	11.5
	3.72	1.89	4.93	7.08	2.57	3.32	57	5.0	20.6	32.9	70.2	66.4	65.2	27.5
	2.24	0.70	1.82	3.15	1.80	2.28	83	3.6	36.9	62.7	109.7	95.9	110.6	45.7
5231 Paint, Glass & Wallpaper (39)	8.63	3.89	11.90	21.44	3.79	5.37	*	6.7	6.6	8.8	41.5	65.4	16.9	11.7
	4.57	2.03	8.03	10.20	2.67	3.47	*	4.8	20.7	20.0	70.8	75.9	46.7	34.7
	2.63	0.44(L)	1.29(L)	2.51(L)	2.06	2.48	*	3.7	50.7	50.1	220.4	88.4	80.0	60.1
566 Shoes, Men's, Women's & Children's (112)	5.37	4.49	14.54	18.21	4.71	5.43	*	4.5	5.4	20.4	51.4	84.5	24.6	10.1
	3.12	2.69	9.02	9.93	3.21	3.54	*	3.5	12.2	39.4	78.7	110.5	40.6	20.8
	2.34	1.05	3.24	3.44	2.12	2.60	*	2.5	21.8	63.7	96.2	138.9	60.7	34.6
5531 Tires, Batteries & Accessories (69)	3.88	4.21	20.02	24.88	5.16	7.54	*	8.4	8.6	33.2	70.0	53.5	45.6	17.3
	2.27	2.62	7.49	12.07	3.76	5.04	*	5.9	18.2	62.2	118.2	86.0	96.5	45.1
	1.61	0.85	2.00	2.58	2.72	3.50	*	3.9	54.2	106.3	201.1	129.8	180.3	66.3
5331 Variety Stores (63)	4.85	4.31	11.81	19.39	4.40	5.40	*	6.0	15.4	19.0	22.0	82.6	25.9	15.7
	3.58	2.16	8.37	9.87	3.08	4.25	*	4.3	27.4	29.9	50.1	100.7	39.9	31.4
	2.75	1.16	3.33	4.64	2.28	3.40	*	3.5	37.5	40.9	90.3	123.3	55.6	38.5
5621 Women's Specialty Shops (208)	3.80	4.02	15.91	17.75	6.13	8.23	*	9.4	6.7	28.1	69.8	46.7	56.7	13.7
	2.45	1.91	6.15	8.07	3.93	4.65	*	6.7	18.1	55.0	116.9	84.2	90.0	29.5
	1.66	0.81	2.85	3.35	2.53	3.28	*	4.8	38.4	106.4	160.0	120.8	143.2	43.6

(From : Dun and Bradstreet P88)

TABLE 4.1.2.2

EFFICIENCY RATIOS FOR SMALL RETAILERS

When % gross profit/turnover is	20	25	30	35
then the following expense and profit ratios apply:-				
% Operating expenses/gross profit	80	80	80	80
% Operating expenses/turnover	16	20	24	28
% Staff remuneration/gross profit	50	50	50	50
% Staff remuneration/turnover	10	12,5	15	17,5
% Rent/gross profit	13,3	13,3	13,3	13,3
% Rent/turnover	2,7	3,3	4	4,7
% Interest/gross profit	6,7	6,7	6,7	6,7
% Interest/turnover	1,3	1,7	2	2,3
% Advertising/gross profit	3,3	3,3	3,3	3,3
% Advertising/turnover	,7	,8	1	1,2
% Other expenses/gross profit	6,7	6,7	6,7	6,7
% Other expenses/turnover	1,3	1,7	2	2,3
% Nett profit/gross profit	20	20	20	20
% Nett profit/turnover	4	5	6	7

(From : Small Business Advisory Bureau)

4.1.3 Store Profile

The concept of a store image or personality was introduced in the previous Chapter. We now need to find a practical tool to measure this rather subjective concept. Lendrum writes:- 'For the retailer, customer perceptions and attitudes will probably be the most important reasons behind the ultimate success or failure of a business.'

The Bureau of Market Research published a report called Status Associated with product groups and retail outlets. The report gives an excellent insight into customer perceptions and attitudes. For example, Black and White respondents both agree that large electrical appliances such as fridges, deepfreezers and hi-fi's have high status. Blacks and Whites also accord high status to stores that have a high proportion of White customers.

Lendrum says that the starting point is to check the current position regarding the attitude of people towards the business. By using a semantic differential approach the retailer can establish a benchmark regarding customer's attitudes. If the image is negative then the retailer must act to change these negative perceptions. The purpose of the perception research is to establish whether customers are satisfied or dissatisfied with certain aspects of the business. This writer has designed an attitude profile sheet for an appliance retailer which aims to measure customer attitudes on ten attributes. This is shown in Figure 4.1.3.1. It is adapted from the profile of response attached to Lendrum's article. See Figure 4.1.3.2.

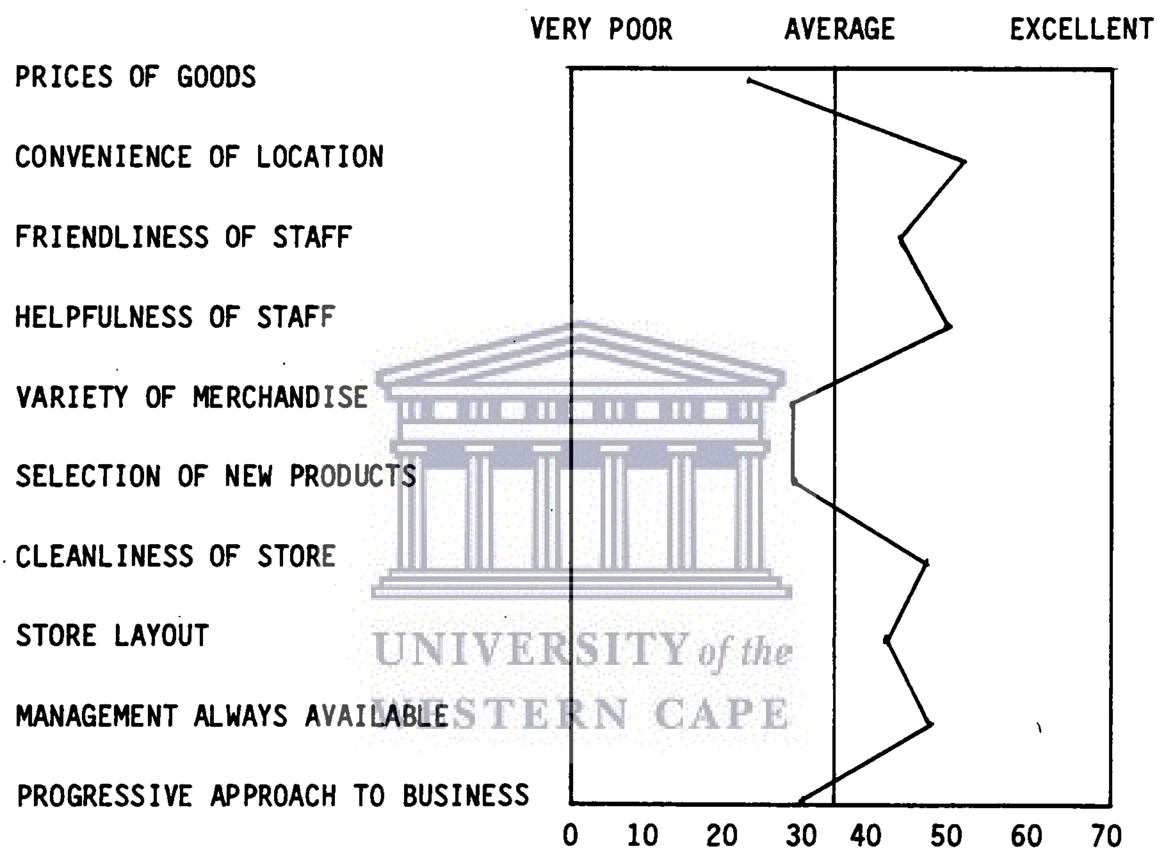
FIGURE 4.1.3.1

PROFILE ANALYSIS OF RESPONSE FOR APPLIANCE RETAILERS

	VERY POOR				AVERAGE					EXCELLENT
Parking always available										
Selection of appliances										
Friendly/pleasant staff										
Clean/neat/tidy shop										
Credit facilities										
Value for money										
Advertisements										
Specialised knowledge of appliances										
Display of appliances										
Convenient for shopping										
	0				5					10

FIGURE 4.1.3.2

PROFILE ANALYSIS OF RESPONSE



(From : An address given on marketing and retailing to the 1981 ASSOCOM Natal Regional Congress by H.C. Lendrum.)

4.1.4 Resource Analysis

Brannen says:- 'An analysis of firm resources can yield the strengths and weaknesses of the firm and point to the differential advantage of the firm around which the firm's marketing strategy can be built.' (P151)

Lendrum writes that:- 'A small business, on the other hand, has limited capital and few other resources such as specialised accountants, sales managers, buyers etc.' This can be a short-term constraint in the development of an ideal strategy. Kline has produced an inventory checklist of company resources which can be used to facilitate analysis. See Table 4.1.4. This checklist is considered too general for our purpose here. This writer proposes the following checklist of resources for a small appliance retailer:-

(i) Financial strength
(ii) Location
(iii) Customer goodwill/store reputation
(iv) Specialised experience and product knowledge
(v) Friendly, motivated staff
(vi) Management
(vii) Agency for product(s)
(viii) Marketing skills e.g. pricing, advertising etc.
(ix) Merchandising skills e.g. buying, displays etc.
(x) Customer skills .e.g. personal selling, personal relationships etc.
(xi) Knowledge of local community

One resource that is not often mentioned in the literature is supplier relationships. Davidson, Doody and Sweeney (P376) write that 'To a large extent, success or failure in merchandise management depends on the ability to develop and maintain desirable relationships with suitable sources of supply.'

TABLE 4.1.4

INVENTORY OF COMPANY RESOURCES

Financial strength	Money available or obtained for financing research and development, plant construction, inventory, receivables, working capital, and operating losses in the early stages of commercial operation.
Raw material reserves	Ownership of, or preferential access to, natural resources such as minerals and ores, brine deposits, natural gas, forests.
Physical plant	Manufacturing plant, research and testing facilities, warehouses, branch offices, trucks, tankers, etc.
Location	Situation of plant or other physical facilities with relation to markets, raw materials, or utilities.
Patents	Ownership or control of a technical monopoly through patents.
Public acceptance	Brand preference, market contracts, and other public support built up by successful performance in the past.
Specialized experience	Unique or uncommon knowledge of manufacturing, distribution, scientific fields, or managerial techniques.
Personnel	Payroll of skilled labor, salesmen, engineers, or other workers with definite specialized abilities.
Management	Professional skill, experience, ambition, and will for growth of the company's leadership.

(From : Brannen P152)

4.1.5 Marketing Ability

Burstiner points out that the biggest single factor in a recipe, for success in a small business, is the entrepreneur. Also marketing is an innovative and creative exercise. If a small business does not have the resources to hire skilled marketing specialists then the burden of developing and executing the marketing strategy will fall on the shoulders of the owner/manager of the business. Therefore, at the start, the manager should assess whether he has the necessary creative abilities for the tasks that lie ahead. Burstiner has designed a self-rating chart whereby would-be entrepreneurs can assess their creative abilities.

It was hypothesised that marketing is a creative discipline. Therefore, small marketers with a low score in creativity should do one of two things:-

(i) Avoid ambitious marketing programs; or

(ii) Get outside assistance before proceeding further in the strategy formulation process.

TABLE 4.1.5

Part I: Creativity Traits.

Item	*Extremely Low* 1	*Quite Low* 2	*Somewhat Low* 3	*Average* 4	*Somewhat High* 5	*Quite High* 6	*Extremely High* 7
Ability to express oneself							
Adaptability							
Awareness							
Curiosity							
Drive							
Enthusiasm							
Facility with numbers							
Flexibility of thinking							
Independence of outlook							
Lack of compulsion to conform							
Openmindedness							
Originality							
Positive attitude							
Powers of concentration							
Productivity							
Resourcefulness							
Self-confidence							
Self-sufficiency							
Sense of humor							
Sensitivity to problems							
"Sticktoitiveness"							
Wide and varied interests							
Willingness to take chances							
Word fluency							
Zest for solving puzzles							
Creativity Traits Totals:							

(From : Burstiner P15)

4.1.6 Outside Assistance

Steiner and Miner (P215) indicate that seventy-five per cent of all firms in the United States employ consultants to help solve management, accounting and finance problems. Large firms are more likely to use consultants than small firms. There is also evidence that large firms rely on outside assistance in developing strategies. It was hypothesised that in South Africa the use of consultants to solve marketing problems is not widespread, particularly as far as small firms are concerned. Recently, the South African government has initiated several moves to provide greater assistance to small firms. This was largely at the insistance of big business (e.g. the Rembrandt Group of Companies) and various academic institutions. A list of organisations that provide assistance to small businesses in Natal is shown in Table 4.1.6.1.

Several writers, such as Brannen, have urged small businessmen to make greater use of outside assistance to help solve their problems. Potential sources of assistance include: accountants, lawyers, bankers, trade associations and various development agencies. The worst source of advice is that received from well-meaning but untrained relatives and friends.

A trained investigator might start his analysis by doing a situation audit. An example of a comprehensive situation audit for large firms is given by Steiner and Miner. See Table 4.1.6.2.

TABLE 4.1.6.1

A LIST OF ORGANISATIONS PROVIDING ASSISTANCE TO SMALL BUSINESSES IN NATAL

	NAME	TYPE OF ASSISTANCE PROVIDED
1.	Small Business Development Corporation	Finance and training
2.	Small Business Advisory Bureau	Consultations, store design, management training and information service
3.	Standard Bank Small Business Unit	Finance
4.	Chambers of Commerce	Information service and short courses
5.	Kwazulu Development Corporation	Finance and Management Training
6.	Rotary	Training

TABLE 4.1.6.2

CLASSIFICATION OF INFORMATION IN THE SITUATION AUDIT

1. Expectations from outside constituents
    - Stockholders
    - Suppliers
    - Customers
    - Government
    - Community
    - Creditors
    - Intellectuals
    - Etc.
2. Expectations from people inside the company
    - Board of Directors
    - Managers
    - Staff
    - Hourly employees
3. Past performance
    - Sales
    - Profits
    - Return on investment
    - Product development capability
    - Managerial skills
    - Labor relations
    - Public relations
    - Marketing capability
    - Etc.
4. Current situation
    - Financial
        - Profitability
        - Sales
        - Debt
        - ROI
        - Liquidity
        - Etc.
    - Resource use efficiencies
        - Sales per employee
        - Profits per employee
        - Investment per employee
        - Plant utilization
        - Use of employee skills
        - Etc.
    - Managerial capabilities
    - Staff capabilities
    - Evaluation of employees
        - Skills
        - Productivity
        - Worker satisfaction
        - Turnover
        - Etc.
    - Products/markets
        - Share
        - Strengths
        - Weaknesses
        - Etc.
    - Technology assessment
        - Impact on community
        - Technical strengths
        - Technical weaknesses
    - Competition
        - Price
        - Product/market
        - Technology
        - Etc.
    - Social policies
        - Conformance with pollution standards
        - Public image
        - Social demands on company
        - Evaluation of company voluntary programs
        - Etc.
    - Organizational structure
        - Suitability of
        - Strengths of
        - Weaknesses of
        - Etc.
5. Forecasts
    - Economic
        - Projected sales
        - GNP
        - Inflation rates
        - Market potential
        - Etc.
    - Competition
        - New products
        - Technology
        - Price
        - Etc.
    - Technology
    - Social Forces
        - Values
        - Attitudes
    - Political trends
    - Other
        - Population
        - International turbulence
        - Etc.

(From : Steiner and Miner P129)

4.2 Statement of Owner's Expectations

4.2.1 Introduction

Odiorne, who is the father of Management-By-Objectives, has developed a strategy for achieving personal success. Successful people learn to create a vision of success for themselves. The first step towards effectiveness is to find meaning and then convert it into explicit aims and targets. You cannot be successful unless you first define what success consists of before you set out to achieve it. The clarity of personal goals is the most important element in shaping personal effectiveness. Therefore, the small entrepreneur who wants to be successful should analyse his personal values and objectives in life. He needs a clear vision of how the business is going to satisfy his personal needs. This vision should then be written down on a piece of paper and stored in a safe place to act as a constant reminder.

In particular, the entrepreneur should recognise the inducements for involvement in an own business. It is hypothesised that the main inducements are of two kinds namely:-

(i) Income requirements
(ii) Value satisfaction

4.2.2 Desired Income

Steinhoff (P39) recommends that the first step in planning a new small business is to ascertain whether the project will generate the desired financial rewards. The small business owner should receive the following payments for operating the business:-

(i) Salary - a return at least equal to what can be earned in another job is desirable.

(2) Return on investment - every venture requires an investment in money or in kind. The business should generate a return equal to the going risk free interest rates. This is the cost of capital.

(iii) Reward for risk - the risk of failure in a small business is high according to statistics produced by Dun and Bradstreet in the United States of America. Therefore, the entrepreneur should receive a reward for the risks undertaken.

Only once the desired income has been established should planning proceed. It might very well be that the proposed strategy will never produce the required yields. Then the rational entrepreneur will turn his attention to starting a different, potentially more profitable venture.

Steinhoff's method is based on calculating a projected income statement. These statistics are needed:-

(i) Average stock turnover for the type of business
(ii) Average mark-up
(iii) Profits as a percentage of sales
(iv) Desired income

The desired income method of establishing the capital requirements of a new business is shown in Table 4.2.2.

Other tools that can be used to establish the profit potential of the business are:-

(i) Breakeven analysis
(ii) Du Pont financial analysis model
(iii) Budgets

TABLE 4.2.2

CAPITAL REQUIREMENTS FOR A NEW RETAIL BUSINESS

Desired Income Method

1.	Assume desired income	=	R12 000 p.a.
2.	Target net profit	=	10% of sales
3.	Then sales must be	=	$\frac{12\ 000}{1} \times \frac{100}{10}$
		=	R120 000
4.	Target stock turnover	=	4 times
5.	Then average stock-on-hand	=	$\frac{120\ 000}{4}$
		=	R30 000 (at selling prices)
6.	Target gross profit	=	33 1/3%
7.	Then opening stock	=	R30 000 x 66 2/3%
		=	R20 000 (at cost prices)

ADD

8. Cost of fixtures and fittings
9. Pre-paid expenses
10. Contingency fund
11. Operating expenses for 3 months
12. Working capital for debtors (if any)

(Adapted from : Steinhoff P43)

4.2.3 Value Expectations

Steiner and Miner (P95) write that the value systems of top managers are basic and fundamental premises of any comprehensive planning system. Value systems influence objectives and all sorts of decisions made in the planning process. Values influence the propensity to undertake risks and also the competitive stance adopted by the small marketer i.e. aggressive or passive. A manager who holds passive and static values will be very uncomfortable if required to execute a dynamic, aggressive strategy. Therefore, the planner should analyse his values early in order to ensure that a compatible marketing mode results from the exercise.

Kotler poses the question 'How does a company decide which opportunities to pursue .....' (P52) In order to make this decision the company must develop a clear sense of it's mission or purpose. The company's purpose answers questions such as - What is our business? Where are we going?

> Once a company arrives at a strong sense of corporate mission, it finds it is easier to scan the environment for opportunities and easier to evaluate the contribution of different opportunities to corporate purpose. (P53)

It is hypothesised here that the value expectations of the owner/manager of the small business will largely determine the company purpose or mission. It will also determine the growth mode and strategy option. For example, if the initial motivation of the entrepreneur was to achieve independence then the strategy option might be limited to a single-unit business

4.3 Market Opportunity Analysis

4.3.1 Introduction

Kotler (P46) sees the analysis of marketing opportunity as a process of matching environmental opportunities with a company's capabilities. However, in a small business situation it is felt that many opportunities might be discovered without engaging in a comprehensive environmental scan. It has been my experience that a trained investigator can invariably uncover opportunities that exist within the present scope of operations. These opportunities might be unexploited because of a defective information system. The marketing opportunities in a particular situation can be discovered by asking the following questions in priority order:-

Step One : Does market potential match expectations?

Step Two : What are my customer's likes, dislikes and preferences?

Step Three: What opportunities exist in the competitive environment?

Step Four : What classification of existing products, customers etc. present the best opportunities?

Step Five : What can be done to increase sales to existing customers?

Step Six : What trends are apparent in the macro-environment?

4.3.2 Market Survey

The second step in Steinhoff's (P49) planning process for a new small business is to undertake a market survey. The objective of this survey is to determine a reasonably attainable sales volume in a specific type of business. For retailing, the steps should include the following:-

(i) Determine the limits of the market or trading area.

(ii) Study the population within this area to determine it's potential sales characteristics.

(iii) Determine the purchasing power of the area.

(iv) Determine the present sales volume of the type of goods or services you prefer to offer.

(v) Estimate what proportion of the total sales volume you can reasonably obtain.

Earlier, the planner would have constructed a projected income statement based on average industry statistics and the desired profit. The market survey now provides a method of comparing the minimum requirements with the market potential.

The small business planner will probably require assistance in completing this exercise. Sources of relevant information are given in Table 4.3.2.

In 1973 the Bureau of Financial Analysis at the University of Pretoria conducted a survey of the rent payable for business premises in Pretoria by type of business. The metropolitan area of Pretoria was divided into four areas as follows:-

(i) Central business district

(ii) Flatland

(iii) South-eastern suburbs

(iv) North-western suburbs

The average sales turnover of retailers of musical instruments, airconditioning, lighting and electrical appliances in the above areas was as follows:-

Area	Average Sales Turnover	Turnover per m^2 Sales Area
Central Business District	R330 960	R1293,4
Flatland	R244 500	R2566,0
South Eastern Suburbs	R500 000	R5376,3
North Western Suburbs	R519 576	R1033,4
TOTAL	R398 046	R1271,0

Thus we can see that the sales potential of the average appliance retailer differs radically according to location.

For the serious student, the Bureau of Market Research at the University of South Africa published a Report (No. 23) in 1969 on the Calculation of Market Potentials for Consumer Goods.

When it comes to gauging the potential of a particular location, then it is desirable to do a traffic count. A simple traffic count involves counting the number of customers of a certain type passing a particular point during specific time periods.

TABLE 4.3.2

SOURCES OF SECONDARY DATA FOR MAKING APPLIANCE MARKET SURVEYS

1. Street maps
2. Department of Statistics
3. Chamber of Commerce
4. Appliance magazine
5. Bureau of Financial Analysis at the University of Pretoria
6. Bureau of Market Research at UNISA
7. The Star Retail Data Library
8. Small Business Advisory Bureau
9. Suppliers
10. Banks
11. Municipalities
12. The South African Advertising Research Foundation
13. The South African Society of Marketers
14. Market Research Africa - Durable Index

4.3.3 Consumer Research

Lendrum notes that:-

> .... the small businessman is in a fairly unique position to talk to a large proportion of his market on a regular basis because he is frequently in direct contact with them. In reality however, he almost never bothers to ascertain from his customers their likes, dislikes and preferences etc.

He recommends that the retailer gets to know his market, by speaking to his customers, finding out whether they are able to satisfy their shopping problems and how they go about about obtaining their shopping requirements.

Brannen has compiled simple checklists for analysing consumer buying habits. See Table 4.3.3.

In the words of Brannen:-

> In all phases of the marketing strategy planning, the Small Business Marketer should constantly be considering consumer behaviour. His understanding of consumer behaviour should tell him: "yes do this, or no, don't do that because ...."

Thus, by taking the elementary step of ascertaining his customer's likes, dislikes and preferences the small marketer should establish gaps in his marketing program. To rectify these gaps can be the first objective in the revised strategy.

TABLE 4.3.3

CONSUMER RESEARCH FOR SMALL RETAILERS

The following questions should be helpful in jotting down your conclusions about: (1) the kinds of people you are serving, or seeking to serve; (2) what they need, want, and will buy; and (3) how you can serve them best.

Talking with two types of customers can be helpful in working out answers to the questions listed below, especially to questions 1 through 6. One type is your best customers. The other is composed of persons whose income, business, social status, or location makes them logical customers even though they are not regular patrons of your firm.

1. When do my customers like to shop?
________a.m. to ________p.m.

2. Do my customers like to shop during evening hours? If so, what nights of the week?____ .
What hours?________a.m. to ________p.m.

3. How do my customers like to pay?
________ percent, cash
________ percent, 30 days credit
________ percent, revolving credit

4. What quality of merchandise do my customers usually buy?
________ percent, top quality
________ percent, moderate quality
________ percent, low quality

5. What type of store has most appeal to my customers?
________ percent, new and flashy
________ percent, conventional, service type
________ percent, discount type

6. How do my customers handle service on the mechanical products they have bought?
________ do-it-themselves
________ use service which is already available in the community
________ use available service and would buy more if it were available

7. Who does most of the buying in the homes of my customers?
________ percent, the man
________ percent, the woman
________ percent, they shop together

8. What is the income level of my average customer?
________ above average
________ average
________ below average

9. What is the age level of my average customer?
________ elderly
________ middle aged
________ young and recently married

10. What is the general attitude of my customer toward his community?
________ proud and helping to develop
________ settled and satisfied
________ disturbed and moving out

(From : Brannen P101)

4.3.4 Principle of Natural Dominance

Hirschman developed a concept of retail structure she called natural dominance. She contends that department stores can be grouped into three different categories.

(i) Traditional department stores
(ii) National chain department stores
(iii) Full-line discount department stores

These three department stores can be placed on a price and quality continuum. Consumers view each department store as offering different levels of pricing and merchandise quality. They all offer a concentrated variety of merchandise. Now speciality stores can also be placed on a price-quality continuum in a similar manner to department stores. While department stores have concentrated variety over many lines, speciality stores have classification dominance over one merchandise category. However, each type of department store is also likely to have classification dominance over a smaller set of merchandise namely:-

Type of Department Store	Classification of Merchandise over which it has Dominance.
Traditional Department Store	Glassware; gifts; decorative home accessories; fashion clothing.
National Chain Department Store	Staple softgoods; major appliances.
Discount Department Store	Small electronics; home improvements; health and beauty aids; sporting goods.

The essence of Hirschman's theory is that each type of department store has a natural monopoly over certain merchandise lines with certain price and quality constraints. This is called the principle of retail dominance.

However, within each group of non-competitive merchandise lines there is room for specialist stores to cluster around the dominant department stores in a particular market.

Hirschman's theory was developed for department stores in America where there is a clear distinction between traditional department stores and national chain department stores. However, in South Africa the distinction between these two types of department stores is blurred. A store chain such as O K Bazaars best fits Hirschman's definition of a national chain department store. As far as appliance retailing is concerned discount department stores in South Africa have a much larger share of this market than seems to be the American experience.

The writer was interested to see whether the principle of natural dominance could be applied to local markets in order to determine marketing opportunities. The results are discussed in Chapter 5 - Survey of Market Structure.

FIGURE 4.3.4.1

THE PRICE-QUALITY CONTINUUM

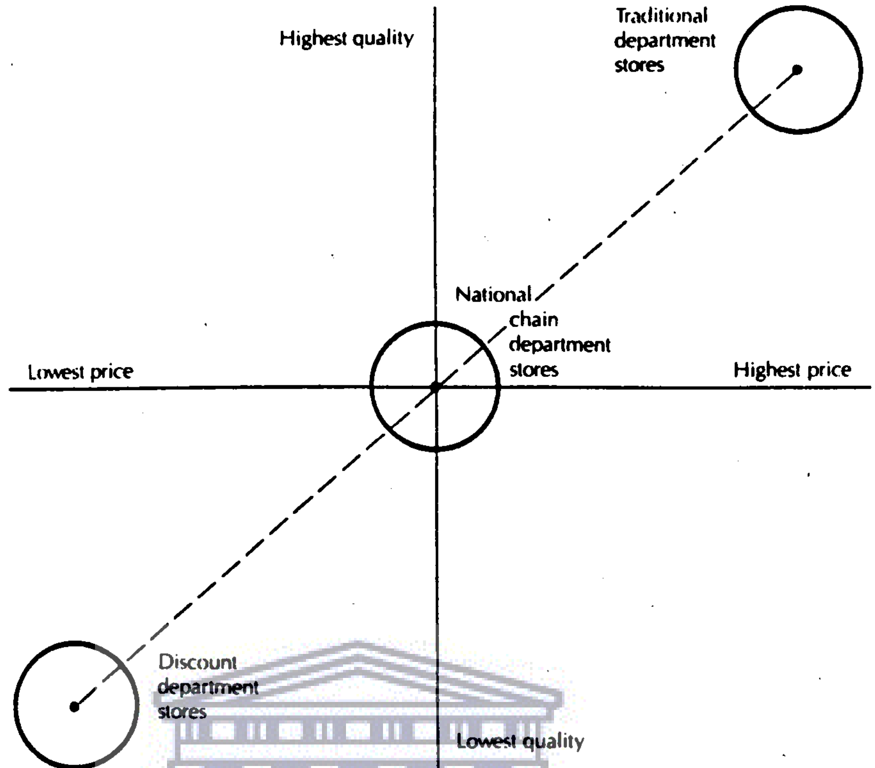
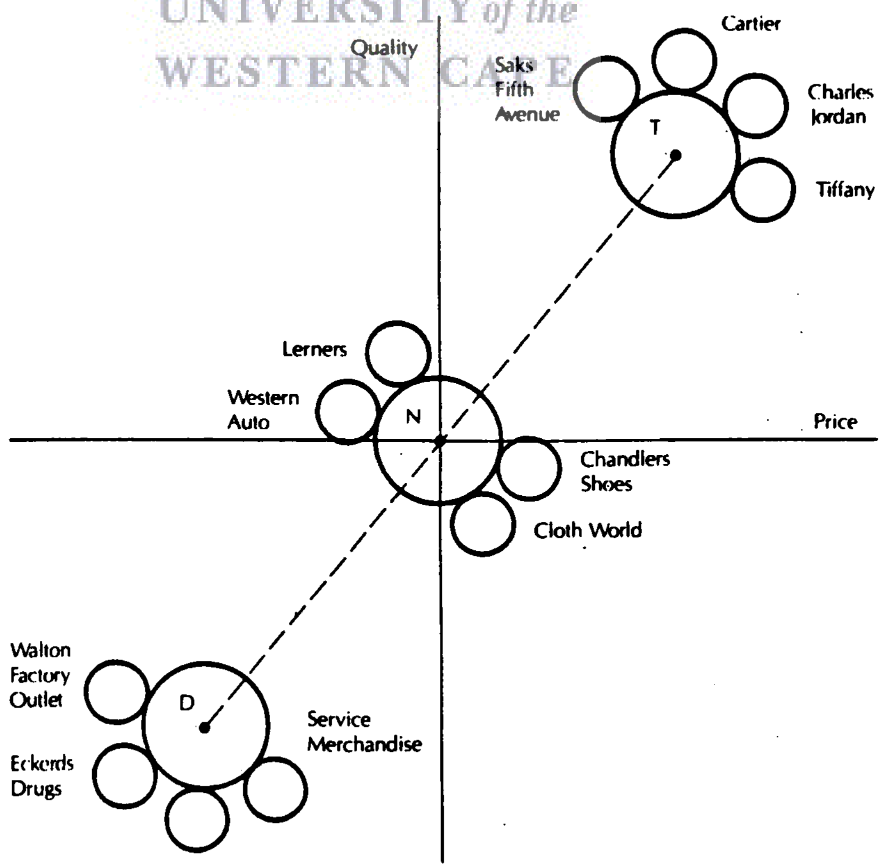


FIGURE 4.3.4.2

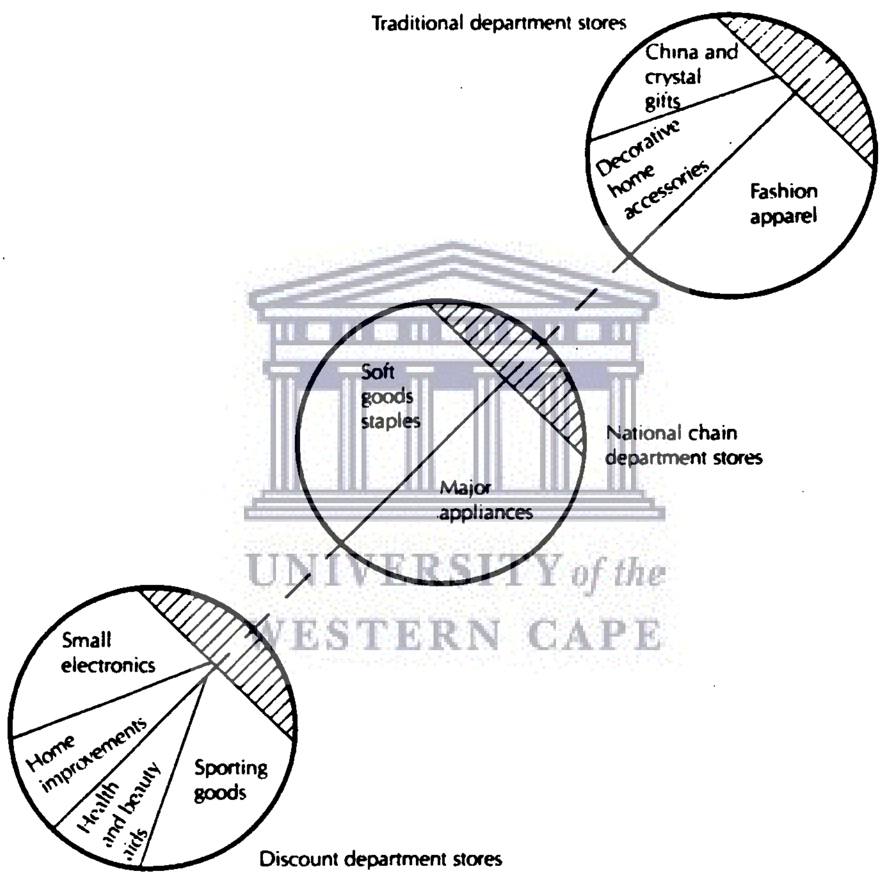
RETAIL MARKET STRUCTURE



(From : Mason and Mayer P44)

FIGURE 4.3.4.3

PERCEIVED RISK INFLUENCE ON MERCHANDISE LINE CLASSIFICATION DOMINANCE



(From : Mason and Mayer P46)

4.3.5 Contribution Analysis

This writer has found in practical fieldwork while consulting with small retail enterprises that in almost every case study the Pareto Principle (i.e. the 80:20 principle) applies. The following examples occur time and again in practise:-

(i) Twenty per cent of products generate eighty per cent of sales.

(ii) Twenty per cent of customers account for eighty per cent of sales.

(iii) Twenty per cent of staff do eighty per cent of the effective work.

Therefore, a starting point, for problem-solving and strategy development, is to break the whole up into smaller more manageable parts. Then to analyse the contribution of these smaller parts to the total effort. This exercise which I call 'Contribution Analysis' will often suggest profitable or efficient strategies to follow. A pre-requisite is an information system which provides the data in the required form.

Table 4.3.5 is an example of a customer contribution analysis in an actual case study. The figures in the total column were taken from the financial statements of a small furniture business. I then asked for a breakdown of sales for three classes of customers i.e. A,B, and C. After allocating costs to each customer classification it became obvious that although customer group A represented eighty per cent of total sales, the selling costs to capture these sales was disproportionately large. Sales to group A were bought at a loss. Customer Group B accounted for only sixteen per cent of total sales. However, selling costs to this group were lower so that the B group almost made up the the losses being incurred on sales to A group.

Prior to the investigation the emphasis of the marketing strategy had been to increase sales to group A. The owners were astounded by the implication of this simple analysis and were able to achieve a quick turnaround in profitability by a relatively small increase in sales to groups B and C.

TABLE 4.3.5

CUSTOMER CONTRIBUTION ANALYSIS

Customer Class	A	B	C	Total
Sales Revenue	200 000	40 000	10 000	250 000
Gross Profit	100 000	20 000	5 000	125 000
Selling Costs	69 466	5 060	2 140	76 666
Administration Costs	40 000	8 000	2 000	50 000
Total	109 466	13 060	4 140	126 666
Operating Profit/loss	(9 466)	6 940	860	(1 666)

4.3.6 Follow-up Synergy

Once the sale has been made the majority of small marketers lose interest in the customer. This is particularly true of cash sales and when marketers pursue a policy of undifferentiated marketing. However, the small retailer selling appliances is advised to pursue a concentrated marketing strategy. (See Kotler P153) One way to achieve this is to follow-up after the initial sale has been made. It is necessary to obtain certain minimum details regarding the customer, such as name and address. These are easily obtainable from the delivery slips and/or invoices. However, other details might also be useful from a marketing point of view. The following details can form the foundation of future marketing programs:-

Name
Address
Age
Birthday
Family size
Stage in family life cycle
Occupation

The hypothesis is that once a customer has purchased from a store then that customer is already favourably disposed towards the store. This customer must surely be a prime target. Yet how many cash only retailers ever take the trouble to communicate directly with this potential prime market. For example, waste in advertising can be reduced in the following ways:-

(i) Direct mail campaigns to old cash customers.
(ii) Allowing a cooling-off period before the mail shot so that the customer's savings needed to purchase large items can build up.
(iii) Allowing the customer a special discount for special occasions e.g. birthdays, Easter, Christmas, New Year etc.

(iv) Sending a warning that the warranty is about to expire
(v) Sending information regarding new products on the market
(vi) Sending bargain notices etc.

This idea of building up a growing portfolio of loyal customers I have called 'Follow-up Synergy'; Weber notes:-

> One important element of synergy exists therefore, which many firms overlook, because they take too much for granted. This element of synergy consists of the body of "loyal customers" for the firm's existing need fulfilling products. (P11)

4.3.7 Macro-Environment

van der Merwe writes:-

> The Macro-environment represents the individual and aggregate forces of culture society, the economy, the demographic characteristics of the population, the political structure, the legal and technological factors and the competitive business situation. (P9)

These forces cannot be changed appreciably by the individual businessman and therefore, they set the parameters in which he can apply his strategy. Brannen (P133) lists the following five environmental variables which require both anticipation and adaption:-

(i) The economic environment
(ii) The competitive environment
(iii) The political and legal environment
(iv) The societal and cultural environment
(v) The scientific and technological environment

It is not the intention here to give a detailed description of these various environments. Rather we are interested in prescribing a mode of behaviour when faced with structural change in the environment.

To use Rhenman's terminology, irreversible changes in the environment give rise to dissonance between the firm and it's environment. Therefore, the firm must strive to achieve a matching fit if it's environment changes. Various writers have described a firm's environment with words such as Placid-Disturbed (Enery and Twist), Benign and Hostile (March & Simon), Stable, Changing, Turbulent (Weber) Placid, Changing, Volatile (Lorch and Lawrence). However, none of these writers has described the behaviour of small firms when faced with environmental change.

It was hypothesised that two states could exist. Either the firm was in harmony with it's environment or the environment was undergoing change. If the environment is undergoing major structural changes then the firm will behave in one of the following ways:-

(i) Wait and see approach - organisation is static and remains anchored to the past. Organisation puts out feelers to test the direction of change. Organisation is reactive not innovative.

(ii) Atrophy - the environment has changed drastically but the organisation is still using old methods. Firm relies on it's old customers and does not seek out new ones. As they die the firm dies with them.

(iii) Innovator - this firm welcomes changes because it presents new opportunities. It seeks out and tries to stimulate change.

The above modes of behaviour are illustrated in Figure 4.3.7.1.

The general hypothesis is that if a small retailer selling appliances finds himself in an unstable, changing environment then the best strategy is to adopt an innovative approach and search for new marketing opportunities.

Some environmental forces causing instability and change are:-

(i) Suppliers policies which favour the needs of mass- merchandisers
(ii) Price competition from departmental discount stores
(iii) The high cost of capital
(iv) The coming communications era

Figure 4.3.7.1 shows the changing financial requirements for retail appliance firms over a 24 year period. The trend to greater use of long-term liabilities is definitely negative from the small retailers point of view because he does not have access to the long-term capital market.

TABLE 4.3.7.1

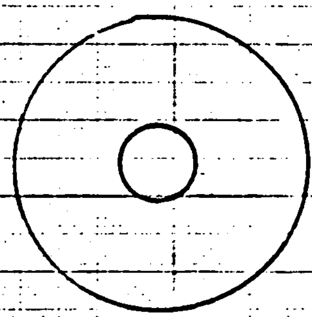
SOME STRATEGICALLY SIGNIFICANT ENVIRONMENTAL VARIABLES

Economic conditions	*Demographic trends*	*Technological changes*	*Social-cultural trends*	*Political-legal factors*
GNP trends	Growth rate of population	Electronic funds transfers	Lifestyle changes	Antitrust regulations
Interest rates	Age distribution of population	Point-of-sales systems	Career expectations	Environmental protection laws
Money supply	Regional shifts in population	Metrication; minicomputers	Consumer activism	Tax laws
Inflation rates	Life expectancies	Computer security	Rate of family formation	Advertising regulation
Unemployment levels	Birth rates	Universal product code		
Wage/price controls				
Devaluation/revaluation				
Energy availability				

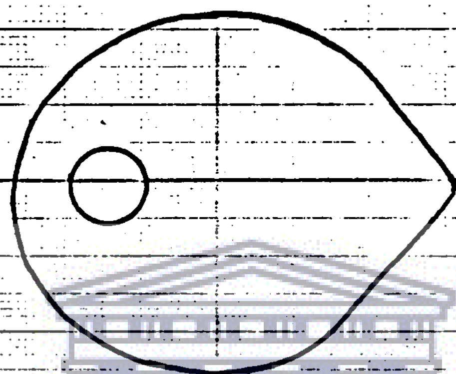
(From : Mason and Mayer P120)

FIGURE 4.3.7.1

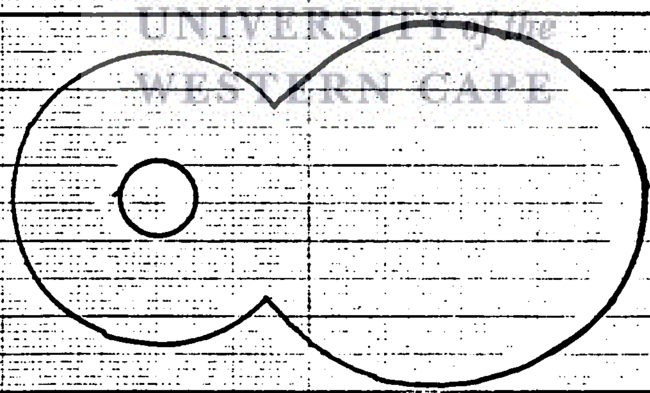
1. STATE OF HARMONY



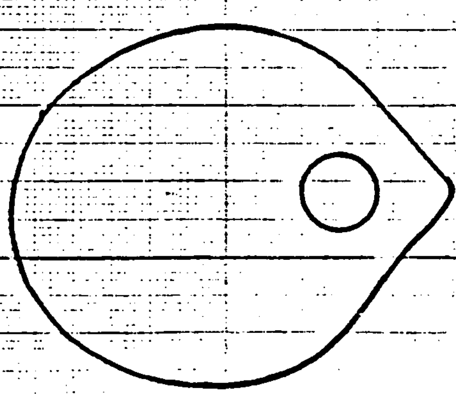
2. STRUCTURAL CHANGE AND COMPANY BEHAVIOUR



a. Wait and See



b. Atrophy



c. Innovator

DIRECTION OF CHANGE

Brannen poses this question of how the small marketer should cope with environmental change. He recommends anticipation and adaption.

> In the long run, the individual actions for dealing with environmental variables also include the tools of anticipate and adapt. Here of course, the adaptions are those involving the planning, execution and control of entirely new overall marketing strategies. (P146)

He also writes that:-

> In addition to adapting to the environment in the long-run, the S.B.M., acting collectively with others, may entirely influence the environment. Amongst the most important means of collective action are trade associations and national business associations. (P147)

In this regard business associations have proved to be totally ineffective in influencing the South African business environment in favour of small business. The few initiatives have come from academic, government and big business interests. However, these initiatives have usually been in response to political imperatives.

Collective action by small business in the South Africa situation can be compared with consumerism in this country. Comparatively dormant!

Referring to the emergence of vertical systems of retail competition Mason and Mayer write as follows:-

> However, the opportunity continues to exist for the small retailer to provide a unique and specialised service that may not be profitable for retailers to provide as part of a vertical marketing system. The independent retailer is

> better able to sense local market and consumer needs. Also this type of outlet can respond more quickly to shifts in local demand. This makes the need for accurate, up-to-date information on consumer markets more imperative than ever. To survive, the independent retailer must become an even more astute observer of the local marketplace and make the greatest possible use of management technology to obtain needed information to make quick decisions in responding to consumer market dynamics. (P447)

In order to maximise his local market opportunities the small marketer is advised to cement relationships between his business and the local community. This can be achieved by joining local service clubs, municipal councils, sports groups etc. In this way valuable business contacts can be built up and the small marketer can made inroads into the local market. A good example of this strategy producing results in Natal is the Mathie Group of furniture stores which started with a capital investment of R37 and within a matter of years had expanded to a total of 27 stores. Mathie Brothers' policy is to assist local sports associations. Another example, in the Durban area, is D. Watterson and Company. This is a family business which holds the lion's share of the market for floor coverings in the Durban area. The head of the business has participated in local community affairs for approximately three decades.

Finally, Mason and Mayer (P462) note that retailers should start to think of themselves as part of a system. Functional shifts will occur between manufacturers, distributors and retailers in order to improve the efficiency of the system as a whole in satisfying consumer wants and needs. The following types of vertical systems are emerging:-

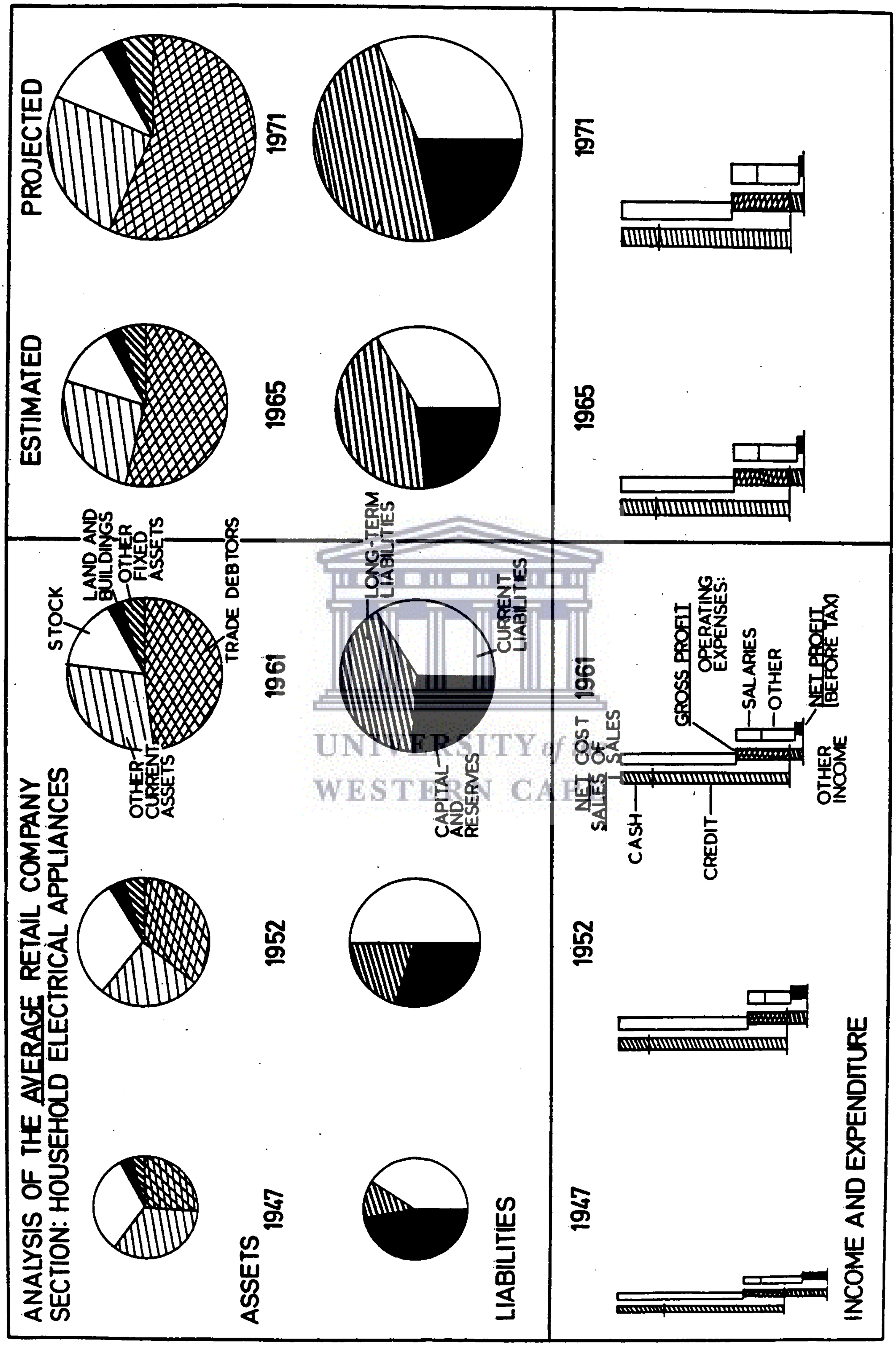
(i) Corporate systems - where manufacturers own retail outlets e.g. manufacturer's warehouses in the United States.

(ii) Contractual systems - examples are wholesale sponsored voluntary buying groups, retail co-operatives and franchise groups.

(iii) Administered systems - involve the control over a single line of merchandise in a retail outlet as opposed to controlling the entire operation.

Small retailers should look for opportunities by participating in contractual or administered systems.

FIGURE 4.3.7.2



(From : Statsinform)

EXHIBIT 4.3.7

HERE COMES SHOPPING FOR THE SPACE-AGE

Fundamental changes in the retail industry will change the world of shopping beyond all recognition within the next 20 years, believes Adrian Bellamy, managing director of Edgars.

The international retail trade is in the age of specialist shops which caused the decline of departmental stores.

Increased leisure hours and incomes will force retailers to keep longer shopping hours to satisfy the consumer's whims.

The US and UK are becoming ever more lenient in granting extended shopping hours. It is possible to go shopping, have one's hair cut, buy a book or a salami, and eat out virtually around the clock in certain cities.

Out-of-town and other 'artificial' shopping centres are likely to be hit hard. The onus is on management to correct the defects of downtown shopping centres.

Marketing will remain the sum-total of product, price, promotion and premises. But price may not remain most dominant.

To entice the future consumer, there is bound to be phenomenal growth in the promotions industry. Consumers will be bombarded with promotional programmes, which will seek to penetrate, their conscious and sub-conscious mind - as is already the case in the U.S.

"Imagine the year 2000," says Adrian Bellamy. "The supermarket is quite devoid of all humans, but is open for 24 hours a day. Even perishables are no longer perishable because of newly discovered preservatives.

(From : Sunday Times Business Times - Edited)

4.4 Store Posture

4.4.1 Introduction

Davidson, Doody & Sweeney write:- 'A market strategy is essentially a long-run plan identifying how an individual firm intends to appeal to potential customers within the context of intense and aggressive competition.' and

> Each firm differs from all competitors in at least some respects. These differences may be minor or major and take a variety of forms, including location, assortments offered, prices charged or services given. The firm competes by attempting to make the most if it's uniqueness which, if valued by customers, comprises it's differential advantage.

Once a firm has identified the target market the next step is to arrange it's bundle of offerings to fit the needs and wants of the target group of customers. The firm will be successful to the extent that the consumer perceives it's needs to be substantially fulfilled by the planned offering.

A feature of retailing is the intense level of competition. Therefore, a store that plans and implements a successful strategy will find that competitors quickly move to match it's offerings and thereby neutralise the competitive advantage or marketing plus factor that has a relatively long life span.

It has been suggested previously that the small retailer of appliances adopt a strategy based on concentrated target marketing. Therefore, it follows that the chosen advantage must be compelling and persuasive from the target group's point of view. This is the essence of consumer orientation.

Mason and Mayer (P418) write that:-

> The retailer, as a key member in the distribution channel for consumer goods and services, must be sensitive to the dynamics of distribution channel structuring. Significant changes in the way products and services reach consumers have occured in the last two decades.

They cite a major structural change in the channel of distribution in the United States as the emergence of vertical systems of distribution. However, it is felt that this trend is not likely to emerge in the South African appliance industry except for specialised products such as sewing machines. See Figure 4.4.1.

4.4.2 Consumer Advantage

Earlier, reference was made to a survey conducted by Dun and Bradstreet to ascertain the reasons for small business failure. The lack of a competitive selling point was the cause of more than twenty one per cent of small business failures. These firms failed because they were "me-too" operators i.e. they imitated what other marketers were already doing. Their strategy was to follow and not become leaders.

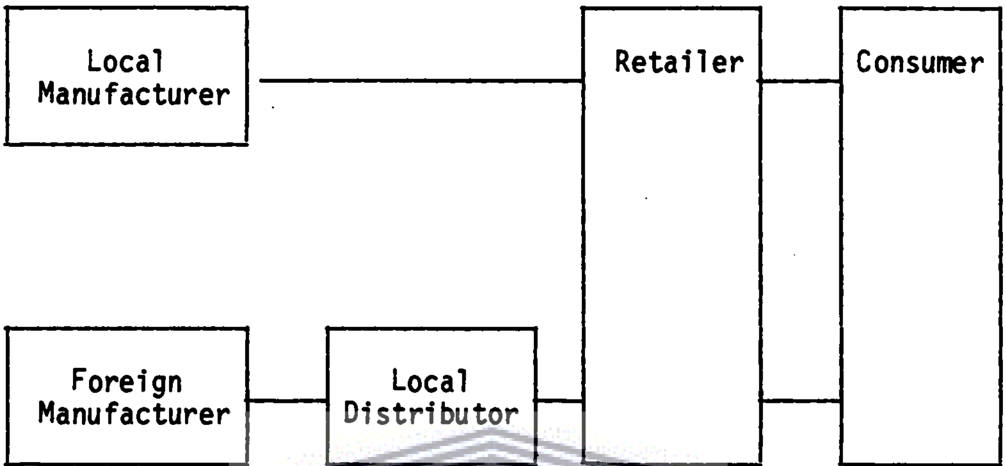
Much of the literature in marketing refers to the need to develop a "unique selling proposition" a "marketing plus-factor", differential advantage and so on. The search for a marketing advantage is one of the fundamentals that will ensure success or failure of the total strategy.

In a book on marketing case histories Peckham wrote as follows:-

> When we speak of your brand, we do not mean just a name or a label, but rather a creatively-produced, well advertised, and strongly promoted product - hopefully, one that delivers a "consumer plus" - some added value that consumers can recognise, appreciate, and be willing to reach for when they see it on the supermarket shelves. (P1)

FIGURE 4.4.1

CHANNEL MODEL FOR THE APPLIANCE INDUSTRY IN SOUTH AFRICA



Functions	Functions	Functions
Design	Buy	Buy
Make	Stock	Stock
Brand	Price	Promote
Price	Promote	Display
Promote	Sell	Sell
Sell		Deliver
		Finance

A brand with a demonstrable consumer plus is the hub of Peckham's "Wheel of Marketing" So too, should a retail undertaking have a demonstrable plus over it's competition. A strong consumer advantage will have the following attributes:-

(i) Be consumer-orientated.
(ii) Present a unique and competitive idea.
(iii) Concentrate on one strong selling idea.
(iv) Be a claim that is true and believable and can be substantiated.
(v) Be easy to communicate.

The competition in retailing is more intensive than in my other field. The consumer is exposed to a wide range of offerings and claims. The consumer simplifies the problem of choice by limiting the number of stores that will be visited on a particular shopping expedition. The chosen advantage must aid in capturing an enduring position in the target's mind.

4.4.3 Target Market

Kotler writes:-

> The analysis of market segments lies at the heart of marketing strategy. For marketing strategy involves two basic ideas. The first is the selection of target markets. The second is the development of effective marketing programs to win these target markets. (P141)

Most markets are too large for a small business to provide all the products and services needed by all the buyers in that market. For the sake of efficiency and because of limited resources it is necessary to select a target group of buyers with special buying needs. This group is called a market segment. Kotler defines market segmentation as:- 'The process of identifying groups of buyers with different buying desires or requirements.'

The firm's decision to serve a particular market segment is called "Market targeting."

Kotler outlines the steps a company must take when considering entering a market:-

(i) Determine those attributes needed to identify a distinct market segment.

(ii) Determine the size and value of the segment.

(iii) Determine how the existing brands (or stores) are positioned in the market.

(iv) Look for opportunities not being served by existing brands (or stores).

(v) Determine the geographic, demographic and psychographic characteristics of the segment. (P143)

Table 4.4.3 shows major segmentation variables identified by Kotler, in the United States of America. Figure 4.4.3. shows a method of segmenting the furniture market by three demographic variables.

Kotler (P151) mentions that a firm can choose one of three target market strategies in the face of market heterogenity.

1. Undifferentiated marketing - when the firm chooses not to recognise the different market segments and treats the market as an aggregate. Note that this has also been referred to as counter-segmentation i.e. the firm focuses on the common needs of people rather than their differences.

2. Differentiated marketing - when a firm decides to operate in two or more segments of the market, but designs separate product/marketing programs for each.

3. <u>Concentrated marketing</u> - when a firm goes after a large share of a small market.

The factors listed by Kotler which affect the actual choice of a market targeting strategy are:-

	FACTOR	RECOMMENDED STRATEGY
(i)	Limited company resources	Concentrated marketing
(ii)	Little product variation	Undifferentiated marketing
(iii)	Early stage of product life cycle	Undifferentiated marketing
(iv)	Mature stage of product life cycle	Differentiated marketing
(v)	Homegenous market preferences	Undifferentiated marketing
(vi)	Undifferentiated competitive strategies	Market segmentation

The above list has been adapted from Kotler P.154

TABLE 4.4.3

SEGMENTATION AXES AND VARIABLES

Axis	*Variables*	*Examples*
Geographic	Region	Southwest, Pacific, Mountain, South Atlantic, New England
	County size	Under 5,000; 5,000–20,000 20,000–50,000; 50,000–500,000; 500,000+
	City size	Same
	Population density	Urban; suburban; rural
	Climate	Tropical; arid; cold
Demographic ...	Sex	Male; female
	Age	1–4; 5–10; 11–18; 19–34; 35–49; 50–64; 65+
	Family size	1; 2–3; 4–5; 6+
	Income	Under \$5,000; \$5,000–\$7,999; \$8000–\$9,999; over \$10,000
	Occupation	Professional, managerial, technical (white collar); craftsman, foreman, clerical, sales (light blue collar); operative, service worker, laborer (blue collar)
	Education	Grade school or less; some high school; high-school graduate; some college; college or advanced degree
	Social class	Lower-lower; upper-lower; lower-middle; upper-middle; lower-upper; upper-upper
	Family life cycle	Young single; young married, no children; young married, oldest child less than 6; young married, oldest child over 6; older married with children; older married, no children; older single
	Race	White; Black; Indian; Oriental
	Nationality	American; British; French; German; Eastern European; Latin American; Asian
Psychographic ..	Alienation	Alienated; nonalienated
	Conservatism	Conservative; liberal; radical
	Cosmopolitanism	Cosmopolitan; local
	Dogmatism	Dogmatic; open-minded
	Authoritarianism	Authoritarian; democratic
	Leadership	Leader; follower
Behavioral	Rate of use	Heavy; average; light
	Search	Sources of information
	Shopping	Frequency; patronage; loyalty
	Product use	Intended versus unintended uses
Benefit	Economy	Initial cost; operating cost; obsolescence
	Function	Performance; comfort
	Status	Prestige; conspicuous consumption
	Style	Fad; fashion; ego-expression
	Sociability	Visibility; acceptance

(From : Mason and Mayer P208)

4.4.4 Market Positioning

Positioning here refers to the process of establishing a position in the minds of a target group of customers. This concept was introduced by Trout and Reis (1972) in an article in Advertising Age. They wrote:-

> Today's market is no longer responsive to the kind of advertising that worked in the past. There are just too many products, too many companies, too much marketing noise. To succeed in our over-communicated society, a company must create a position in the prospect's mind. A position that takes into consideration not only it's own strengths and weaknesses, but those of it's competitors as well. Advertising is entering an era where strategy is king.

Positioning is essential if a company wants to avoid becoming another "me-too" operator.

To cope with the complexity of modern life people have learned to rank products, brands and stores in their minds. In any given category people cannot remember more than seven names. Also when introducing a new concept it is best to position the concept against what people already know e.g. an appliance warehouse is an example of how a new concept can be positioned using an old one.

Another need for positioning arises because of the misidentification of information. Unless an advertisement is based on a unique idea or position then the message is put in a mental slot reserved for the market leader. In other words advertisements that are not based on a positioning strategy are as likely to work for the competition as for the advertiser.

According to Trout and Reis the following questions should be asked in order to develop a positioning strategy:-

(i) What position do we own?
(ii) What position do we want?
(iii) Who must we out-gun?
(iv) Do we have enough money?
(v) Can we last the pace?

(Advertising Age - May 8, 1972)

The chances are that the small retailer will have no position in the target's mind. The task then is to look for a position that will give leadership in some segment of the market that is big enough to satisfy the needs of the firm. This exercise can be completed with the aid of a "Positioning Map." See figure 4.4.4. The thrust of positioning theory is that the small firm should not try to compete head-on against the market leaders. This is a prescription to get lost in the market jungle. A better idea is to make a virtue out of your apparent weakness i.e. your small size. In this way claims will sound more believable. For example you can admit that you are small, but this is the very reason why you can give better service.

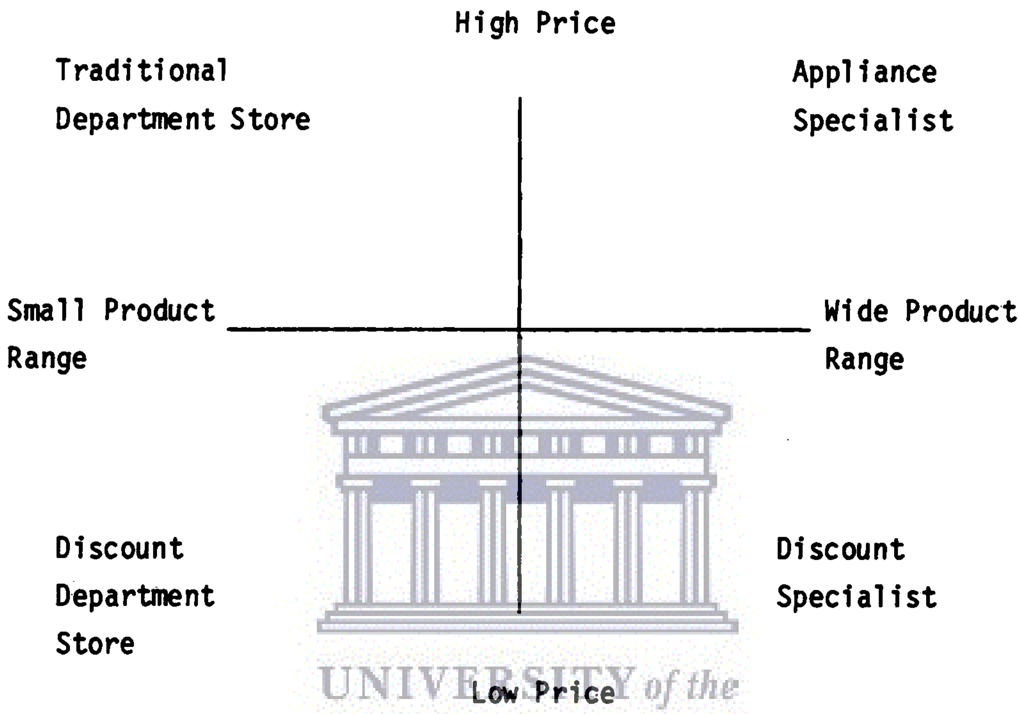
The aim of the strategy is to find a place in the memory bank of the target customers. People learn slowly and forget quickly. Therefore, a strategy requiring a radical shift in consumer attitudes will only be effective if the necessary finance is available to do the job. It also means that you must give the strategy a chance to succeed.

A positioning map as illustrated can also be used to establish market opportunities. The hypothetical example indicates that there is a gap in the market for a retailer selling a wide range of appliances at a low price.

The thrust of positioning is that it allows the retailer to shift competition to a basis other than just price.

FIGURE 4.4.4

POSITIONING MAP FOR APPLIANCE RETAILERS



4.4.5 Growth Mode

Weber writes:- 'Perhaps no corporate strategy, determinents are more important than the firm's own attitudes and objectives concerning the desired direction(s) and speed of it's future growth.' (P1)

According to Kotler alternative growth opportunities can be generated for a company by moving to three levels of analysis. The first level of analysis looks for opportunities (intensive growth) in the current product-market activity of the company. The second level looks for opportunities (integrative growth) in other parts of the marketing system. The third level looks for opportunities (diversification growth) completely outside the present scope of marketing activities.

Growth options can be analysed by means of a Growth Vector, first developed by Ansoff (1957). Figure 4.4.5. shows the growth options available to a small appliance retailer. The growth mode selected will have a fundamental bearing on the strategy and image of the business. For example, the decision to concentrate marketing efforts in the present market will produce diminishing returns in marketing effort much sooner, particularly if the business is in the mature stage of it's life cycle.

Figure 4.4.5

GROWTH VECTOR FOR A SMALL RETAILER

Products / Markets	Present	New
Present	Market Penetration - same store more customers	Expansion of Product Mix -more products
New	Market Development - more stores	Diversification - more stores and products

Ansoff and others refer to the need to achieve "synergy" (2+2=5) when selecting the direction of growth. Weber presents the following checklist of marketing synergy when screening a new product:-

Marketing synergy - can the new product be sold using our:

- existing distribution facilities?
- existing sales force personnel and know-how?
- existing advertising and sales promotion personnel, agencies and general internal knowledge?
- existing brand name(s) as an implicit selling point? (P11)

4.4.6 Success Requirements

Daniel (1966) in an article in the Harvard Business Review, recognised that in every industry there are a few things that a firm must do well in order to prosper. These requirements have also been referred to as "Key Success Factors." Steiner and Miner note that:-

> There are strategic factors that will determine the success of any company in a particular industry and at a given stage of it's life cycle. The economics, technology and sociopolitical setting of the industry will determine what they are. (P144)

Cohn and Lindberg identified the following factors as bearing critically on the survival and growth of small business:-

(i) A cautious attitude towards growth
(ii) A concern for liquidity
(iii) Keeping costs lean
(iv) An open system of communication and decision-making
(v) A rational organisation

(vi) Economical use of time
(vii) Control over certain functions
(viii) Control of owner-manager subjectivity

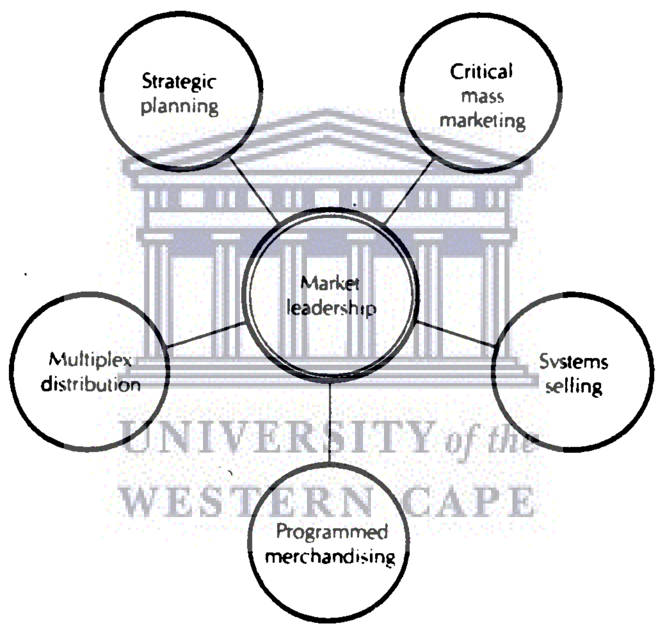
Identification of channel trends can provide an indication of the success requirements. Mason and Mayer (P458) refer to the work of McCammon who has identified the following specific competitive trends as strategic realities for retailing in America during the 1980's:-

(i) An intensified struggle for market share.
(ii) The escalation of price competition as firms try to buy market share.
(iii) The growing importance of power marketing programs by manufacturers who seek target results from retailers on a program basis.
(iv) Explosive growth of new-wave retailers e.g. super drugstores, lighting showrooms and paint and home decorating stores.
(v) The continued expansion of power curve competitors.
(vi) The emergence of multiplex distribution as a central competitive policy.

Power curve competitors are described as firms that have a dominant market position in one or more lines of merchandise. They have a strong private brand franchise amongst consumers and good breadth and depth of merchandise offerings. Multiplex distribution is the emergence of multiple outlets for multiple merchandise programs. The aim is a broadened and intensified distribution in order to get central mass and economies of scale necessary to maintain rates of return that will score off competitors. (P461)

FIGURE 4.4.6

SUCCESS REQUIREMENTS IN THE 1980s



(From : Mason and Mayer P461)

4.5 Retailing Objectives

Kotler (P53) points out that objectives serve a number of purposes in an organisation:-

(i) Objectives provide the people in an organisation with a specific sense of their role in the organisation.
(ii) Objectives provide for consistency in decision-making.
(iii) Objectives provide the basis for specific planning.
(iv) Objectives stimulate exertion and accomplishment.
(v) Objectives provide the basis for corrective action and control.

> 'Company objectives must have certain qualities if they are to serve the purposes just mentioned. In particular, they should be hierarchical, quantitative, realistic and consistent.'

Ansoff was the first to develop a comprehensive hierarchy of objectives. An example of a hierarchy of objectives, given by Kotler is shown in Figure 4.5.1. See also Table 4.5.1 which is my adaption of Ansoff's hierarchy.

Odiorne has developed an even simpler method of setting personal objectives. He distinguishes between the following classes of objectives:-

(i) Routine or Maintenance objectives
(ii) Improvement objectives
(iii) Trade-off objectives

When setting objectives the planner is faced with the need to make a trade-off between conflicting goals.

Some trade-off's that might be faced by a small appliance retailer include:-

(i) Short-term profits vs. long-term growth
(ii) Gross profit margin vs. competitive prices
(iii) Increase personal selling vs. advertising
(iv) Growth vs. stability
(v) Riskless environment vs. high risk environment
(vi) Profit vs. non-profit goals

The intention here was to search for tools that can assist the small retailer in formulating a consistent set of objectives. Van Voorhis writes that:-

> One approach to help managers see interactions among the important variables - particularly in terms of a cause-effect chain - is the Du Pont Model.

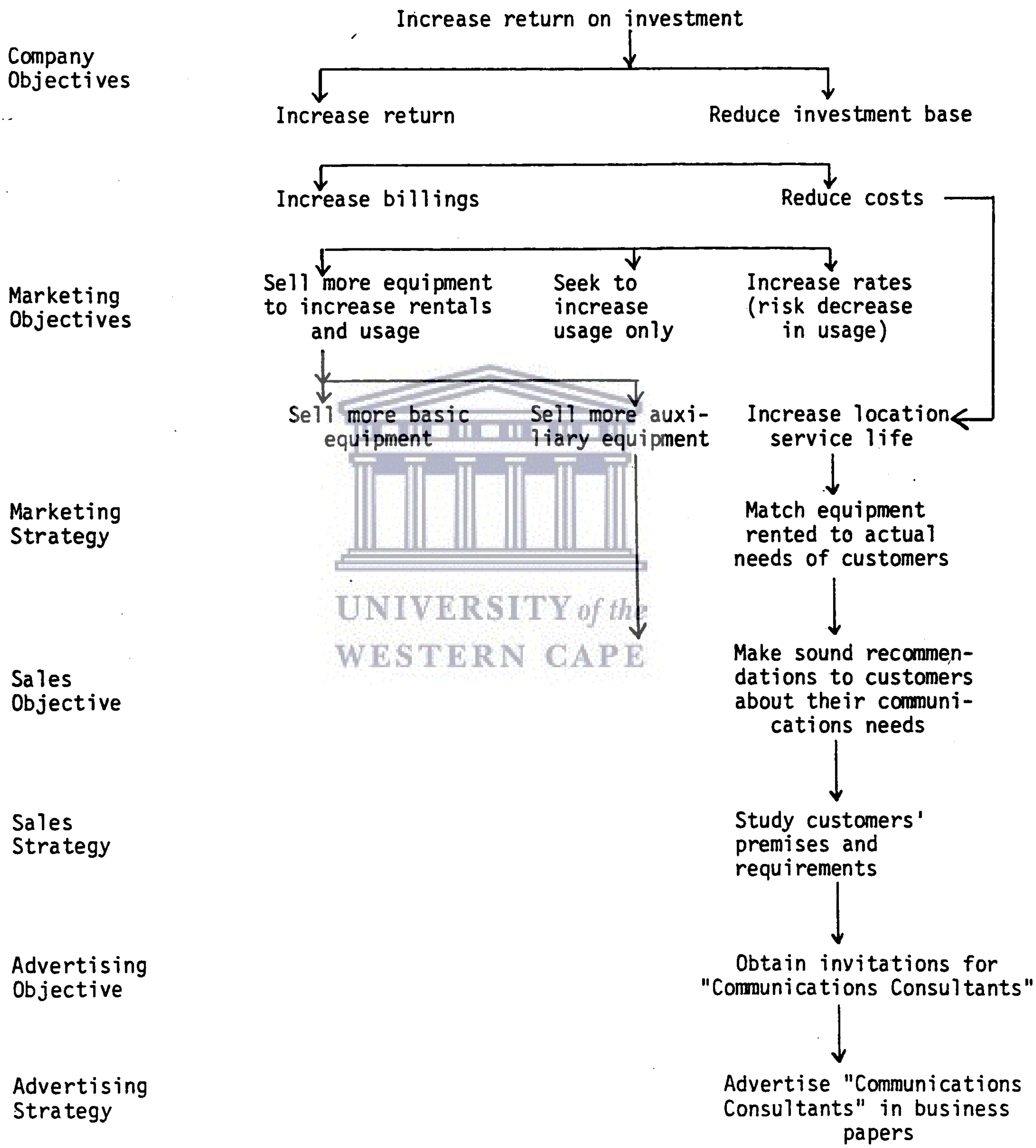
and

> Initially, many small business owners are merely concerned with the "owner's-draw-versus-salary-from-someone-else" aspect. A new enterprise may, in fact be started with a very small amount of owner's investment and a large amount of hard work. At this stage, if total assets, of the firm are small, the investment stream of the Du Pont Model would not be of great interest. So operating statistics regarding sales, profit margin, expenses etc. deserve primary attention. These, in turn might well be broken up into sales by customer type, product, or salesmen; contribution by major item sold; and as many specific cost control points as are useful.

The quotations above and the models shown in Figures 4.5.2 and 4.5.3 appeared in the Journal of Small Business Management, April, 1981.

FIGURE 4.5.1

HIERARCHY OF OBJECTIVES FOR THE INTERSTATE TELEPHONE COMPANY



(From : Kotler P54)

TABLE 4.5.1

FOUR BROAD RETAILING OBJECTIVES

1. TO COMPETE

a. Growth	b. Stability
Market share	Sales
Product line extension	Earnings
Diversification	Capacity utilization
	Cash flows

2. TO BE EFFICIENT

Return on Investment	Resource Productivity
Sales	Money
Profits	Materials
Asset turnover	Machines
	Methods
	Management

3. TO BE FLEXIBLE

Portfolio	Financial
Customers	Liquidity
Products	Gearing
Staff	

4. TO BE A GOOD CITIZEN

Personal	Community
Ethics	Image
Philosophy	Service
Security	Status

TABLE 4.5.2

ILLUSTRATING SPECIFIC OBJECTIVES FOR A SMALL STORE

1. Growth - twenty per cent annual growth in sales for the next five years. The relevant factors influencing this growth plan are:-

   a. Initiate Sales Training Program
   b. Develop an aggressive Promotions Plan
   c. Add ten per cent selling space

2. Return on Investment Objective - thirty per cent before tax. The necessary conditions are:-

   a. Achieve annual sales targets
   b. Improve gross profit margin
   c. Make improvements in asset management

3. Profit Margin Objectives are as follows:-

   a. Gross profit margin - thirty per cent of sales turnover
   b. Net profit - ten per cent of sales turnover.

   Measures to improve gross profit margin are:-

   - Reduce stock shrinkage from two per cent to one per cent
   - Revise price strategy upwards.
   - Introduce new system of mark-down control.

4. Cash Flow Objective - to internally generate the funds needed for operations. This means:-

   a. Working capital will be ten per cent of sales.
   b. Re-negotiation of supplier's credit terms.

5. <u>Productivity Objectives</u> - sales per square metre = R200 per month.
Sales per salesman = R10 000 per month.
Stock Turnover = eight times per annum.

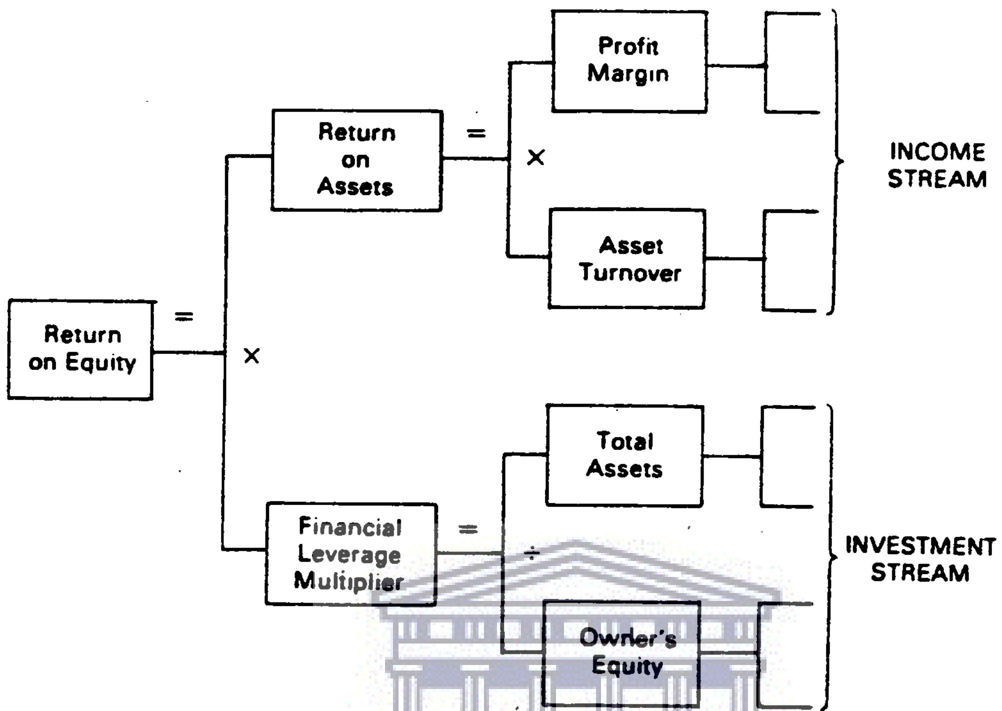
6. <u>Management Development</u> - introduce systems of Management By Objectives that includes bi-annual performance evaluation.

7. <u>Cost Control</u> - prepare profit plans to achieve improved ratios between costs and sales. The targets are:-

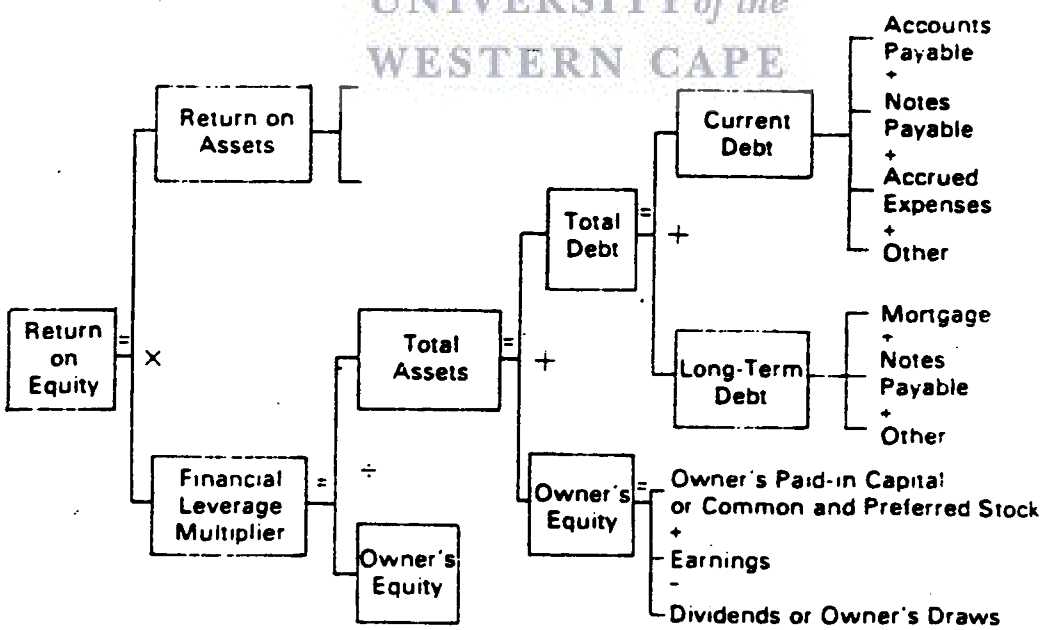
a. Staff costs - reduce from fifty per cent to forty five per cent of sales.
b. Rent - reduce from five per cent to four per cent of sales.
c. Interest - reduce from two per cent to one per cent of sales.

FIGURE 4.5.2

THE DUPONT FINANCIAL ANALYSIS MODEL



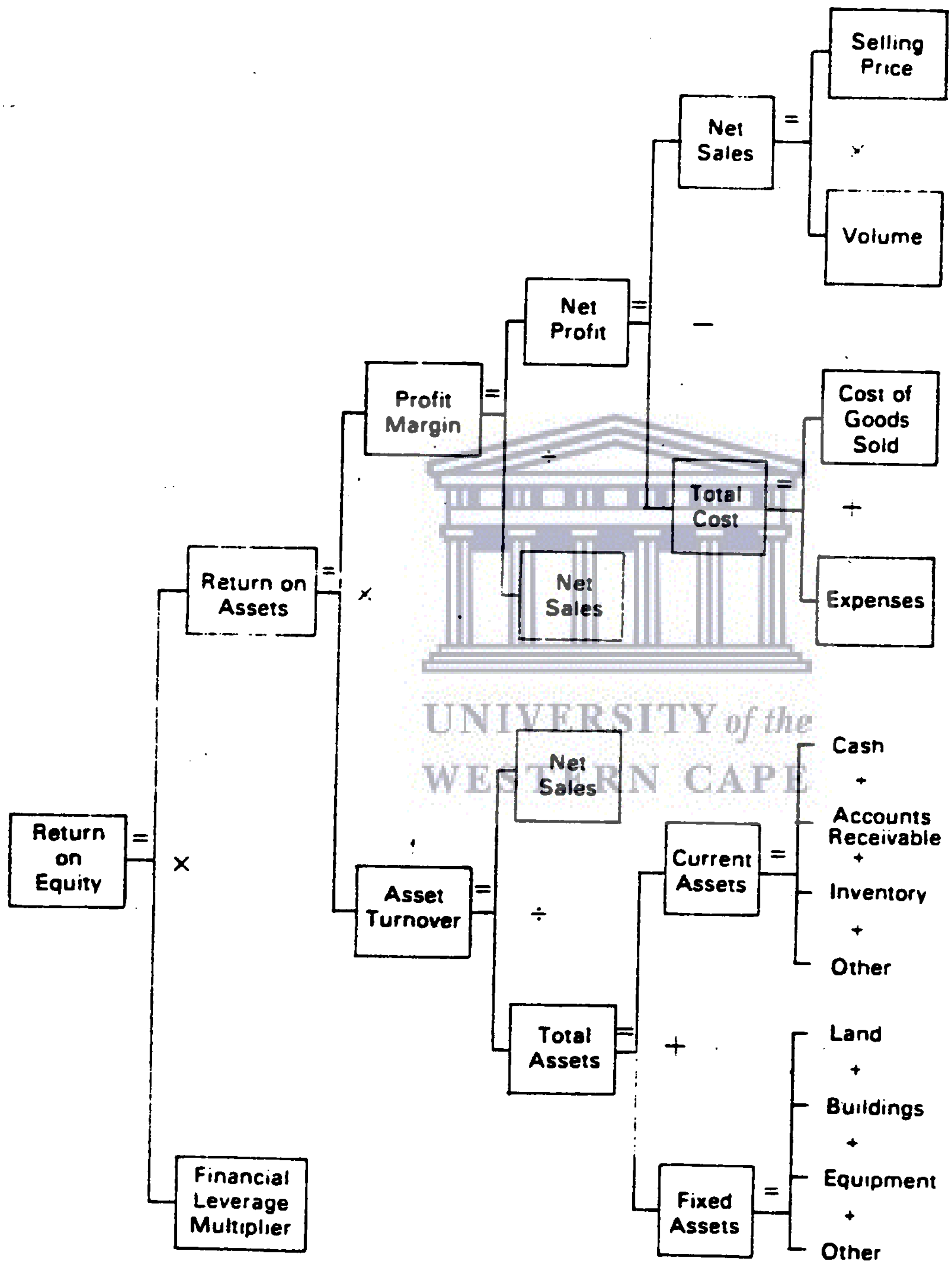
INVESTMENT STREAM IN DUPONT FINANCIAL ANALYSIS MODEL



(Adapted from : Journal of Small Business Management, April, 1981)

FIGURE 4.5.3

OPERATING STREAM IN DUPONT FINANCIAL ANALYSIS MODEL



(From : Journal of Small Business Management, April 1981)

4.6 Retailing Mix

4.6.1 Introduction

According to Davidson, Doody and Sweeney the term retailing mix is used to denote the manner in which the various elements of retailing management are combined in a given situation. 'As in making a cake, the various components will produce widely varying results when mixed together in different ways, in different quantitative relationships, by different people, at different times in different environmental situations.' Other writers refer to these different elements of retailing management as the controllable variables which are combined by the manager to meet the expectations of a target market. This is illustrated in Figure 4.6.1.1.

Kotler and others refer to the components of a marketing or retailing mix as the so-called '4 P's" i.e. Product, Place, Price and Promotions. Brannen has made a strong case to include "People" as a separate element of the marketing mix for a small business. By People he means all the people of the small business and not the function of personal selling which is regarded as a sub-component of promotions.

The components and sub-components of the retailing mix are the major inputs determining store image and the resultant choice of store by the consumer. This relationship is shown in Figure 4.6.1.2.

A search of the literature did not reveal a model of the retailing mix suitable for application by independent appliance retailers. As a result I chose to adapt Peckham's "Wheel of Marketing" for this purpose. See Figure 4.1.6.3. Peckham's "Wheel" (which should not be confused with McNair's 'Wheel') was designed for the marketers of branded grocery lines. At the hub of the wheel he placed a brand with a demonstrable consumer plus. The spokes of the wheel are the elements of the marketing mix. Without a strong hub the spokes of the wheel will be of little consequence. Peckham, who worked for the A.C. Nielsen research company, had found that the biggest cause of brand failure was a failure to keep a brand up to date. It seems the consumer is always on the look-out for new and improved ideas.

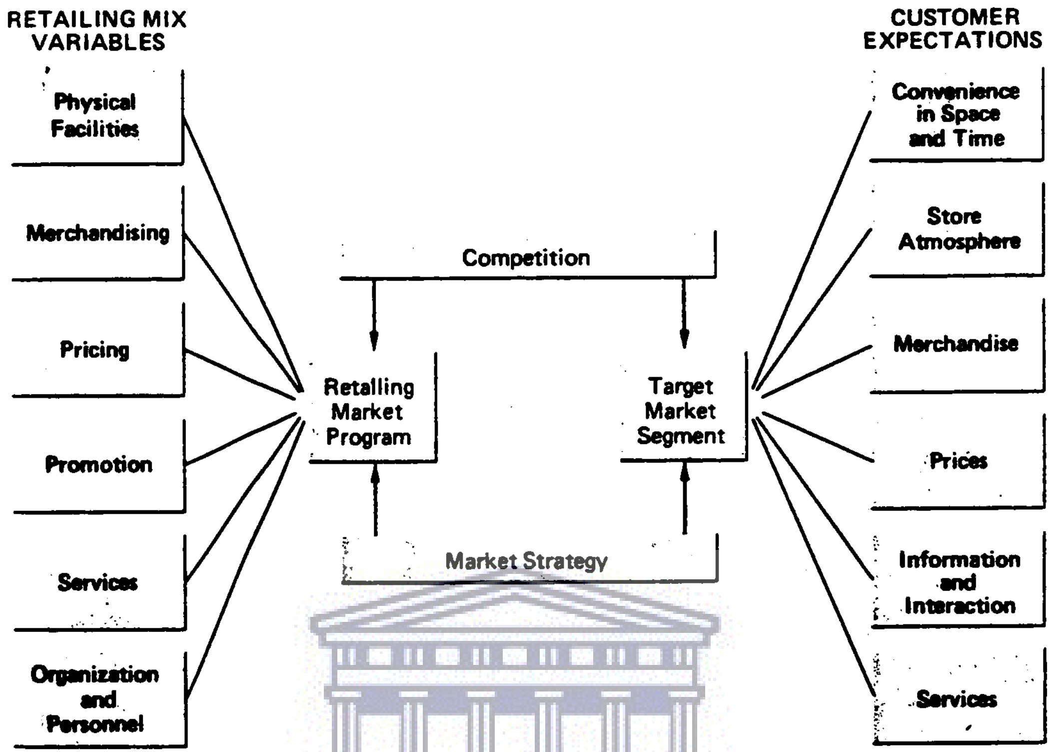
It is my hypothesis that this is as applicable to stores as to branded grocery products. Table 4.6.1 shows that housewives enjoy shopping. It is felt that the lack of success of many small retail ventures can be attributed to the failure to keep the store and it's image in line with changing consumer expectations.

The "Wheel of Retailing" is shown in Figure 4.6.1.3. The store is at the hub and can be conceived as a total product as it is perceived by a target group of customers.

The spoke of the wheel, labelled "Presentation", refers to the process of making store improvements in order to satisfy changing consumer expectations in respect of appearance, layout and displays. It represents a process of modernisation and renewal. This element is included in the retailing mix for small stores because it is felt that this is an area neglected by managers of these undertakings.

FIGURE 4.6.1.1

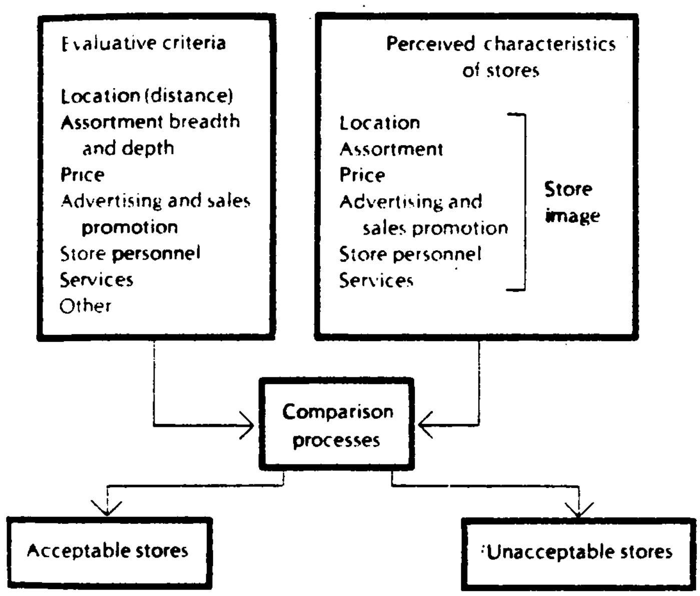
SUMMARY MODEL OF RETAILING MARKET STRATEGY



(From : Davidson, Doody and Sweeney P121)

FIGURE 4.6.1.2

STORE-CHOICE PROCESSES



(From : Mason and Mayer P195)

TABLE 4.6.1

DO HOUSEWIVES ENJOY SHOPPING?

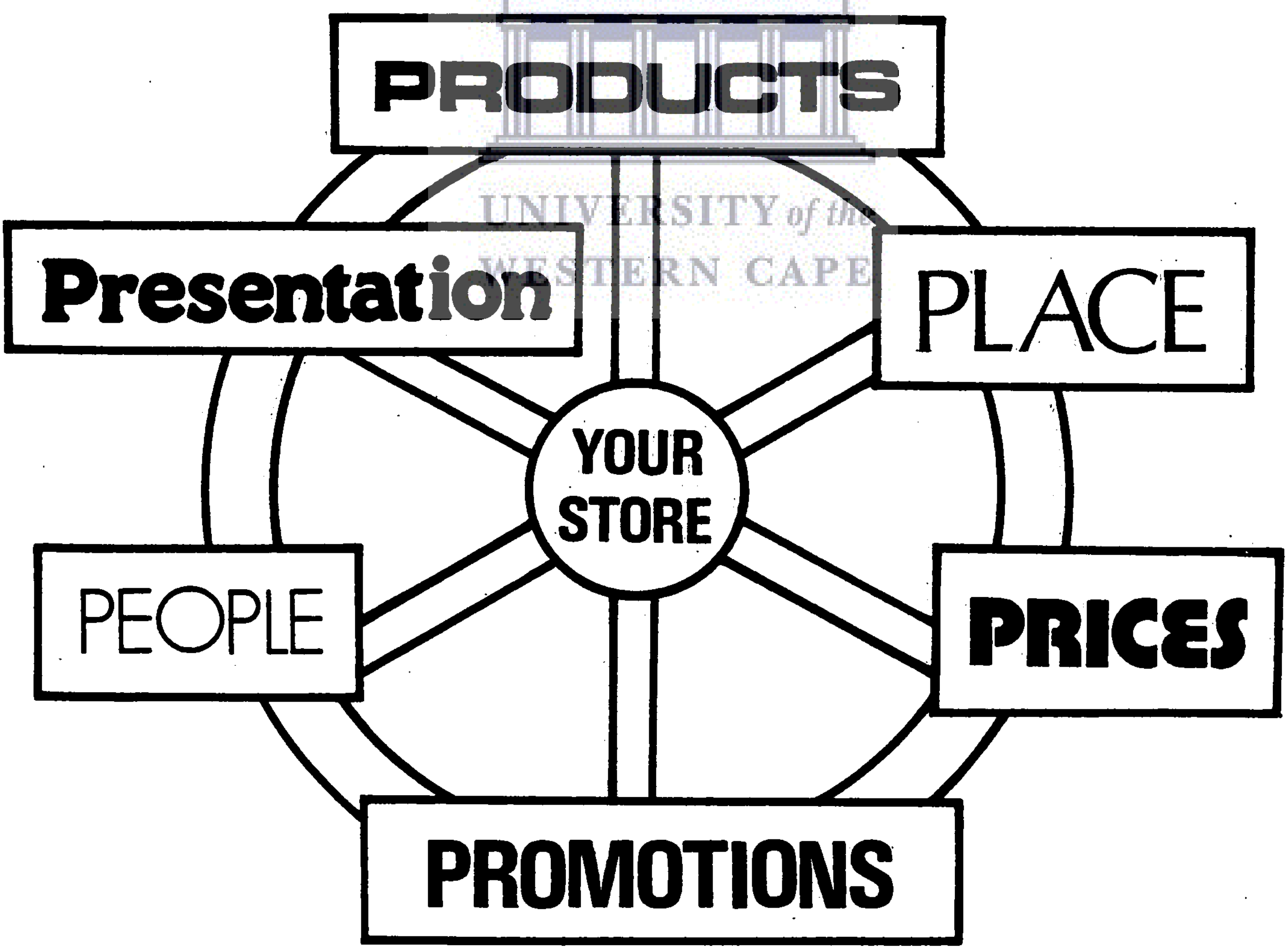
"Some women enjoy shopping and some women do not enjoy it - how about you, do you enjoy shopping or do you dislike it?"

▶ 77% ENJOY IT! WHY	%	▶ 23% DISLIKE IT! WHY	%
1. Like to see what is new and what the latest things are	[illegible]	1. Too crowded, too many people	19
2. Like to compare prices and choose the cheapest things	12	2. Don't like queues and queueing up	11
3. Enjoy/like to spend money	11	3. Bad service, rude attendants	11
4. Enjoy/like to buy things	11	4. Things are too expensive these days	6
5. Like to get out of the house/flat, go for a walk	10	5. Dislike looking for things/ can't find things	6
6. Like to see people/friends, talk to people	9	6. Shopping takes too much time/can't find things	5
7. Like to buy things that are needed/necessary	8	7. You can't get what you want/ or need	5
8. Like to see the latest /new fashions	8	8. Don't have enough time, always rushing around	4
9. Like looking for and finding bargains	7	9. Find it too tiring	3

(From : Market Research Africa)

FIGURE 4.6.1.3

THE WHEEL OF RETAILING



4.6.2 Product Strategy

In this section the following five aspects are discussed:-

(i) Planning the merchandise assortment
(ii) Planning supplier relationships
(iii) Planning for product innovation
(iv) Planning customer services
(v) Planning to give value-for-money

(i) Planning the merchandise assortment

Mason and Mayer have developed a flow-chart of the merchandise management process. Merchandise management is primarily concerned with stock assortment planning and control. We are here, primarily, concerned with the planning of a "merchandising mix".

The prime objectives of a merchandising strategy are defined by Davidson, Doody and Sweeney as getting a well balanced stock and the right stock turnover. What are the requirements for stock balance? Firstly, the total investment in stock should be reasonable as judged by the rate of stock turnover. This is the profitability criteria. Secondly, the breadth of choice must be adequate when considering consumer expectations and the competition. This is the marketing criteria. The stock which meets all the requirements of balance is considered to be the ideal or model stock. Stock turnover, which is defined as the number of times during a given period that the average stock on hand is replaced, is a measure of the right balance between stock and sales.

$$\text{Stock Turnover} = \frac{\text{Cost of Sales}}{\text{Average Stock Holding}}$$

From the above formula it can readily be seen that stock turnover can be increased in two ways i.e. either by boosting sales or by reducing the average stock holding.

Mason and Mayer (P302) list three perspectives from which we can look at stock balance:-

a. Width - width of merchandise assortment refers to the number of brands, sizes, colours etc. that are required to be held in stock in order to meet marketing requirements. The following might be the planning process for fridges -

Brands	3 x
Sizes	3 x
Styles	2 x
Total stock-keeping units	18

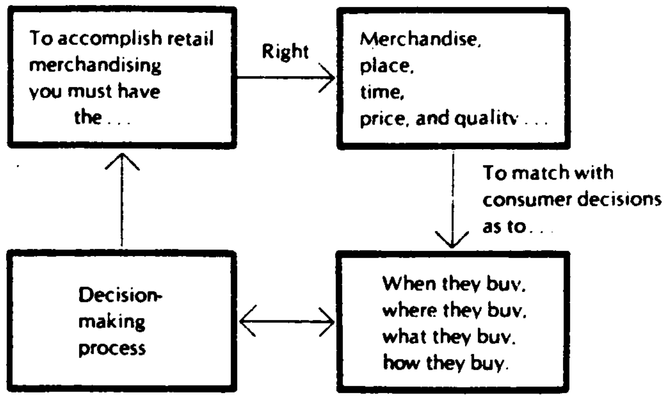
b. Support - how many units of merchandise do we need to support the planned sales?

c. Money - management must strive to achieve the optimum investment in stock so that stock turnover is fast enough to provide a good return and not so fast that frequent stock-outs occur.

The procedure to arrive at the correct stock balance is a straight forward optimisation problem of minimising total capital costs associated with the investment in stock and the cost of stock-outs.

FIGURE 4.6.2.1

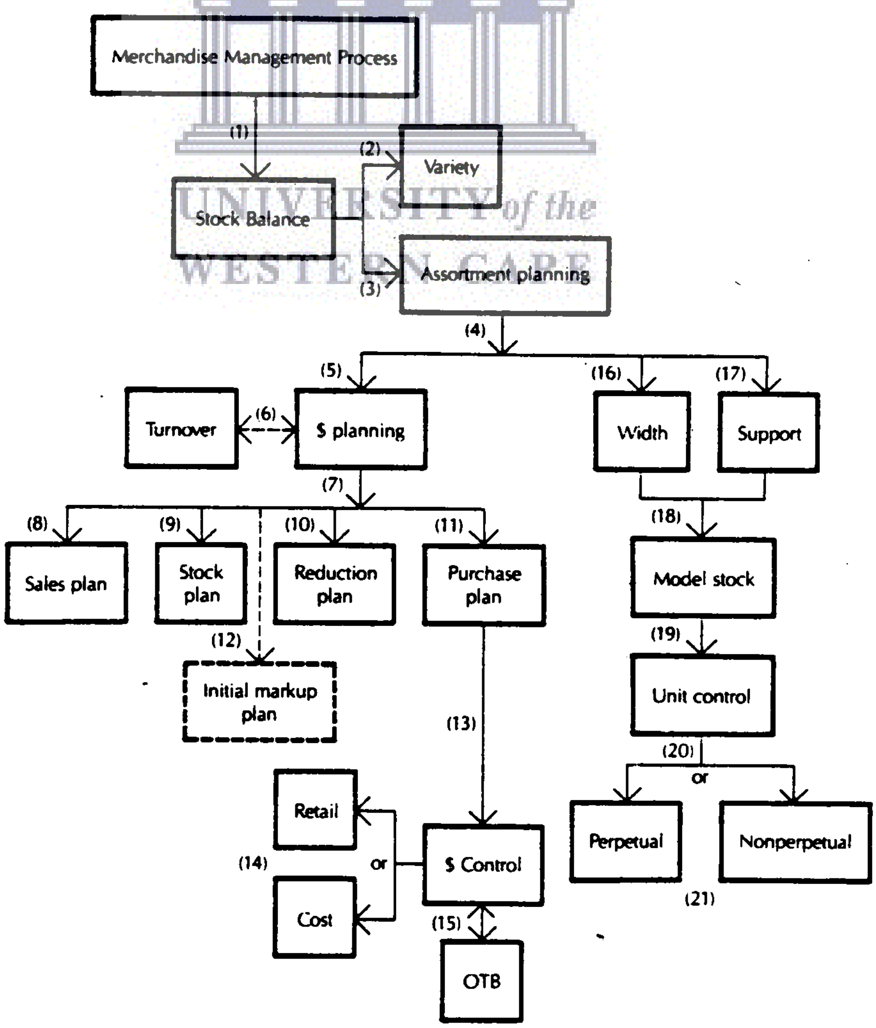
DIAGRAM OF MERCHANDISING PROCESS



(From : Mason and Mayer P193)

FIGURE 4.6.2.2

FLOWCHART OF THE MERCHANDISE MANAGEMENT PROCESS



(From : Mason and Mayer P299)

FIGURE 4.6.2.3

YOUR STORE MERCHANDISE PLAN

Dept. No. X Season Spring 197_

		Feb ~~Aug.~~	March ~~Sept.~~	April ~~Oct.~~	May ~~Nov~~	June ~~Dec.~~	July ~~Jan.~~	Total	Avg Stock
SALES	Actual Last Yr.	9,000	11,700	12,200	10,000	8,800	8,300	60,000	
	Plan This Yr.	9,900	12,870	13,420	11,000	9,680	9,130	66,000	+10%
	Actual This Yr.	9,500	12,000	12,600					
	Inc. or Dec.	-400	-870	-820					
Beginning of Month STOCKS	Actual Last Yr.	30,000	33,050	33,850	32,400	29,300	24,700	27,000*	30,043
	Plan This Yr.	32,000	36,700	39,430	37,210	32,510	26,430	28,500*	33,254
	Actual This Yr.	32,000	36,850	40,400	37,600				
	Inc. or Dec.	—	+150	+970	+390				
PURCHASES	Actual Last Yr.	12,500	12,700	11,000	7,200	4,600	11,000	59,000	
	Plan This Yr.	14,900	15,800	11,400	6,500	3,900	11,500	64,000	
	Actual This Yr.	14,700	15,800	10,000					
	Inc. or Dec.	-200	—	-1,400					
MARKDOWNS	Actual Last Yr.	450	200	250	300	400	400	2,000	
	Plan This Yr.	300	200	200	200	300	300	1,500	
	Actual This Yr.	350	250	200					
	Inc. or Dec.	+50	+50	—					
SALES	Revised Plan				10,300	9,050	8,550	62,000	
	Actual This Yr.								
	Inc. or Dec.								
Beginning of Month STOCKS	Revised Plan					33,050	26,750	28,000*	33,521
	Actual This Yr.								
	Inc. or Dec.								
PURCHASES	Revised Plan				6,000	3,050	10,000	59,550	
	Actual This Yr.								
	Inc. or Dec.								
MARK DOWNS	Revised Plan				250	300	200	1,550	
	Actual This Yr.								
	Inc. or Dec.								

ALL FIGURES SHOWN ARE AT RETAIL

* End of period inventory

Turnover	Actual Last Yr.	Plan This Yr.	Revised This Yr.	M.O.R. Last Yr.
Spring	1.997	1.986	1.85	2.3
Fall				

J Smith
Department Manager

Approved by EC

(From : Shaffer and Greenwald P77)

(ii) Planning supplier relationships

Another dimension of merchandising strategy is the need to establish "buying power" with suppliers. Davidson, Doody and Sweeney note that the retailer's competitive position is determined substantially by the strength of relationships developed with suppliers. The supplier can assist the retailer in the following ways:-

a. Granting discounts and allowances.
b. Promotional and merchandising assistance.
c. Financial assistance e.g. by granting favourable credit terms.
d. Providing stock on consignment.

An important question is the number of suppliers to buy from. One strategy is to concentrate purchases by using a limited number of suppliers. An alternative strategy is to buy from as many suppliers as possible in order to be in a position to make the "best buy" going.

Some writers recommend a scientific approach towards the selection of suppliers. One such supplier evaluation procedure is called the "Decision Matrix Approach to Vendor Selection" and involves this six-step procedure:-

a. Determine what decision criteria are relevant in a given supplier selection situation.
b. Assign "weights" to each of the decision criteria.
c. Decide on the list of suppliers whose lines are to be evaluated.
d. Assign a numerical score to each supplier on each criteria.
e. Multiply each supplier's score on each criteria with the criteria weight.
f. Total each supplier's score and select those suppliers with the highest score.

EXHIBIT 4.6.2.1

BUILD GOOD VENDOR RELATIONS

1. Remember that although a saleman's livelihood depends on you, yours, to a great extent, depends on him.
2. Treat all salesmen as people from whom you expect favors.
3. If you have no intention of buying a salesman's line, tell him so. If he still wants you to see it, it is his responsibility if you don't give him an order.
4. To a salesman, time is money. Don't waste it by making him stand around waiting to arrange an appointment. Do it as quickly as possible and let him go about his business.
5. Keep all appointments that you make with salesmen and be there on time.
6. Schedule your buying in advance so that you will waste as little of the salesman's time as possible.
7. Let him show you the line in his own way. He has probably spent a lot of time working out a presentation that will highlight his best items.
8. Don't insult the salesman or his merchandise. If you must criticize, be as gentle and as constructive as possible. Remember that he is emotionally and financially involved in the firm and its merchandise and will strongly resent any attempt to undermine his livelihood.
9. Be as loyal as you can to a firm, but if you feel that you can no longer buy the line, tell the salesman why you must drop it.
10. Don't try to beat down the price of every item you want to buy. Most suppliers have set prices from which they will not vary. However, you should bargain when you are offered job lots or clearances.
11. Confirm your orders to vendors as soon as possible.
12. Don't cancel merchandise without a good reason and then only if the vendor has not put it into production or agrees to dispose of it.
13. Take all discounts offered, but do not take cash discounts after the time limit.
14. Pay invoices on their due dates.
15. Don't break up payments when they become due.
16. Don't cut prices of brand or well-established lines without the vendor's permission.
17. Do not refuse or return merchandise unless
    a. It has been shipped too far ahead of your "start-ship" date or too long after your "stop-ship" date.
    b. It is not as the sample in workmanship, style, color, size, assortment, etc. In this case, write the vendor your reasons for the return.
    c. Customers return defective merchandise and a stock check reveals that there is more merchandise in poor condition.
    d. Prices or quantities on the invoice differ from those on the store's order form.
    e. Vendor ships merchandise without an order.
    f. Vendor agrees to take the merchandise back in overbought situations.
    g. The merchandise is on consignment.

(From : Shaffer and Greenwald P43)

(iii) Planning for Product Innovation

Weber notes that changes in the relative importance of different product lines for individual firms is not unusual and reflects the importance of new products in helping firms achieve growth in sales.

> For example, a study of 11 major United States industries during the 1960's showed that firms participaitng in the study planned to achieve, on average, 75 per cent of their sales growth over the next five years by means of introducing new products. (P5)

A major reason cited is accelerating product life cycles. He then goes on to discuss the role of entrepreneurship in adding new products. 'Entrepreneurship connotates an active search for innovation ......' and

> It is that very quality of entrepreneurship which must differentiate dynamic, high-growth companies from more staid and static companies. Without an active search for innovative ideas, without a willingness to take a leadership role in implementing new ideas (be they products or internal business methods), an individual firm will take a follower's role and a follower's mentality, following not only in terms of the me-too late introduction of new products and methods , but usually following in terms of growth rate of sales and profits as well. (P9)

This writer endorses the above sentiments and would urge small retailers to adopt a systematic procedure for searching for new product ideas. Some methods of obtaining product ideas in retailing are:-

EXHIBIT 4.6.2.2

EXAMPLE OF A WANT SLIP

Lost ... a Sale!

Because we were out of:

Item: ____________________

Mfg. ____________________

Style No. ____________________

Color ____________________

Size ____________________

☐ Out of Stock ☐ Not Carried

A sale lost is money lost in the Profit Sharing Plan.

We don't know you're out of something 'til you tell us.

Don't wait . . . tell us now before you lose another sale.

Name ____________ Dept. No. ________

Buyer's Answer:

Suggested customer want slip to be filled in by sales personnel. Notice that each slip must indicate the buyer's answer. The answer should then be communicated to the salesperson concerned.

(From : Shaffer and Greenwald P23)

a. Consumer surveys.
b. Observation of competitive offerings (i.e. Comparison Shopping).
c. Want slips.
d. Experimentation.
e. Trade publications e.g. Appliance Magazines.
f. Suppliers.
g. Trade exhibitions.

(iv) Planning the service offering

Brannen writes:- 'By customer services, we mean those accompanying services that go along with the principal product or principal service to comprise the total product offering.' (P173)
For this list of services which may be offered by retailers see Table 4.6.2.1. The importance of the "service mix" is that it is a potential tool of achieving a competitive differential and of avoiding pure price competition. Because of close interpersonal contact with customers the small retailer is ideally placed to exploit this potential opportunity.

Table 4.6.2.2 is based on research undertaken in America and shows that there is general consumer dissatisfaction with repairs and general services. According to Mason and Mayer:- 'All these reasons are under the control of the retailer and probably could be reduced without undue expense and difficulty.' (P704)

(v) Planning to give value-for-money

Table 4.6.2.3, which is based on a national American sample, outlines the problems that are worrying consumers. High prices, poor after-sales service and inadequate warranties feature high on the list. This indicates that there are several opportunities that might be exploited by the astute retailer. In particular the element of risk to the consumer can be reduced by providing an efficient back-up service. Suppliers who are deficient when it comes to after sales service should be avoided. (to page 149)

TABLE 4.6.2.1

A SAMPLING OF CUSTOMER SERVICES OFFERED BY RETAILERS

Adjustments	Layout and appearance
Advertising	Lessons
Air-conditioning	Lighting
Alterations	Location convenience
Auditorium	Lockers and checkrooms
Baby strollers	Merchandise information
Bottle returns	Message service
Bridal registry	Money orders and traveler's checks
Bulletin boards	Music
Carry out to car	Notary public
Check cashing	Paging service
Cleanliness	Parking
C.O.D. orders	Party counseling
Cooking schools	Personal shopping service
Coupon redemption	Play rooms
Craft classes	Postal services
Credit	Returns and allowances
Customer complaints	Rest rooms and lounges
Delivery	Shopping carts
Display	Special orders
Door man or automatic door	Telephone calls out free
Express checkout lanes	Telephone ordering
Fashion shows	Testing before buying
Gift certificates	Trade-ins
Guarantees	Trading stamps
Hours	Unit pricing
Installation	Utility bill payment agency
Interior decorating service	Wrapping
Layaways	

(From : Brannen P174)

TABLE 4.6.2.2

REASONS FOR DISSATISFACTION : REPAIRS AND GENERAL SERVICES

Reasons for being dissatisfied	*Total number of mentions*	*Percent*
The services were rendered in an incompetent manner with very		
The service was provided in a careless, unprofessional manner ..	31*	64.6
harmful results	18	37.5
Performance of the item was worse after the repairs than before ..	17	35.4
The quality of parts or materials was inferior	15	31.3
The service was not completed in the agreed time	13	27.1
Results fell short of those claimed by ads	9	18.8
I was charged for work that was not done	8	16.6
The fee was much higher than the amount agreed in advance ...	6	12.5
I was charged for parts that were not furnished	4	8.3
Unauthorized repairs were made and charged to me	2	4.2
I was tricked by a salesman into buying services I did not want ..	2	4.2
I was harassed by bill collectors	1	2.1
The warranty did not cover everything that went wrong	1	2.1
	127	

* Multiple responses were allowed.

(From : Mason and Mayer P704)

TABLE 4.6.2.3

PROBLEMS THAT WORRY CONSUMERS

Problem	A great deal (percent)	Somewhat (percent)	A little bit (percent)	Not at all (percent)	Not sure (percent)
The high prices of many products	77	17	5	1	—
The high cost of medical and hospital care	69	15	6	8	1
The poor quality of many products	48	33	13	6	—
The failure of many companies to live up to claims made in their advertising	44	32	16	7	1
The poor quality of after-sales service and repairs	38	31	14	15	2
The feeling that many manufacturers don't care about you	36	32	19	12	1
Too many products breaking or going wrong soon after you bring them home	35	29	20	15	1
Misleading packaging or labeling	34	29	20	15	2
Not being able to afford adequate health insurance	32	23	12	31	1
The feeling that it is a waste of time to complain about consumer problems because nothing substantial will be achieved	32	27	20	19	2
Not being able to get adequate insurance coverage against an accident or loss	30	23	14	30	3
Inadequate guarantees or warranties	30	31	17	21	2
Failure of companies to handle complaints properly	29	31	19	19	2
Too many products which are dangerous	26	27	22	22	2
The absence of reliable information about different products and services	26	33	22	18	2
Difficulty in getting insurance claims settled fairly	23	19	15	39	4
Not knowing what to do if something is wrong with a product you have bought	21	28	20	30	1
Difficulty in getting insurance claims paid promptly	20	20	17	39	4
The difficulty of choosing between so many products	11	23	25	41	1

Note: Totals may not add to 100 percent because of rounding.

(From : Mason and Mayer P701)

(continued from page 145)

Product Engineering and Value Engineering are reletively new concepts in retailing, which can be used when planning to give value-for-money.

They aim to improve quality while at the same time reducing prices. According to the head of development and quality control at O.K. Bazaars, value engineering is an effort to produce an item that customers want at prices they can afford. Product engineering involves modifications to an existing product in order to reduce the price or improve quality while maintaining the price. An example, at O.K. Bazaars, is an electric iron which was made safer and more reliable at the same price. Note that the retailer does not do the modifications, but works closely with the manufacturer to provide the consumer with goods that are better value for money.

4.6.3. Place Strategy

Several writers, including Brannen, have emphasised the importance of the location decision in retailing. A poor location decision will handicap the efforts of the most skillful marketing managers.

Most of the discussion on retail location relates to opening a new store. However, because of environmental changes it is necessary to reconsider the location problem for an existing store on a regular basis.

Brannen (P217) stresses the need to develop a location strategy. Location decisions should be made within the framework of overall strategy to ensure that "Place" harmonises with the other elements of the retailing mix. In this way the impact on the target market will be maximised.

Brannen (P215) notes that small retailers are liable to make critical location decisions with an amazing lack of research and often solely on the basis of executive judgement. The question is what tools are available to aid the small retailer to improve the location decision-making process.

TABLE 4.6.3.1

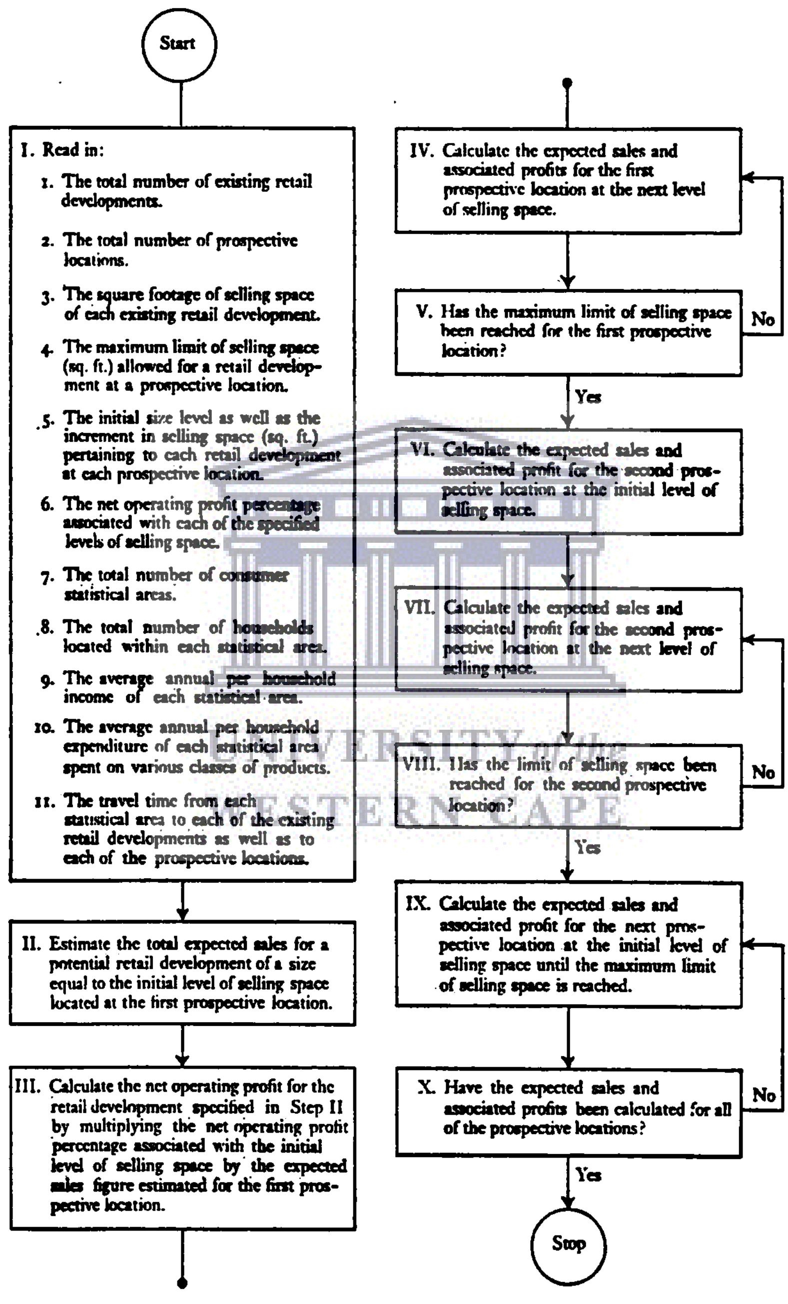
FACTORS TO CONSIDER WHEN ANALYSING MARKET AREA, TYPE AND SITE FOR SB RETAILERS

1. Market Area Factors
   A. *Market* factors such as population, size, purchasing power, and buying habits
   B *Environmental* factors such as economic, competitive, legal, and so forth
   C. *Other* factors
2. Type Alternatives And Factors
   A. *Type Alternatives**
      1. Free standing
         a. Neighborhood
         b. Highway
      2. Business associated
         a. Unplanned
            1. Downtown (or central business district)
            2. Edge of downtown
            3. Neighborhood business district
            4. Secondary business district
            5. Highway business string
         b. Planned shopping center
            1. Neighborhood shopping centers
            2. Community shopping centers
            3. Regional shopping centers
   B. *Type factors*
      1. Product-market factors such as target market size and classification of consumer goods
      2. Trade-off factors such as availability, rental rates, restrictions, and so forth
      3. Preferences of the SBM, that is, subjective factors of individual preference
3. Site Factors**
   A. Adequacy of present trading area potential
   B. Accessibility of site to trading area
   C. Growth potential
   D. Business interception
   E. Cumulative attraction
   F. Compatibility
   G. Minimizing of competitive hazard
   H. Site economics

(From : Brannen P218)

FIGURE 4.6.3.1

SEQUENTIAL STEPS IN ANALYSING THE OPTIMUM LOCATION PROBLEM



(From : Wills, Gordon; New Ideas in Retail Management, P121)

According to Brannen (P214) the location decision may be made at three levels i.e.

(i) Selection of a market area.
(ii) Selection of a type of location.
(iii) Selection of a specific unique site.

These three aspects are discussed in greater detail below.

(i) Selection of a market area

Berry identified a five-tier structure for market area i.e. hamlet, village, town, city and regional capital.

The factors to consider by a small retailer when choosing are listed by Buambeck, Lawyer and Kelley (P138) as:-

a. Personal factors such as desire to live amongst friends and relatives.
b. The town as a place to live and do business.
c. Economic characteristics such as the town's industrial base.
d. Preferential customers.
e. Level of competition.
f. Size of trading area.

Other writers recommend a more scientific approach to the problem. Thus, the "central place theory" developed by Christaller, provides a framework for the analysis of the size, shape and composition of market areas.

The most common techniques used for measuring the size of market areas are listed by Mason and Mayer (P562) as:-

a. Reilly's Law
b. Intramarket area potential models

c. Customer spotting techniques
d. Licence plate analysis
e. Out-of-town cheques
f. Newspaper circulations
g. Credit records
h. Consumer survey
i. A variety of mathematical and computer models

A separate set of techniques and theory is available for estimating the market potential within trading areas. They are:-

a. The gravity model
b. The analog method
c. Share of space/share of sales
d. The stepwise multiple regression model
e. The "seat of the pants" field review

a. Reilly's Law

Basically, Reilly's law says that two cities attract trade from an intermediate town in the vicinity of the breaking point approximately in direct proportion to the populations of the two cities and in inverse proportion to the squares of the distances from these two cities to the intermediate town. (Brannen P215)

The breaking point can be calculated using the following formula:-

$$Db = \frac{D}{1 + \sqrt{\frac{Ba}{Bb}}}$$

where
Ba, Bb = Population sizes of centres a and b
Db = Breakpoint distance of trade to centre b
D = Distance between centres a and b

b. Intramarket area potential models

Mason and Mayer note that Reilly's model does not allow for the decline in trip frequency as distance increases nor does it reflect the overlap of trading areas that typically exist in urban areas. David Huff developed a model for estimating shopping centre trading areas. It is based on the assumption that the greater the number of items carried by a centre, the larger will be a shopper's expectation that a trip to the centre will be successful. The probability of patronage is assumed to be linearly related to the effort required to get from a consumer's point of origin to a shopping centre, as measured by time and distance. The mathematical expression is found in Mason and Mayer P570.

c. Customer spotting techniques

Applebaum developed these techniques for delineating trading areas. The process begins with customer interviews. The locations of people interviewed are plotted on a map. Applebaum advocated that each interview represents one hundred dollars in weekly sales. The drawing power of the store is calculated by determining the proportions of customers residing within successive bands or zones. Applebaum introduced the concept of three trading areas:-

Primary trade area	= 50 - 60 per cent of trade
Secondary trade area	= 15 - 20 per cent of trade
Fringe trade area	= balance of trade

d. Licence plate analysis

Here the retailer simply checks the origin of a sample of cars in the parking area to ascertain the general nature of the trading area. Note that this method cannot be used in the Transvaal because of the licensing system used there.

e. Out of town cheques

This is the classification of cheque payments by origin.

f. Newspaper circulation

Here the circulation of the local newspaper is taken to represent the trading area. This method is recommended for it's simplicity and low cost.

g. Credit records

When a retailer offers credit terms then a sample of customer addresses can be plotted on a map.

h. Consumer survey

Simple mailed qustionnaire or interviews with customers to ascertain their place of origin.

i. Sophisticated techniques

A variety of mathematical and computer models exist for mapping trading areas.

Regarding the calculation of market potential Mason and Mayer recommend the analog method. This is an extension of the Applebaum method. Market share for each can be calculated using the following formula:-

$$\text{Market Share} = \frac{\text{Store sales per capita}}{\text{Department of Statistics data on per capita sales potential.}}$$

The information developed for the existing store becomes an analog or history of market performance. (Mason & Mayer P574)

(ii) Selecting a type of location

For Berry's classification of the types of urban business conformations refer to Figure 4.6.3.2.

The decision to be made here is whether to locate in, say, a suburban shopping centre or the central business district. Brannen notes that each location type offers certain advantages or disadvantages. The choice of location type should depend on the marketing strategy and specifically the expectations of the target market regarding factors such as convenience, parking etc. Mr. B. Hanks, who is General Manager of the Eastgate Shopping Centre listed the factors which different income groups gave for their choice of shopping environment. Women in the AB income group gave the following order of priority:-

1. Security guards
2. Enough parking
3. Caters to all income groups

Cheap prices were ranked only eleventh in order of priority. The women in the B income group gave:-

1. Parking
2. Cheapest prices
3. Easy to get around

The women in the CD income group gave:-

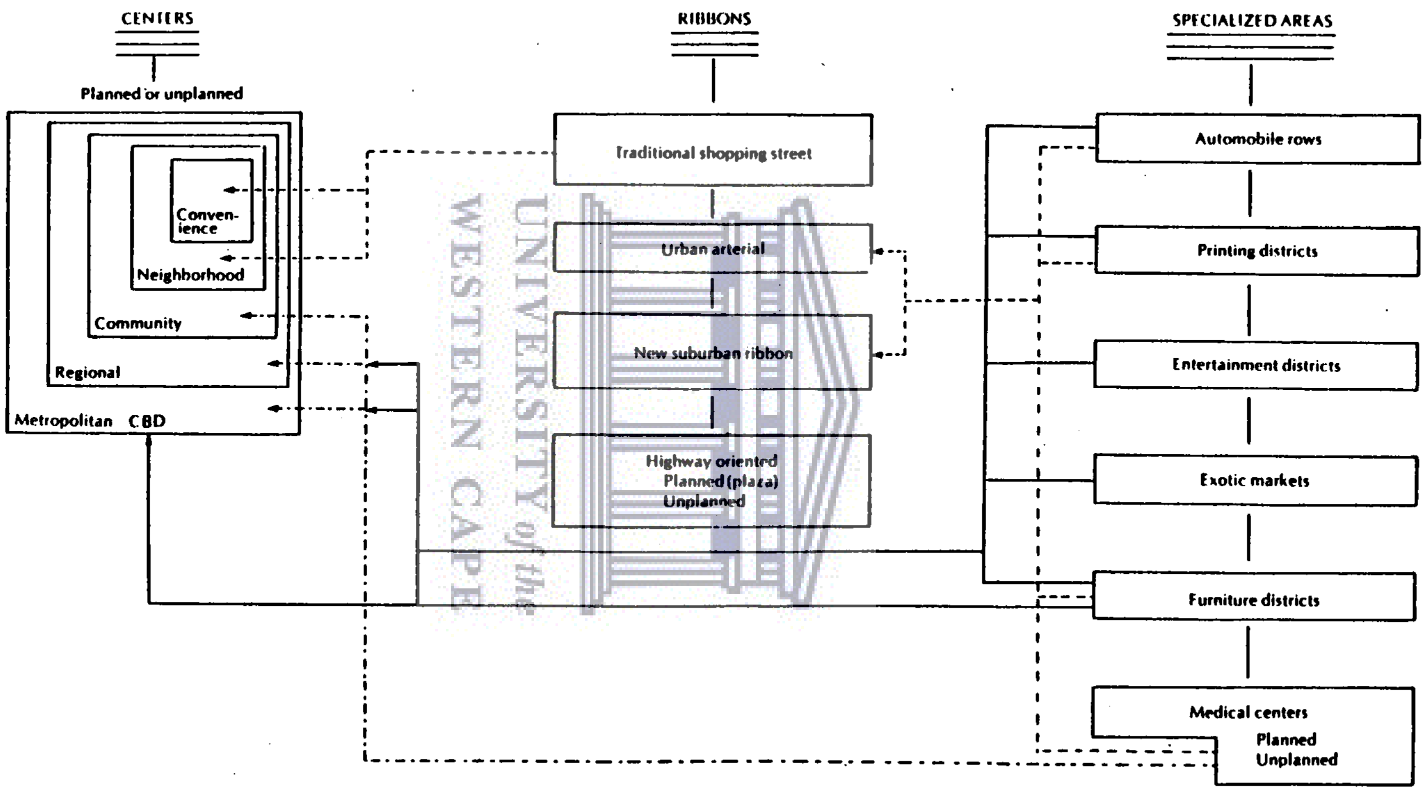
1. Everything under one roof
2. Cheapest prices

No other factors were rated as important.

The above survey was conducted after the period of heavy fuel increases came about. These fuel increases had brought about a significant change in South African consumers shopping habits.

FIGURE 4.6.3.2

BERRY'S CLASSIFICATION OF URBAN BUSINESS CONFORMATIONS



The lines and arrows indicate that there are often strong functional linkages between shopping centers, ribbon developments and specialized areas. For example, many of the same activities occur in "traditional shopping streets" as are found in convenience and neighborhood centers; certain specialized areas can be recognized inside community and regional centers as well as inside the central area.

Source: Brian Berry, "Commercial Structures and Commercial Blight," University of Chicago, Department of Geography, Research Paper 85 (1963).

(From : Mason and Mayer P555)

Apart from marketing factors other factors also play a role. Among these are rents and availability. My yardstick has always been that rent should not exceed fifteen per cent of the planned gross profits which in turn depends on other factors such as sales potential, pricing policy etc. Availability is becoming a crucial problem for many small retailers in South Africa. Unless he has enormous financial resources he must perforce rely on property developers to provide suitable locations. However, the trend is for property developers to grant more space to the chain groups. In fact developers allocate space according to some tenant mix formula.

In a paper, delivered at the N.D.M.F. Retailers and Distributors Conference, Hanks noted that the fuel crises created a new set of shopping patterns in South Africa. He listed some of the results on consumer shopping habits as:-

a. Shoppers will continue to make less trips, but buy more.
b. Shopping trips will be of longer duration.
c. Family shopping trips will be the order of the day.
d. Browse shopping will decrease - comparative shopping will increase.
e. Telephone and mail-order purchasing will increase especially in rural areas.
f. Centres with good restaurants and entertainment facilitities will boom as shopping trips are combined with social outings.
g. Neighbourhood suburban centres and ribbon developments will survive and grow, once their position as convenience centres are understood and the tenant-mix changes take place to position the correct retailers against this market.
h. Suburban shopping centres will take over the social weekend outings from traditional resorts. As further pressure comes to bear in petrol prices, shopping will become a form of recreation.

i. If the location trends in the United States of America are any indication, suburban retail development will show large regional centres ringed by suburban centres of smaller sizes, but anchored by major discounters. The size of the discounters will increase dramatically as a percentage of the total letting area from previous developments i.e. seventy-five per cent of space will be discounters and only twenty-five per cent private retailers.

At the same conference, Mr. Nigel Mandy, who is Chairman of the Central Business District Association, noted that the C.B.D. areas are very powerful in South Africa. They are not rundown in the way some of the worst American cities are. The present downtown lacks many of the attractions and conveniences of a suburban shopping environment, but the people are there, the specialist services and range of comparison and luxury goods are concentrated there, and the environment is improving.

To some extent suburbs and the central business districts have different target markets. In town, there are the workers, both male and female. The attractions of the high streets of the towns and smaller cities vary in their attractiveness and convenience. The central business districts of the major cities are powerful indeed. For example, Johannesburg can rely on an office worker concentration equal in size to that of all the other cities in South Africa. South Africa's central business districts have also become the focus of Black shopping activity. As job opportunities for Blacks improve so too will their increased purchasing power tend to favour the central business district areas.

(iii) <u>Selection of a specific unique site</u>

Nelson lists eight criteria that should be applied when selecting a specific site:-

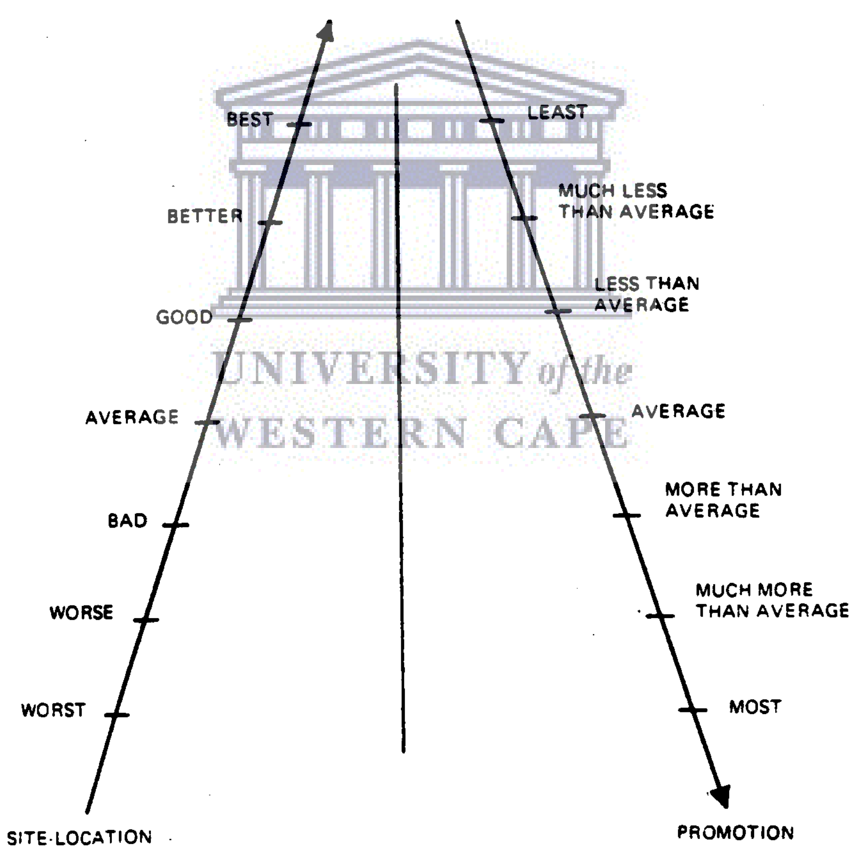
a. Adequacy of present trading area potential.
b. Accessibility of site to trading area. Can potential business of three types - generative by the store itself, shared as a result of generative powers of it's neighbours, and suscipient (those in the area for non-shopping area) - be easily and conveniently served by the site?
c. Growth potential i.e. growth of population and income.
d. Business interception. Is the site on the major routes to potential destinations for shopping for the same product types?
e. Cumulative attraction. Does the site have greater attraction due to shared business with competing and complimentary stores?
f. Compatibility. Do other businesses adjacent to the site help one another?
g. Minimising the competitive hazzard. Does the site take into consideration the location, character, size and type of present and potential competitors?
h. Site economics. In terms of costs related to productivity, what is the efficiency of the specific site regarding such physical factors as size, shape, topography, facilities etc. (From Brannen P222)

The significance of location is that it can provide a long-term or short-term differential advantage for the small retailer. When new sites are not readily available within a particular market this acts as a temporary barrier to entry and favours established retailers in the area. The danger is when the small retailer becomes complacent as a result of this temporary advantage and neglects to revise his overall strategy from to time in line with changing consumer expectations. The result will be a quick death when an aggressive competitor finally gains entry into the local market.

The small retailer selling appliances must also consider certain trade-off's when making the location decision. Brannen notes that there is an inverse proportionate relationship between site-location, quality and the amount of promotion necessary. Thus a low-price location will usually require greater expenditure on promotions to generate the equivalent sales volume.

FIGURE 4.6.3.3

THE INVERSE AND DISPROPORTIONATE RELATIONSHIP BETWEEN SITE-LOCATION QUALITY AND AMOUNT OF PROMOTION NECESSARY



(From : Brannen P216)

4.6.4 Pricing Strategy

Alternative approaches to retail pricing are shown in Table 4.6.4.

TABLE 4.6.4

ALTERNATIVE APPROACHES TO RETAIL PRICING

1. Mark-up on invoice cost
2. Competitive prices are the guideline
3. Manufacturer's guide price
4. Loss-leader approach
5. Maximise volume sales and increase buying power
6. Charge what the market will bear
7. Mark-up on cost of re-ordering
8. Price to get a realistic gross profit margin
9. Relate price to a stock turnover target
10. Relate price to a target profit objective
11. Price to project a certain store image
12. Price to maintain market position
13. Differentiated pricing
14. Multistage pricing
15. Price on basis of a "feel of the market"
16. Value engineering
17. Quantitative methods
18. Product life cycle pricing methods

Some of the methods listed above are discussed below:-

(i) Multistage Pricing

Oxenfeldt suggested an approach to pricing for branded goods based on the following six sequential stages:-

a. Selecting market targets
b. Choosing a brand image
c. Composing a marketing mix
d. Selecting a pricing policy
e. Determining a pricing policy
f. Arriving at a specific price
(From Bursk and Chapman P300)

Mason and Mayer (P339) provide the following multistage framework for retail pricing decisions:-

1. Relating price to retail strategy
2. Assessing channel control and competition
3. Selecting a price-level strategy
4. Planning initial mark-up
5. Relating possible price to store policy
6. Relating possible prices to the nature of the offerings
7. Considering various environmental influences
8. Establishing an initial price

These eight steps are for a new firm or an existing firm in the process of re-evaluating strategy. The authors feel that the above path is implicit in the pricing policies of successful retail firms. They stress the need for highly disciplined price guide-lines in order to ensure that pricing is in line with overall strategy.

1. Price and Strategy

A retail pricing plan should start from defined company objectives. For example a firm aiming to increase market share would probably not price itself above the market leader.

The strategy of a well-known chain of discount stores in America (K-Mart) is:- 'Sell the basic necessity items. Buy it narrow. Stock it deep. Price it low.'

2. <u>Channel dynamics</u>

Mason and Mayer note that:-

> The realities of these channel dynamics must be explicitly factored into a corporate strategy since they can both constrain actions that can be taken and provide information to help decide on an appropriate policy vis-a-vis corporate objectives.

For example small retailers have little bargaining power in relation to the large chain groups. This acts as a real constraint on their flexibility in pricing.

> Power to secure price concessions from a supplier may be possible when the following conditions exist:- (1) Purchases are made by a small number of retailers from a large number of firms; (2) The selling firms are of a smaller size than the purchasing retailers; (3) The retailer purchases a large volume and a high percentage of the seller's output; (4) The retailer has good coverage of the market and information concerning the seller's relative power, resources, and traditional mark-up behaviour; and (5) The retailer has the ability to purchase his own inputs. (Mason and Mayer P342)

3. <u>Selecting a price level strategy</u>

The next step is to consider the company's market profile in the context of the overall strategy. A retailer's pricing policy can be broadly defined as at, above or below the market.

A below the market strategy would indicate a discount store approach. Discount stores aim for high sales volumes and low mark-ups. They are successful to the extent that the gross profits generated exceed the overheads which must be kept low. Overheads are kept low by keeping services to a minimum and competing almost entirely on the basis of price.

Retailers who offer good quality merchandise and moderate price and a variety of easy-to-offer services are said to be pricing at the market. Competition is still largely on the basis of price but non-price features are relied on to a certain extent. Non-price features include the following:- location, branded lines, expertise, trading hours, credit terms, delivery etc. A retailer adopting this strategy has greater flexibility in pricing than the discount store.

Outlets that price above the market rely on their prestige or exclusive services. Some large department stores and furniture chains offering extended credit are examples of firms following this pricing strategy in the appliance field.

4. <u>Planning initial mark-up</u>

After a general price level policy has been established, costs of operation and the need for an acceptable profit level must be factored into the pricing decision to make sure the planned price level policy is possible. The concept of a planned initial mark-up usually stated as a percentage, assists in this task. The mark-up can be developed for a store, a department or a merchandise classification. (Mason and Mayer P346)

The authors distinguish between the following components of retail pricing:-

<u>Original retail price</u> - the first price at which the merchandise is offered for sale.

<u>Sales retail</u> - the final price for which the merchandise is sold after allowing for discounts and reductions.

<u>Initial mark-up</u> - the difference between the invoice cost and original retail price expressed in money or percentage terms.

<u>Maintained mark-up</u> - the difference between the invoice costs and sales retail.

The initial mark-up percentage can be planned using the following formula:-

$$\text{Initial mark-up percentage} = \frac{\text{Expenses + Profit + Reductions}}{\text{Sales Retail and Reductions}}$$

The planned initial mark-up is an aggregate concept and acts as a benchmark when setting individual prices.

5. Relating possible prices to store policy

Establishing this initial mark-up percentage is a mechanical computation. It must now be examined in the light of the following possible pricing policies:-

a. <u>The one-price system</u> - when all customers pay the same price for the same goods.
b. <u>Negotiated pricing</u> - when customers are allowed to bargain for a good price in the light of comparison shopping.
c. <u>Price lining</u> - when merchandise is offered in two or more price categories reflecting quality considerations.
d. <u>Loss-leader pricing</u> - refers to the practice of deep price cuts on selected items which are then featured in promotions. In this way it is hoped to attract customers who will buy other goods as well as the featured item.

6. Relating possible prices to the nature of the offering

Planned initial mark-ups may need to be adjusted upward or downward depending on the following factors:-

a. Distributor allowances - suppliers may grant special discounts which can be passed onto the customers.
b. Consumer rebates - a predeternuned amount of cash which is given by the manufacturer to the consumer after the purchase.
c. Planned markdowns - a discount on the retail price.

7. Environmental influences

Mason and Mayer note that forces external to the firm may cause further adjustments to the initial planned mark-up. Among these are the legal dimensions of pricing, the state of the economy, consumerism and consumer perceptions.

One factor that needs to be taken into consideration is the consumer's reaction to prices under conditions of double digit inflation. Some firms have adopted the strategy of regular small hikes in the prices of large ticket items in order to avoid an adverse consumer reaction.

8. Establishing the price

The final step is to set the price for individual items after taking all the above factors into consideration. The final price must be set to ensure that on average the retail firm generates a given profit that will cover overheads and leave a surplus reward for the entrepreneur. Investigations done by the Small Business Advisory Bureau of the University of Potchefstroom, have indicated that most small retail firms cannot generate a suitable return unless the average gross profit percentage is at least thirty per cent of sales turnover.

(ii) Quantitative methods

The quantitative methods that might be employed in retail pricing decisions include:-

Breakeven analysis
Incremental cost analysis
Contribution accounting.

It is not proposed here to discuss all the above methods except to refer the South African reader to the following book:-

K. Reese - Management Science for Marketing Executives. McGraw-Hill, 1979.

Reese gives a lucid explanation of Breakeven Analysis and Incremental Cost Analysis.

The objective of management is usually to maximise total profits. Horngren (P345) writes thus:-

> .... The criteria for maximum profits, for a given capacity, is the greatest possible contribution to profit per unit of the constraining factor; and
>
> The success of the suburban discount department store illustrates the concept of the contribution to profit per unit of the constraining factor. These stores are satisfied with sub-normal mark-ups because they have been able to increase turnover and thus increase the contribution to profit per unit of space.

The following example illustrates this point and assumes that the same selling space is used in each store:-

	Regular Department Store	Discount Department Store
Retail Price	400	350
Cost of Stock	300	300
Contribution profit per unit	100 (25%)	50(14%)
Units sold per year	200	440
Total Contribution to Profit	R20 000	R22 000

(iii) Product life cycle pricing policies

Dean suggests that most products go through a cycle ranging from protective distinctiveness to maturity. Continual adjustments to manufacturer's price policy are necessary as the product moves through the cycle. When a distinctive product is first launched on the market it is a speciality item and can often command a premium price. The seller then has a wide range of price discretion resulting from extreme product differentiations. The strategy decision during the initial stage is the choice between (a) a policy of high initial prices which is designed to 'skim ' the cream of demand; and (b) a policy of low prices from the outset in order to achieve quick market penetration.

There are many appliance case histories of manufacturers adopting a 'skimming price strategy.' Recent examples include micro-wave ovens and video recorders. As the product moves through it's life cycle towards maturity it becomes more of a commodity item. Price competition between manufacturers increases, brand preferences weaken and products become more standardised.

The question is how must retailers react to these changing pricing policies of manufacturers. The retailer might well reverse the strategy suggested for manufacturers i.e. price below the market in the initial stages when volume sales are low. In this way price image can be enhanced at little cost. As volume sales increase prices can be brought into line with the market. It is hypothesised that when a new appliance is introduced on the market the consumers engage in comparison 'browsing'. This is a process of getting to know about the product. The majority of consumers will only purchase the product later once it has proved itself and the necessary funds are available. Therefore, this situation presents an excellent opportunity for the retailer to build up a favourable price image without depressing margins.

In concluding this section on pricing strategy it can be said that the small retailers pricing policy has a direct bearing on his profit margins. At the Small Business Advisory Bureau it has been found that low gross profit margins are a root cause of failure in up to fifty per cent of small business case studies. Small retailers often fail because they ape the strategy of discount stores, but fail to achieve the necessary sales turnover to justify a low prices policy. Gist produced a margin turnover classification of store types which is shown in figure 4.6.4.

A low price policy that does not generate the volume of sales required to maintain contribution to gross profits is regarded as a 'DISASTER'

FIGURE 4.6.4

GIST'S MARGIN - TURNOVER CLASSIFICATION OF RETAIL OUTLETS

High Margin

	Jewellery Store	Convenience Food Store	
Low Turnover			High Turnover
	'Disaster'	Discount Store	

Low Margin

(From : Mason and Mayer P42)

EXHIBIT 3.8.4

THERE'S MORE TO RETAILING THAN PRICE CUTTING

Cutting prices usually requires more than an increased market share for it to be worthwhile. Hypermarkets succeed through selling larger volumes than supermarkets to carry fixed overheads, and by employing more efficient goods-handling methods. "You won't find a man half-loading butter into a refrigerator in our Multimarket," insists Greatermans' chairman, Norman Herber. "Empty butter trollies are replaced by full ones."

Meanwhile, despite tight consumer purses, there's still far more to retailing success than selling at the lowest prices. Retailers realise increasingly that their market is fragmented. They analyse its different segments, decide what each wants and whether it's large enough to be worth supplying.

Meanwhile, Hyperama MD Ian Munro forecasts increasing polarisation between stores patronised by those wanting to compare prices and stores used mainly for convenience. Interestingly, he puts CBD and suburban stores, together with their smaller hypermarkets into the second because they offer a broad range of products, but only a limited choice of each type.

Polarisation will occur through increasing specialisation in the first category, he says, observing a trend already apparent in the US. Department stores will become more sophisticated since they consist increasingly of in-store boutiques. Shops will specialise even more intensely. "You'll find them selling only shirts, say, or ties or sunglasses," he predicts, "just as you now have fried food bars selling only pancakes or fried chicken."

What, then, will happen to stores too small to enjoy economies of scale? The traditional Ok Bazaars outlet, for example, is only some 3 000 square metres against newly opened ones of 10 000 square metres and hypermarkets' 15 000 square metres. They'll be taken over Munro forecasts, by specialist retailers.

(From : Financial Mail, 1977 - Edited)

4.6.5 Promotions Strategy

Seres (P324) writes:-

> After the identification of the target market the main marketing task of the seller is therefore, to establish and safeguard meaningful communication with his customers via personal and impersonal methods. The systematic marketing effort aimed at developing such versatile communication is called promotion.

Kotler (P337) defines the various components of the promotions mix as follows:-

(i) Advertising
(ii) Personal selling
(iii) Publicity
(iv) Sales Promotion.

In this section we use Kotler's classification to discuss briefly the components of a promotion mix for small retailers. We then turn to a discussion of the Promotions Budget and Promotional Emphasis.

(i) Advertising

Seres notes that there has been a veritable explosion of literature on the subject of marketing communications. The intention here is not to review well known models of advertising (e.g. AIDA), but rather to search for a method whereby small appliance retailers might get consistent good results in advertising.

Lord Lever once said that fifty per cent of the giant Unilever's expenditure on advertising is wasted. In many small firms it is felt that the percentage of wastage might be much higher. This is because the average small marketer does not have a clear procedure to achieve advertising objectives. Conversely, firms such as Unilever have developed formal procedures for advertising development and evaluation (e.g. Unilever Plan for Good Advertising). Many small firms cannot afford the services of professional advertising agencies, therefore, they rely entirely on newspaper advertising departments for assistance in production of advertisements. However, because of poor procedures scarce funds allocated to advertising may be wasted. The reasons for wastage can be summarised as follows:-

a. Lack of planning and control
b. Imitation
c. Poor execution
d. Use of the wrong medium
e. Poor evaluation skills

It is this writer's observation that there are three approaches to advertising. These are:-

a. Creative approach
b. The hard sell
c. Strategic approach

TABLE 4.6.5.1

ADVERTISING GOALS FOR A SMALL STORE

1. Bring people to the store, some for the first time, to see what you have in the form of merchandise.
2. Attract buyers, some of them regular customers and others new, to examine what you are offering as a special.
3. Bring in orders by phone or mail.
4. Bring in requests for estimates or for sales representatives to call.
5. Remind people of the satisfaction they have had from trading with you in the past and let them know that you hope they will continue to patronise your store. (From Anthony P10)

The creative approach is a hit or miss affair. Sometimes producing spectacular success and at other times dismal failure. The hard-sell approach relies on repeating the same message over and over. Large chain groups and discounters use this approach successfully because they have large advertising budgets. However, the small retailer can only adopt this approach when operations are confined to fairly isolated markets. The reason is that media dominance is a prerequisite when using a hard-sell approach.

The small business that lacks both creative and financial resources and is located in the main centres, is advised to use a strategic approach. This approach is based on the following principles:-

a. Study the market
b. Select a target audience
c. Find an original selling idea
d. Support the claims
e. Execute with style
f. Spend enough to do the job
g. Use the right medium.

Note that the unique selling idea can be a product, service or unique bit of information. Mason and Mayer (P474) note that research has indicated the importance of information in retail advertising.

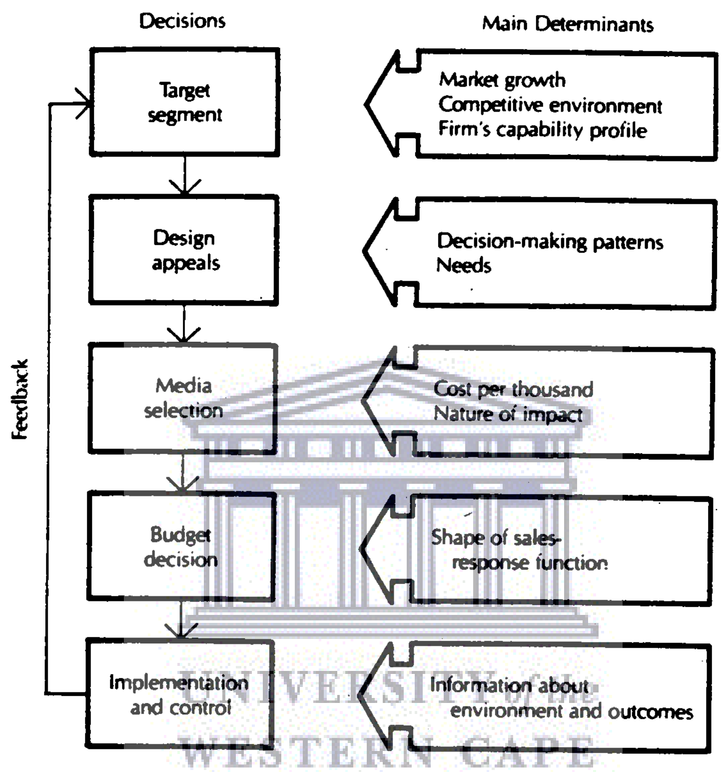
The main media available to small retailers can be listed as follows:-

Daily newspapers and classified advertisements
Local weekly or monthly free sheets
Regional radio
Outdoor
Direct mail
Directories

(Continued on Page 178)

FIGURE 4.6.5.1

DEVELOPING AN ADVERTISING PLAN



(From : Mason and Mayer P479)

EXHIBIT 4.6.5.1

DISCIPLINES FOR CREATIVITY

The making of ads in the Grey group is not a muddled affair, but carefully programmed.

Before an agency comes up with an ad, its top men work their way through a carefully devised system. This begins with the client brief for which the agency collects as much information as it can about the client's business for interpretation and analysis. This encompasses:

- Details connected with marketing: size (in value and volume), trends, segmentation, etc.
- Product details: formulation, packaging, etc. (The competitor's product details are also analysed.)
- Competitive advertising and promotion: competitive copy, competitive ad expenditure patterns etc.
- Marketing objectives and strategy.
- Promotional strategy.
- Media concentration, which deals with media restriction in terms of long-term contracts.
- Budgets and timing.

Once this has been compiled, a set of parameters is applied to define the advertising strategy. The following factors are taken into account:

- Advertising objectives.
- The target market.
- Current consumer attitudes.
- Desired consumer attitudes.
- Desired product positioning.
- Consumer promise: a statement of the main feature of the product/service to be communicated.
- The main substantiation for the consumer promise.
- The subsidiary substantiations - for the body copy.
- Creative considerations: mechanical parameters. For example, a TV commercial on perfume has to be constructed to allow for additional pack shots should further fragrances be introduced into the range.

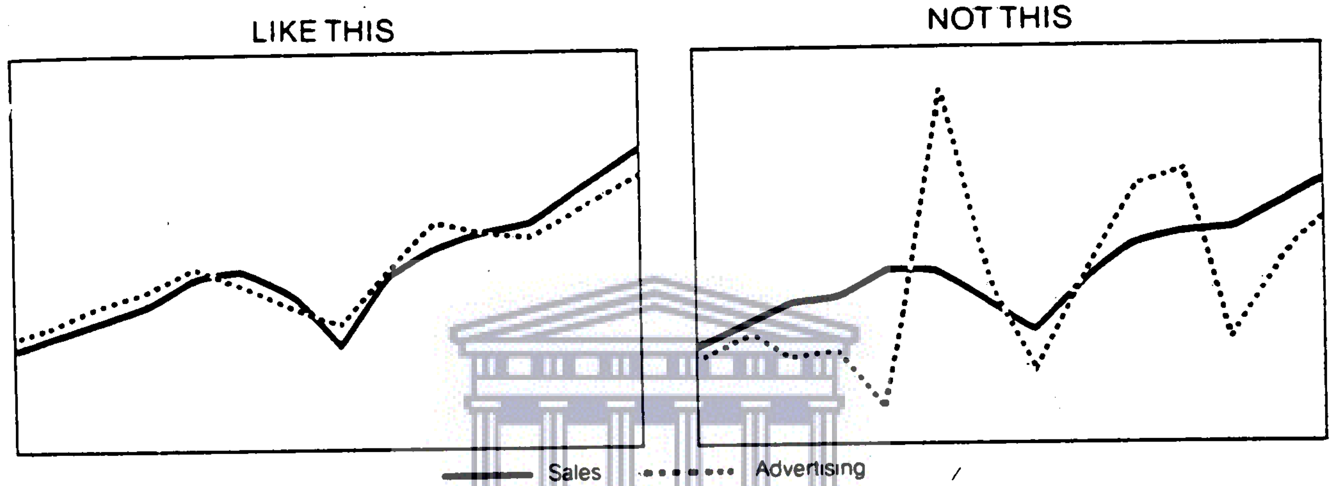
(From : The Grey Group Survey, Supplement to the Financial Mail - February 19, 1982.)

FIGURE 4.6.5.3

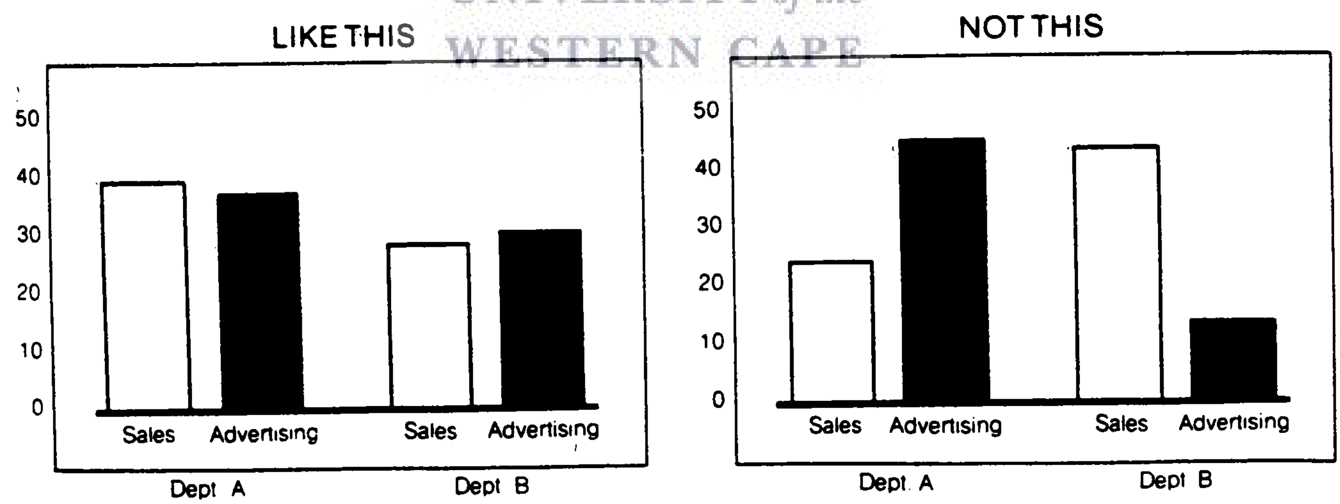
make this timing test . . .

Today, merchants are keenly aware the *timing* is essential to sound, profitable advertising. Making the simple check suggested here, they are often surprised and shocked at how far out of line their advertising is

If you want well-timed advertising to sell more merchandise at lower unit cost, you want a sales and advertising pattern which month by month looks –



And if you want each department to deliver its maximum traffic and volume at lowest unit cost, you want a comparison that looks –



(From : Anthony P25)

Telephone
Magazines for direct response advertising
Handbills etc.

It is not within the scope of this study to discuss the techniques of advertising in each one of these media. I shall confine myself to a few comments of how to create effective print advertisements. A checklist of creative execution considerations in print media is as follows:-

a. Strong headline
b. Correct layout
c. Right copy
d. Illustrations that involve.

The ideas that follow have been distilled from the writings of well-known practitioners such as Ogilvy, Benn and others.

a. <u>Headlines</u>

The headline is eighty per cent of the investment. This is so because research has shown that four out of five people only read the headline. The A.B.C. of good headlines is:-

A = Attention
B = Benefit
C = Customer curiosity.

The headline must grab the prospects attention and arouse sufficient interest and curiosity so that they will stop and read the message.

b. <u>Layout</u>

A shoddy advertisement will convey the image of a shoddy store.

Three basic rules are:-

One - Use a standard well organised format

Two - Use a plain type

Three - Feature the store name and logo correctly

c. Copy

The three basic rules are:-

One - Use personal words

Two - Use simple language

Three - Give complete and specific information

d. Illustrations

The illustration is also important in grabbing the prospect's attention. This can be done by showing a situation that involves the prospect.

David Ogilvy, who at one time was regarded as the "guru" of American advertising, said always give your product (store) a first class ticket! Exhibit 4.6.5.2 is an example of a small retailer who has not followed this advice.

This local example may be compared with some examples of a more professional approach to appliance retail advertising taken from the handbook of Small Business Advertising, by Michael Anthony.

Anthony also prescribes the following tools for improving results in small business advertising:-

a. Advertising development chart
b. Monthly sales-advertising comparison
c. Chart for monitoring competitive advertising
d. Media evaluation form
e. Monthly advertising budget
f. Advertisement-results monitoring sheet

(See Exhibits)

EXHIBIT 4.6.5.2

HOW TO WRITE AN AD FOR THE YELLOW PAGES

1. Illustration

   Make sure your picture carries out or reinforces your promise. It's worth 1000 words.

2. Support Statement

   Authenticity is assured when you state the research source for your claims.

3. Phone Number

   Make it stand out. That's the main reason you're here.

4. Special Services, Brands Available

   If you do something other people in your line of business don't do, be sure to say it. If the brand names or lines you carry are important to the consumer, mention them.

5 Slogan

   This doesn't always have to be a clever line. Better to have a message you want people to remember and to associate with your business.

6. Credit Cards Accepted

   Cash is a disappearing commodity. Make sure people know which credit cards you accept. A picture is a good way.

7. Hours of Business

   Shoppers are looking for this information. It may mean the difference between a sale or a customer who goes elswhere.

8. Name-Logo-Address

   Tell shoppers who you are and where you are. If a diagram, picture or landmark helps locate you, use it.

9. Body Copy

   Yes, people do read body copy. This is where you must convince the reader. If you have research facts supporting a claim, include them.

10. Headline

    This is the most-read part of any ad. Make a promise you can keep. And make it an important consumer benefit.

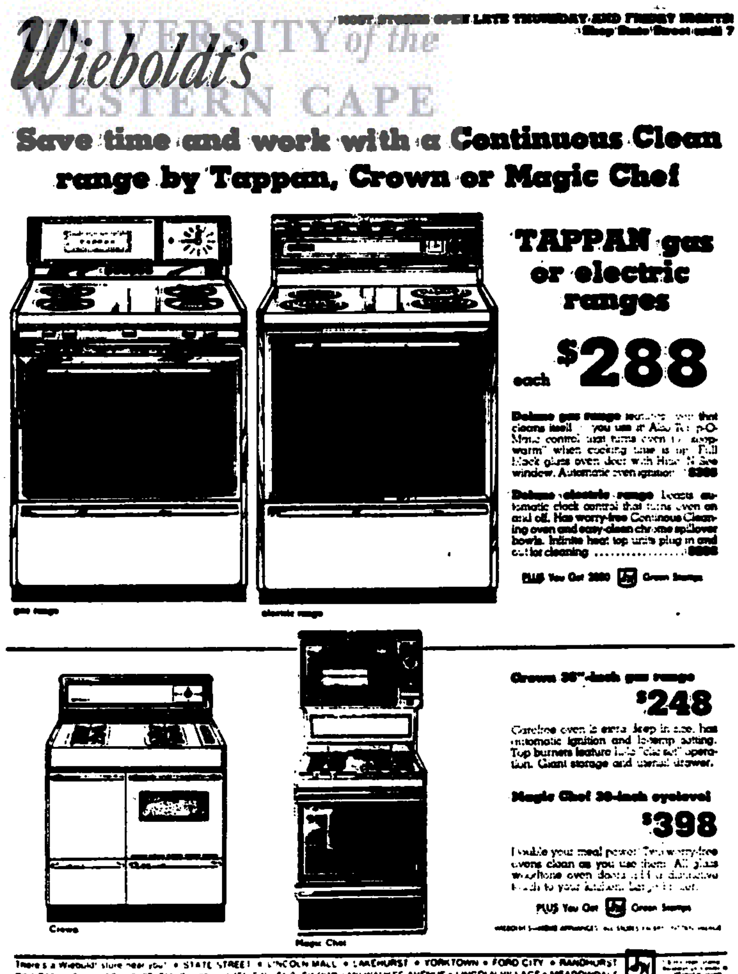
(Adapted from : Gelb and Enis P82)

EXHIBIT 4.6.5.3

EXAMPLE OF SMALL STORE ADVERTISING

EXHIBIT 4.6.5.4

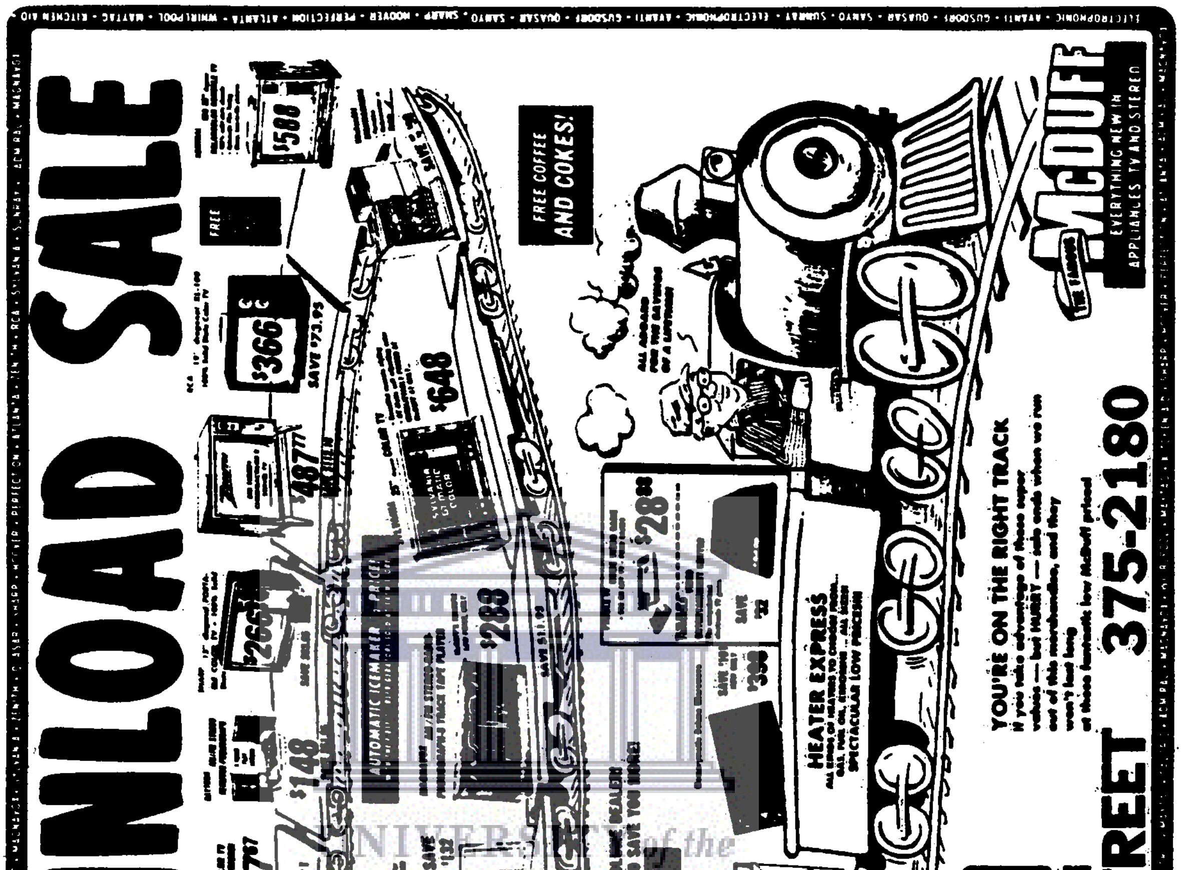
EXAMPLE OF LARGE DEPARTMENT STORE ADVERTISING



"Save time and work" is the headline's principal appeal to the housewife who wants to spend more of her time in leisure and recreational pursuits.

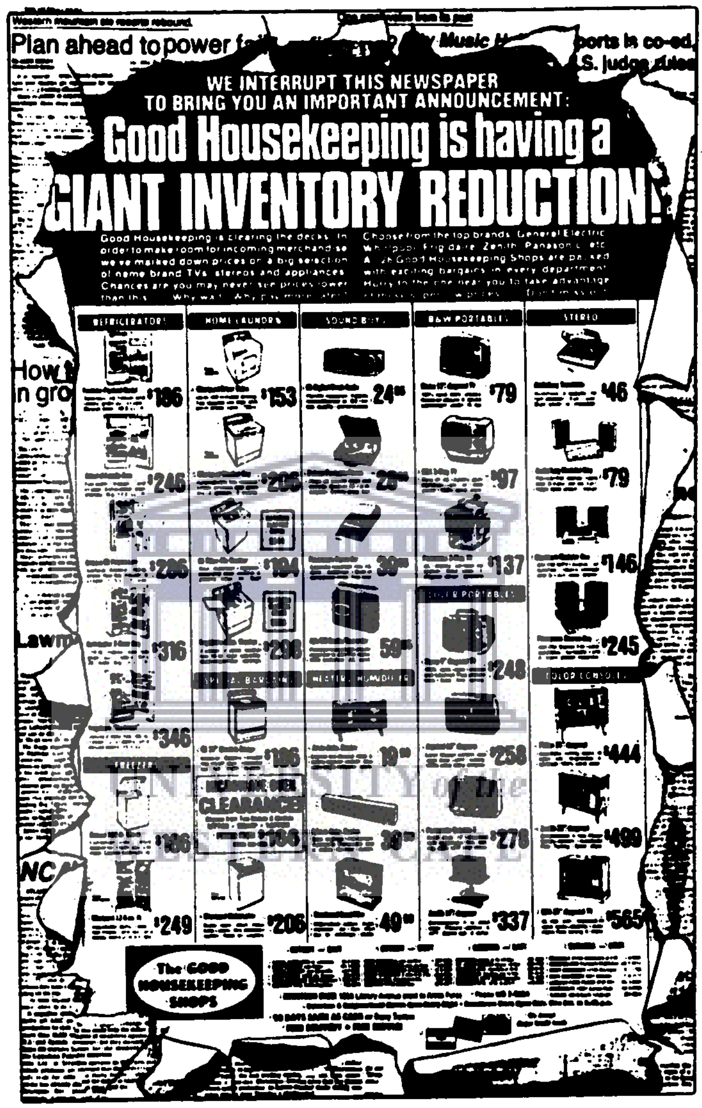
Courtesy Wieboldt's, Chicago, Ill.

EXHIBIT 4.6.5.5



(From : Anthony P72)

EXHIBIT 4.6.5.6



(From : Anthony P70)

FIGURE 4.6.5.4

ADVERTISING DEVELOPMENT CHART

TASK	PERSON RESPONSIBLE	DATE DUE	DATE COMPLETED	PASSED TO	OK'D	REMARKS
Establish Advertising Objective						
Determine Media						
Calculate Cost						
Prepare Preliminary Copy						
Submit Rough Draft						
Review and Correct						
Submit Final Draft						
Review and Discuss						
Place with Media						
OK Proofs						
Follow Up on Ad						

(From : Anthony P32)

FIGURE 4.6.5.5

COMPARE YOUR SALES AND ADVERTISING (MONTH BY MONTH)

1. Write in monthly sales in the first column below Then total

2. Find what percentage each month contributes to annual sales by dividing annual sales total into each month's sales Write in percentage figures Round off to total 100% for the year

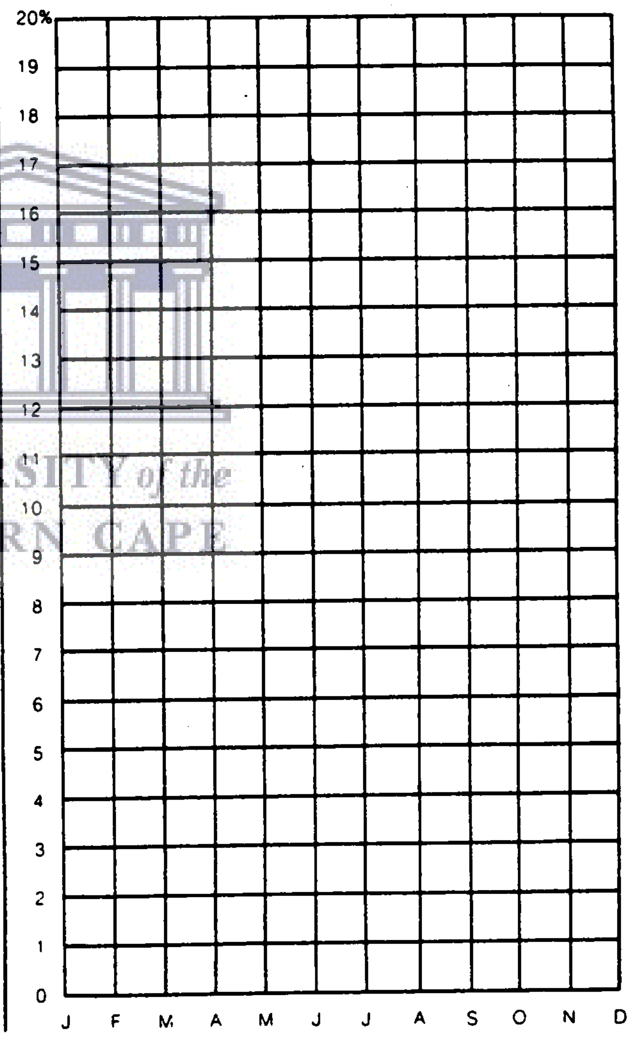
3. Do the same for your advertising Write in advertising used each month (either in dollars, column inches or lines) Then total

4. Divide this total into each month s figure to get monthly percent Again round off to total 100% for the year

5. Plot the monthly percentages of sales and advertising on the graph below Compare your sales and advertising Wherever sales and advertising lines don t run close you re missing selling opportunities with advertising that s too early or too late

	1. Sales last year	2. % of year s sales	3. Advertising last year	4. % of year s advertising
Jan				
Feb				
Mar				
Apr				
May				
June				
July				
Aug				
Sept				
Oct				
Nov				
Dec				
Total		100%		100%

5.



(From : Anthony P34)

FIGURE 4.6.5.6

COMPETITIVE MONITORING

PERIOD ________ FROM ________ TO ________

MEDIA	COMPETITION			COMPETITION			COMPETITION		
	SPACE	RADIO-TV	APPROX. COST	SPACE	RADIO-TV	APPROX. COST	SPACE	RADIO-TV	APPROX. COST

(From : Anthony P49)

FIGURE 4.6.5.7

MEDIA EVALUATION FORM

MEDIA	TOTAL CIRCULATION OR AUDIENCE	COST PER AD	COST PER THOUSANDS	FREQUENCY	TYPE OF AUDIT	INQUIRY AVERAGE

(From : Anthony P50)

FIGURE 4.6.5.8

BUDGET AND EXPENDITURES CONTROL SHEET

MONTH	BUDGET	ACTUAL	VARIANCE	COMMENTS
January				
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
	TOTAL YR BUDGET	TOTAL YR ACTUAL	TOTAL YR VARIANCE	

(From : Anthony P144)

FIGURE 4.6.5.9

AD-RESULTS MONITORING

MEDIA	PRODUCT	SALES WEEK 1	SALES WEEK 2	SALES WEEK 3	TOTAL MONTHLY	REMARKS

DATES OF AD RUN From to

ELEMENTS THAT MAY HAVE AFFECTED RESULTS:

DATE	ELEMENTS

OVERALL EVALUATION OF THE PERFORMANCE OF THIS AD.

(From : Anthony P166)

(ii) Personal selling

Blake and Mouton have developed a method whereby salesmen can analyse, measure and improve their performance.. The framework is based on their well-known "Grid" and is illustrated in figure 4.6.5.2.

The grid shows that the salesmen can have one of two concerns when making a sale (a) concern for making the sale or (b) concern for the customer. The grid diagram shows these concerns and how they interact. The positions in the grid indicate the following salesmen theories:-

a. Push the product oriented (9,1)

The salesman adopts an aggressive hard-driving, insensitive, hard-sell approach. The customer is simply a means to achieve the salesman's end.

b. People oriented (1,9)

This is the converse of a. above. The salesman concentrates on being nice and friendly to the customer and uses little persuasion to make a sale. If a sale results it is purely a by-product of the interaction between salesman and customer.

c. Take-it-or-leave-it (1,1)

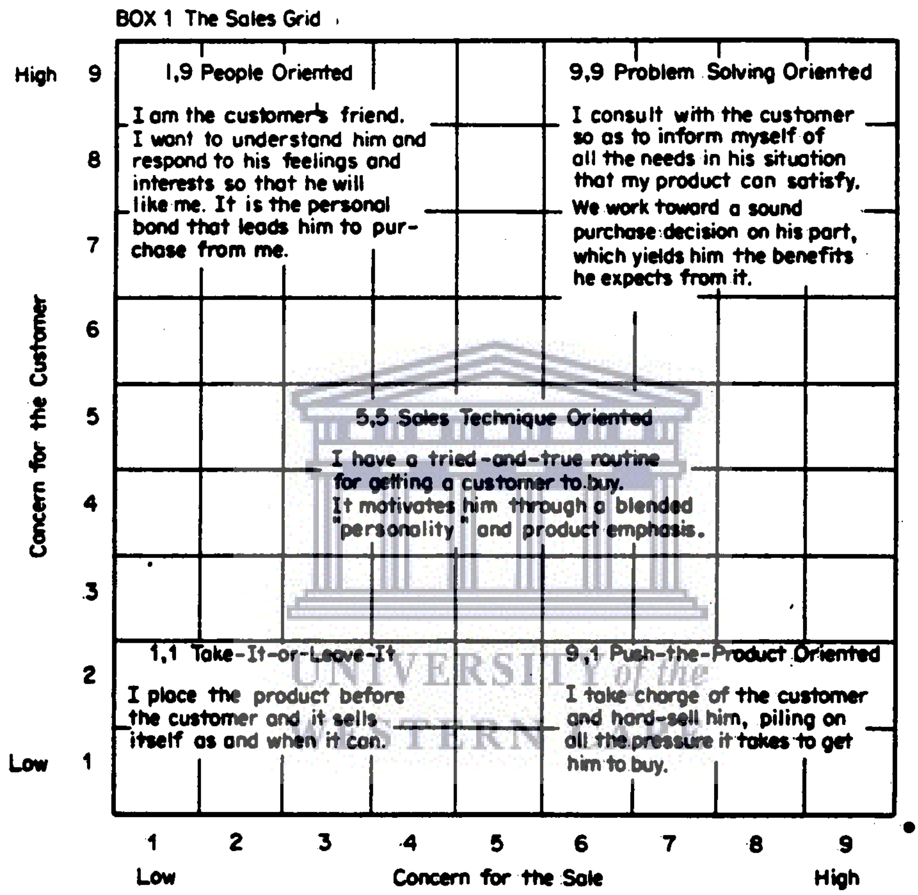
Both concerns are at a low ebb. The salesman is passive and exerts minimal influence during the sales interview. Such a salesman simply "goes-through-the-motions."

d. Sales technique oriented (5,5)

This is a middle of the road approach which blends equal amounts of both concerns. The result is a mechanical well-rehearsed sales pitch.

FIGURE 4.6.5.10

THE GRID FOR SALES EXCELLENCE



(From : Blake & Mouton P4)

e. Problem-solving approach

Here the salesman is deeply concerned about solving the customer's problem. The salesman has thorough product knowledge and uses it to find the right product that fits the customer's requirements.

The prescription for the correct selling approach which should be adopted by the small retailer selling appliances is the 9,9 approach on the grid.

Oxenfeldt reported on the tactics actually adopted by salesmen who sell appliances:-

> They vary according to three categories of customer: the enemy, the gentleman and the lamb. In a retail situation made quite fluid by the frequent complication of trade-in of old appliances, the sales role can vitally affect immediate profitability. The low ethical level to which much appliance selling has fallen, is a function of this factor and the techincal ignorance of the customer. This latter factor makes many customers suspicious from the outset of any negotiation. The entire tenor of negotiation is also coloured by the low rate of repeat purchase business which many appliance dealers anticipate. Despite these general observations, the salesman's part is clearly definable in two dimensions: conveying product information and persuading the customer to purchase. Both of these can be measured in experimental situations to improve effectiveness. Standards of service in British retailing are usually mediocre and it is generally true that customers buy rather than are sold merchandise.
>
> (From New Ideas in Retailing P191)

Wills (P192) recommends that retailing firms should measure the effectiveness of their sales personnel and make improvements when necessary. He comments on the findings of Stafford and Greer who undertook pilot studies to measure the likely promotion success of personal salesmanship. They prepared ideal salesman profiles in three product fields. Their profile for a shoe salesman which is shown in Figure 4.6.5.11 can be be adapted for use in appliance selling.

My prescription for personal salesmanship in the appliance retailing field is that every effort should be made to encourage creative selling and not mere sales processing.

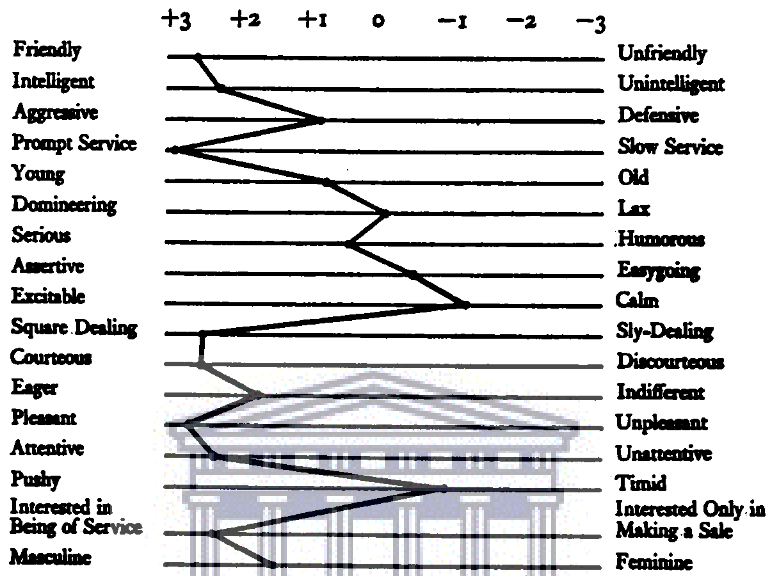
The salesman should serve prospective customers in the following ways:-

- help the customer to define his/her need and problem.
- assist them to solve their problem by selecting a suitable item, showing them how to use it willingly and explaining how it will solve their problem.
- educate customers by telling them about new products, product care, etc.
- handle customers in such a way that buying becomes a pleasant experience for them so that they have a real reason to come back again.

Figure 4.6.5.12 represents a consumer's decision matrix. It shows that a consumer has a high or low level of knowledge regarding the product in question. In solving a buying problem the consumer also seeks to minimise the risk of making a wrong decision. When applied to the field of appliance retailing it is my hypothesis that the consumer is often in the area of high risk. In this situation the consumer will seek advice from the salesman and might also require some formal protection against a defective product e.g. a written warranty. Both these situations provide an excellent opportunity for a salesman with a problem-solving orientation.

FIGURE 4.6.5.11

A PROFILE OF CONSUMER ATTITUDINAL PREFERENCES FOR CHARACTERISTICS OF A SHOE SALESMAN



(From : New Ideas in Retailing Management P191)

FIGURE 4.6.5.12

A CONSUMER DECISION MATRIX

		Knowledge	
		High	Low
Risk	High	Negotiate a Contract	Seek Advice
	Low	Routine Response	Impulse Purchase

FIGURE 4.6.5.13

THE MODEL - DETERMINANTS OF SALESPERSON'S PERFORMANCE

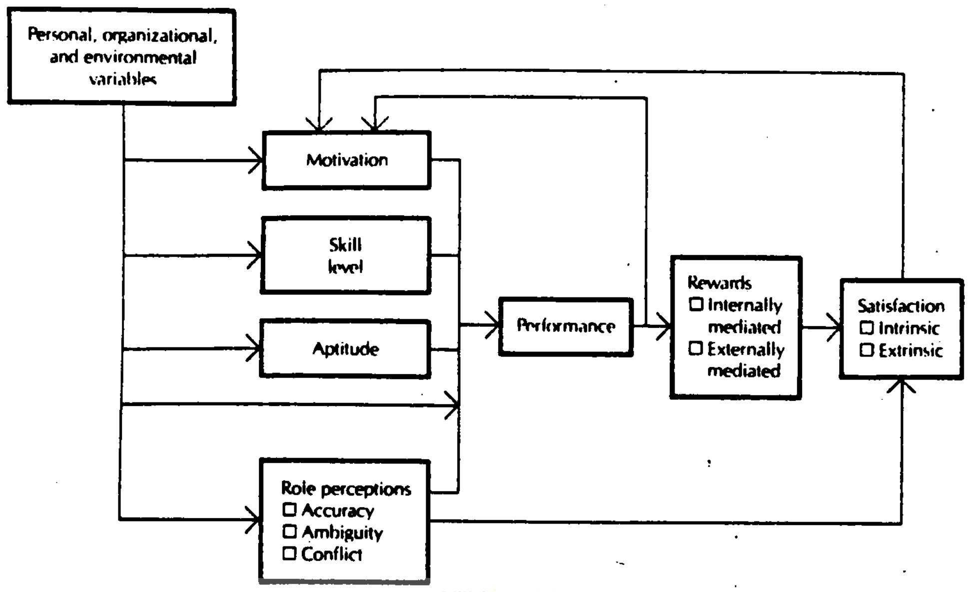
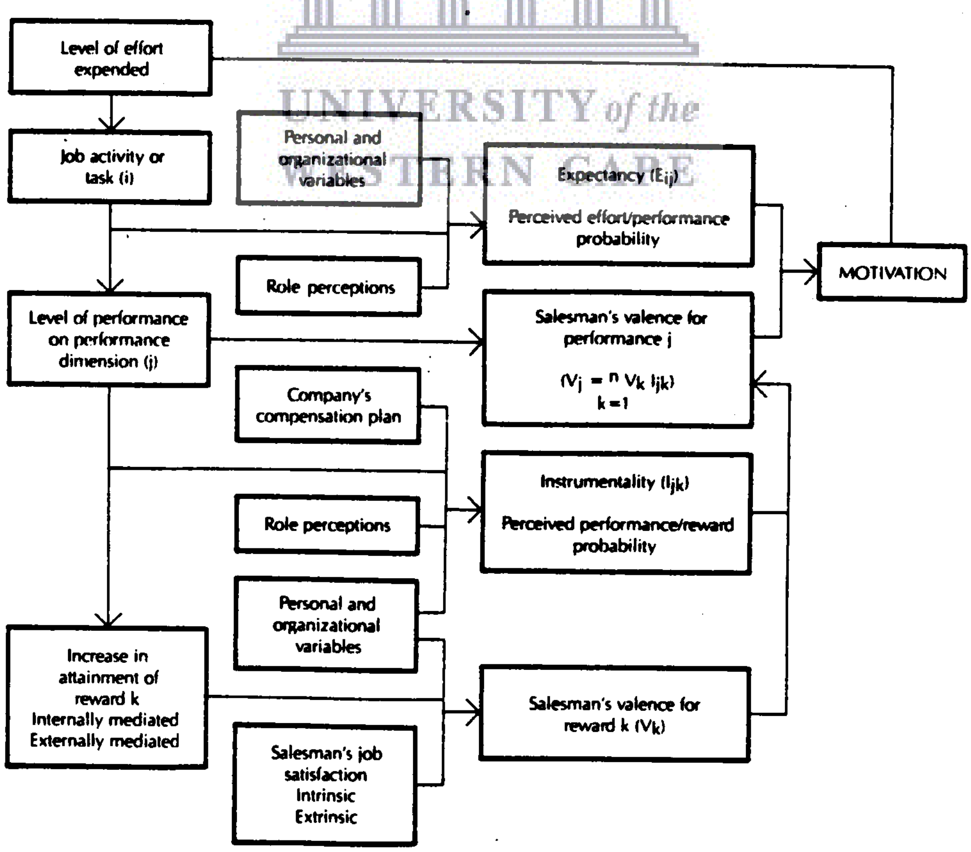


FIGURE 4.6.5.14

THE MOTIVATION COMPONENT



(From : Mason and Mayer P654)

(iii) Publicity

Seres (P330) notes that:-

> In the long term publicity cannot be an effective substitute for sustained promotions programs, as it is usually an impermanent stimulation of demand for the product or service in question. In the short term, however, publicity can produce excellent sales results, particularly when it is addressed at the right time to the customers.

The recent history of retailing in South Africa is full of examples of retailers who have used publicity to further the growth of their organisations e.g. Raymond Ackerman, Tony Factor and others. The small appliance retailer who wishes to grow can follow the example of these successful practitioners. Once again the emphasis should be on planned programs rather than ad hoc exercises in public relations.

One purpose of publicity should be to stimulate word of mouth. A little used tool of marketing is to have a policy of 'Returns and Complaints'. It is felt that the small retailer has a lot to learn from the large successful chain groups in this regard. Research has shown that consumers who complain are convinced that they are in the right. The reasons for customer dissatisfaction were mentioned in an earlier section. Each complaint situation represents a threat of conflict arising. Yet it also represents an opportunity for generating customer goodwill by resolving the customer's problem in a manner which is satisfactory to that customer. Small appliance retailers are recommended to develop a policy regarding complaints and returns along the following lines:-

a. Ensure that all complaints are directed to a suitably qualified member of the management or staff for resolution. All staff should be briefed regarding the procedure for handling complaints.

b. Accept all returns in exchange, unless the customer is clearly a trouble-maker.
c. Ensure that guarantee forms are completed and mailed from the store on the customer's behalf.
d. Test all appliances before delivery on the assumption that prevention is always better than cure.
e. Make it easy for customers to register complaints.
f. Listen to the customer's story and get him to suggest a solution.
g. Act promptly to correct matters.

In this way the store can build a consumer franchise by positive word-of-mouth.

If the firm does not act promptly to alleviate consumer dissatisfaction then the unhappy shopper might respond in a number of ways. The actions that might be contemplated are listed in Table 4.6.5.2.

(iv) Other sales promotions

This refers to those promotional techniques designed to persuade, inform, reassure or remind customers of the store. Ogilvy and Mather, a major international advertising agency, list the basic requirements for running a successful promotion for branded products. The following information is required:-

a. Who is the market target for the brand.
b. Why they use the product and how.
c. How frequently it is bought and where.
d. Who are it's main competitors.
e. How the consumer rates the brand compared with it's competitors.

TABLE 4.6.5.2

SUMMARY OF ACTIONS TAKEN IN RESPONSE TO DISSATISFACTION

Type of action	Number	Percent	Percent of actions
Private action			
Decided not to buy the service again	22	19.0	
Quit the company or professional person	44	37.9	
Warned family and friends	50	43.1	
Total	116	100.0	46.4
Public action: sought redress			
Requested service be performed in correct way	33	49.2	
Asked for refund or adjustment of fee	26	39.8	
Contacted a lawyer or otherwise took legal action	7	10.5	
Requested that the claim be paid	1	1.5	
Total	67	100.0	26.8
Public action: complained			
To the company of professional person	54	80.6	
To a professional association	3	4.5	
To the Better Business Bureau	1	1.5	
To a government agency or official	5	7.5	
To a consumer advocate of organization	4	5.9	
Total	67	100.0	26.8

* In 29 of the 133 cases of reported dissatisfaction, no action was taken. This table refers to the 104 instances in which one or more actions were taken.

(From : Mason and Mayer P705)

EXHIBIT 4.6.5.7

ADJUSTMENT CLAIM

ADJUSTMENT CLAIM

______________ 19____

Name & Address ______________

Complaint ______________

____

How adjusted: ______________

____

In your opinion was complaint justified? ______________

Was adjustment satisfactory to customer? ______________

Claim adjusted by ______________

Please comment on reverse side.

This simple form records the reasons for a customer's return or adjustment and indicates how this was handled.

Courtesy Proffitt's Dept. Store. Alcoa, Tenn.

(From : Shaffer and Greenwald P20)

If these facts are not known then what is needed is not a promotion but basic research into the brand to determine it's problems and market positioning.

Once the above information is available then two decisions need to be made:-

a. <u>The decision whether to run a promotion</u>

- determine the problems facing the brand (store).
- determine the money available to solve the problems.
- list and cost all the possible alternative solutions to the problem.
- estimate the effectiveness of each alternative.
- if a promotion appears to be the best solution and the money is available then go ahead.

b. <u>The decision regarding what type of promotion to choose</u>

This is the promotion that will solve the problem, within the available budget. For a list of problems and suggested promotions refer to Table 4.6.5.3.

A small appliance retailer might use one or more of the following examples in the promotions mix:-

a. <u>Directed towards consumers</u>

Product demonstrations
Shows and exhibitions
Sponsorship of sports events
Competitions, contests and sweepstakes
Clearance sales, deals, price-reductions etc.

b. <u>Directed towards sales staff</u>

Bonus schemes
Contests
Premiums and gifts
Sales aids
Sales meetings

(adapted from Brannen P310)

(v) <u>Promotions budget</u>

A vexed question is always how much to spend on promotions. In the case of a small retailer the limited funds available for this purpose can be a major constraint when formulating marketing strategies.

Welsch (P275) lists the following methods of determining the promotion and advertising appropriation:-

1. Arbitrary appropriation
2. All available funds
3. Competitor parity
4. Percentage of sales
5. Fixed sum per unit
6. Previous year's profits
7. Return on investment
8. The task method

Under the task method, certain practical objectives to be achieved by promotion and advertising are established and then a program consistent with these objectives is set up. Recognised authorities in the advertising field generally agree that the task method is preferable.

I have added the following methods to the above list:-

a. Percentage of gross profits. In the case of a small retailer I recommend five per cent of gross profits or one and a half per cent of sales.
b. Market share aimed at. One large research company (A.C. Nielsen) has recommended that an advertiser of new branded products should spend 1,6 times the target market share over a twenty-four month period.
c. Media available. In small centres the advertising media available might be limited to local weekly press, outdoor, handbills etc. The saturation point in these media will determine the size of the budget.
d. Pay-as-you-go-approach.

Whatever method is used it should be based on a detailed promotions budget.

(vi) Promotional emphasis in small business

Brannen (P289) notes that the optimum promotional mix for small businesses often involves a different combination than that for his big business competitor. These promotional differences are shown in Figure 4.6.5.15.

Thus the emphasis in a small business is often on what I call "grass roots marketing" i.e. personal selling, promotions and other below-the-line activities.

TABLE 4.6.5.3

PROBLEMS AND AN INDICATION OF THE CONSUMER PROMOTIONS MOST LIKELY TO HELP IN SOLVING THEM

These are suggestions, not hard and fast rules. Altering the design of a promotion may make it a suitable solution for other problems. The nature of the product, the company and the trade will also affect the best solution to any problem.

	Promotions which may help
a. To get consumer trial of new or existing product.	Free offer; Sampling; Money-off voucher/offer.
b. To obtain repeat purchasing.	Any premium offer of a collectable item; Competition; Free mail-in; Free continuous mail-in (coupon); Money-off voucher; Self-liquidating promotion.
c. To obtain long-term consumer loyalty.	Continuous self-liquidating promotion; Free continuous mail-in (coupon); Trading stamps.
d. To increase frequency or quantity of consumer purchase in the short run.	Competition; Free premiums; Free mail-in; Personality promotion; In-store self-liquidator; Money-off offer; Shop-floor and tailor-made promotions.
e. To move high stocks out of stores.	Competition; Free with-pack/mail-in; Shop-floor and tailor-made promotions.
f. To get consumers to visit your premises.	Free gifts; Money-off voucher; Shop-floor and tailor-made promotions; Trading stamps.

(Adapted from : Ogilvy and Mather Limited P11)

EXHIBIT 4.6.5.8

SCORING A GOAL WITH SPORTS SPONSORSHIP

Mathie Brothers and sport are synonymous. Be it athletics, bowls, cricket, golf, boxing, motor sport, horse racing and some of the lesser known sports, you can be assured that Mathie brothers, somewhere along the line, have an interest.

With a total amounting to not less than R60 000, the Mathie brothers are out to saturate all sports throughout Natal.

"Some of the sponsorships don't run into large figures," said Hugh Mathie. "The amounts in some instances are small but as long as we can do our bit to assist sporting bodies, whether it be some of the lesser spectator activities like darts and badminton, we have achieved our goal."

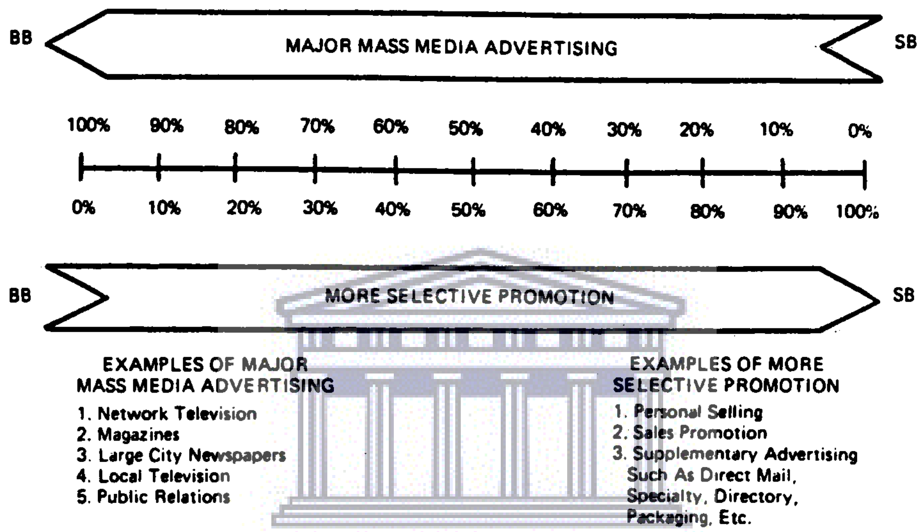
It was only as recent as 1975 that local tournaments in and around Durban received some financial backing from Mathie Brothers. Bowls and minor tennis tournaments benefited and the biggest sponsorship was given to the Excombe Football Club who received complete financial support from Mathies. No fewer than 17 teams ranging from the cubs league to the senior sides were sponsored. Three years later it was the turn of baseball and this resulted in Hoy Park, the home of Natal baseball, changing its name to the Hugh Mathie Baseball Park. An amount of R25 000 over five years has certainly helped Natal baseball.

Due to open shortly is the Mathie Brothers Badminton hall in Umgeni Road. The Natal Badminton Association and more recently the Natal Country Districts Badminton Association received financial backing and the sport has taken on a new image. Cricket has received its fair share of sponsorship. In conjunction with the Vintcent van der Bijl benefit season, the Queensburgh Cricket Club staged a double wicket competition under floodlights at Pinetown thanks to backing by the Mathie Brothers.

(Adapted from : The Daily News Special Advertising Supplement, March, 1980)

FIGURE 4.6.5.15

THE PROMOTIONAL MIX CONTINUUM FOR BB AND SB



(From : Brannen P289)

4.6.6 People Strategy

Brannen regards people as a means of differential advantage for the small business, and writes:-

> By people, we mean all the people of the small business firm. All can and should be a part of the marketing mix of the successful small business firm. The small businessman

> who has both adopted and implemented the marketing concept has permeated the marketing philosophy throughout the firm. People include the small businessman, other managers, all employees, whether salesman or otherwise, outside consultants and advisors, the advertisng agency, and possibly members of the channel of distribution.
> .... People strategies include such areas as investment in people and their development, organisation, motivation and other" personnel" matters that can, if viewed as part of the marketing strategy, give the alert small businessman advantage. (P323)

In a small retail firm the customer has the opportunity of interacting with the owner/manager. Brannen suggests this might have certain psychic benefits for the customer which cannot be satisfied by a big retailer. Interaction of this type is regarded as important because of the customer's search for self-actualisation through consumption. Self-actualisation implies individualised approach to need-satisfaction and requires a high level of personal sales efforts. The selling efforts of the independent firm's top management should be more effective than a large retailers sales personnel.

(i) Importance of people in the small business retailing mix

There are two main reasons why the "People" variable should be emphasised in the small retailers marketing mix. They are:-

a. Staff costs

Staff salaries and benefits are usually the biggest cost item in the small retailer's overhead structure. They may be budgeted at 50 per cent of gross profits or 70 per cent of total operating expenses. It follows that every effort should be made to increase staff productivity in the small retail business.

b. Image

There is research which indicates that "People" play a major role in the determination of store image. For example research was conducted at Kent State University in order to establish the reasons why customers ceased to support a particular store. The results are shown in Table 4.6.6.1.

TABLE 4.6.6.1

REASONS WHY CUSTOMERS CEASED TO SUPPORT A STORE

A survey carried out by Prof. P.L. Pheiffer of Kent State University U.S.A. revealed that:-

Out of every 100 customers that ceased to support a retail store:-

1 Had died.
3 Because salesman had left the store to work elsewhere.
5 Because friends or relatives recommended another shop.
9 Because of lower prices elsewhere.
14 Because complaints were treated unsatisfactorily.
68 Because of employee of indifference and their sluggish attitude.

(From : Seminar notes issued by Small Business Advisory Bureau)

(ii) People, problems and opportunities

Brannen (P325) notes that there are potential people problems in a small business. These can be summarised as follows:-

- management succession
- family problems
- personality of the small business manager
- recruitment and selection
- training and development
- people motivation
- need for outside assistance

While big firms often represent a well organised but impersonal bureaucracy, small firms can present an individualised and more personalised approach. The Bolton Commission in the United Kingdom found that although remuneration in small firms is lower than in big firms the incidence of industrial dispute was negligible. Nevertheless small retailers do have problems in recruiting highly skilled personnel which can act as a brake on growth. The small business manager is advised to improve his people management skills.

(iii) People management

People management includes the following skills:-

a. Leadership
b. Motivation
c. Creation of a suitable organisation structure
d. Manpower planning

Nasser believes that organisational climate is the critical base on which to build effective manpower management. It is defined as:-

> .... a set of measurable properties of the work environment, perceived directly or indirectly by the people who live and work in this environment, and is assumed to influence their motivation and behaviour. (P117)

The small business has an opportunity to create a positive organisation climate in the following ways:-

- Ensure minimal constraints, rules, procedures and generally create an informal atmosphere.
- allow employees greater responsibility sooner.
- reward employees for a job well done.
- give employees a challenge.
- create a feeling of good fellowship.
- be supportive and helpful to employees.
- have explicit goals and performance standards.
- allow problems to come out in the open.
- create a feeling that everybody is a valuable part of a team.

For a complete overview of all the major factors affecting staff productivity refer to Figure 4.6.6.1. which was borrowed from Sutermeister.

The creation of a suitable organisation structure will be influenced by such factors as size, services to be rendered and so on. To design an organisation structure one breaks the operations into their constituent parts and assigns these tasks to specific individuals. It includes the process of selecting the right staff, delegation of responsibility and authority, establishing lines of communication and ensuring proper co-ordination of activities amongst the members of a team. It is a good idea to prepare an organisation chart. Duncan and Hermanson have this to say regarding organisation charts in a small retail firm:-

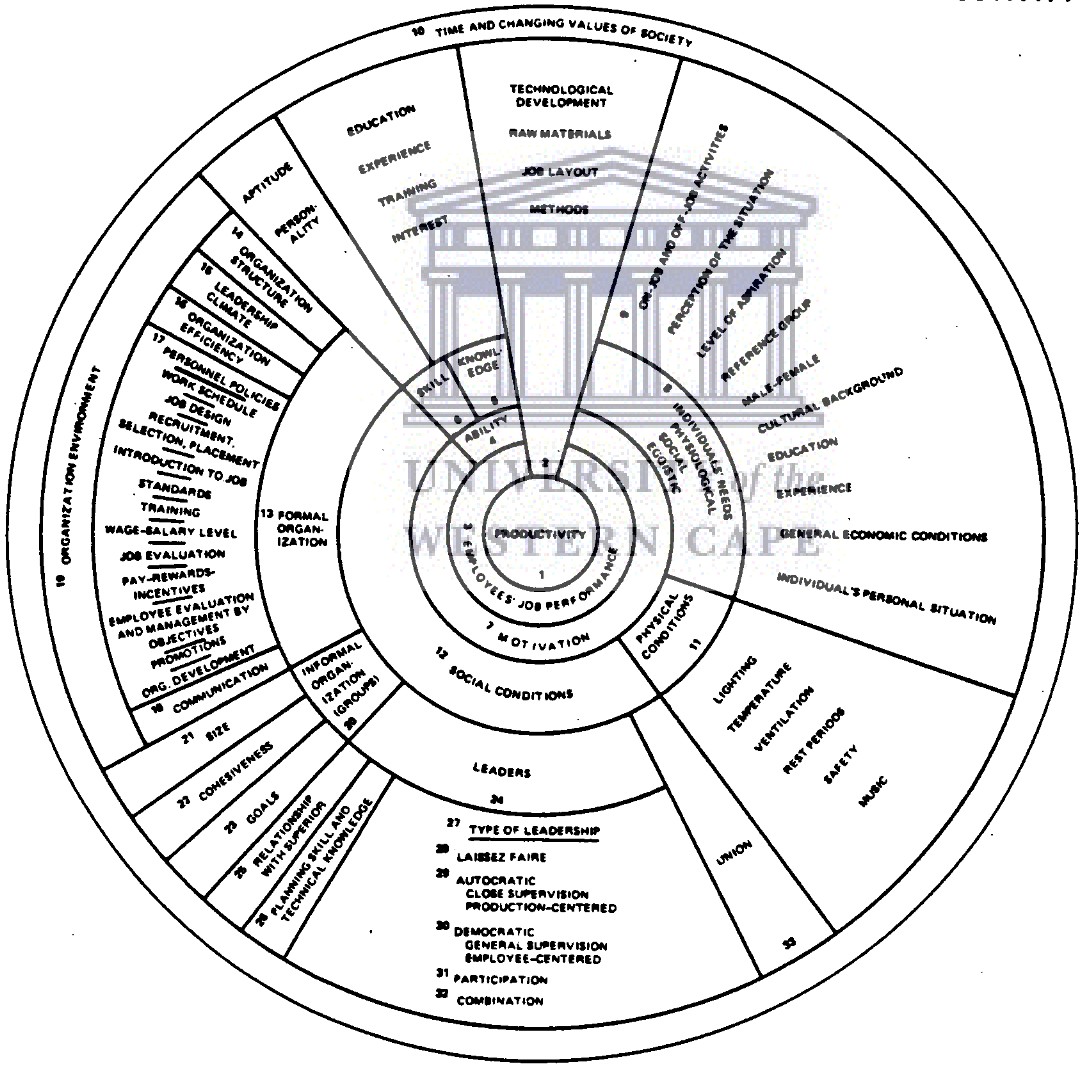
> The purpose of such charts is to indicate the grouping of the functions of a business and the lines of authority and responsibility. Charts aid clear thinking and proper co-ordination of activities, they are indispensible in visualising the company as a whole and the relationship among functions and individuals. There is danger, however, that an organisation chart will be mistaken for an organisation. Even a fine-appearing chart will not ensure effective functioning. Business organisations consist of human beings with different personalities working towards desired goals. Concentration on an organisation chart may result in neglecting these personalities and the factors influencing the behaviour of individuals singly and in groups. Moreover, retailing is a fast-changing business, consequently, frequent revision of the organisation chart is a must. (P27)

Their suggestion for an organisation chart for a small retail firm can be seen in Figure 4.6.6.2.

The difference between organising in small and large retail firms is that the owner in a small firm normally performs many activities such as buying, selling and so on. This represents a difference in the degree of specialisation found in big and small firms. The danger exists that the small owner/manager of a retail firm might fall into what Odiorne refers to as the "activity trap". In other words he can become so involved in daily business activity that he neglects to find time to perform the management function of planning and controlling. In order to avoid this pitfall the small business manager must pay due attention to organising his time and people.

FIGURE 4.6.6.1

MAJOR FACTORS AFFECTING EMPLOYEES' JOB PERFORMANCE AND PRODUCTIVITY

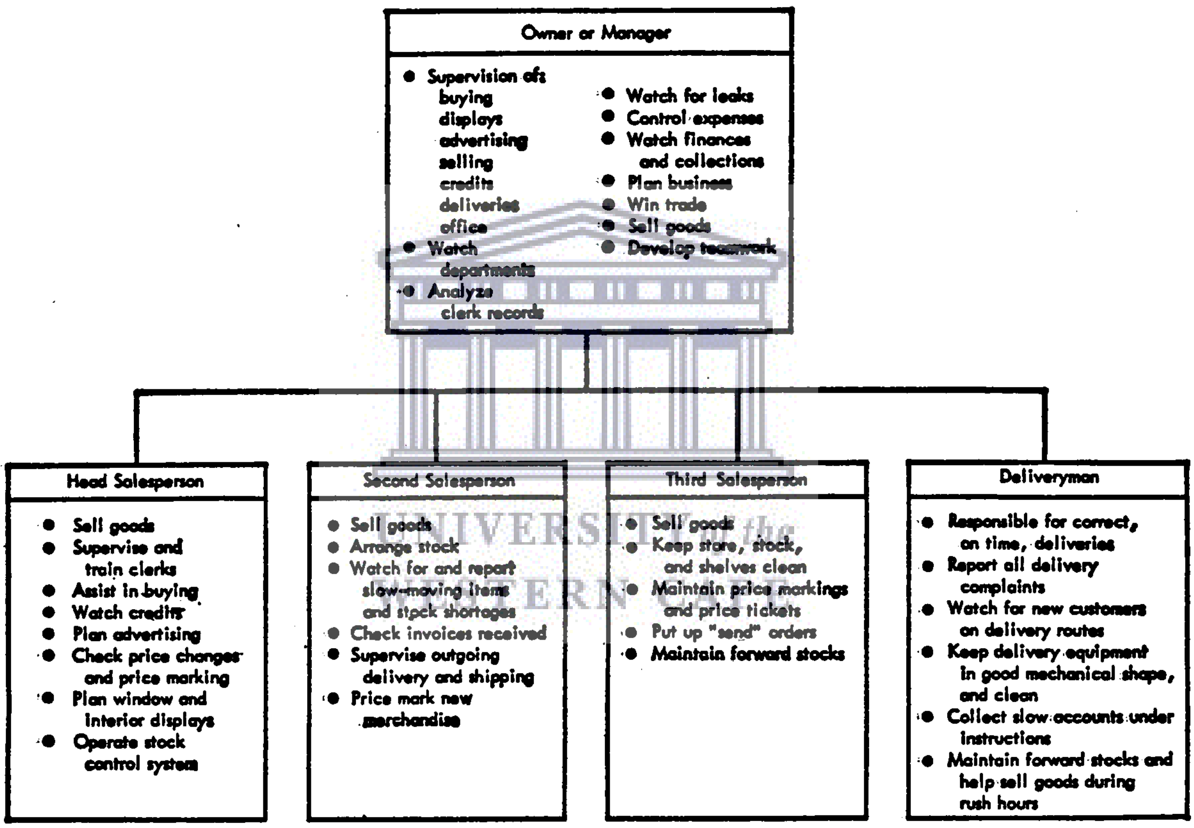


1. The size of each segment has no relationship to its relative importance, which would vary with different organizations, different departments, and even different individuals with their own distinct needs.
2. The factors in each segment affect factors in the corresponding segment of the next smaller circle; they may also affect and be affected by other segments in the same circle or other circles.
3. The numbers in the various sections of the diagram correspond to figures in parentheses throughout Chapters 1 to 18.

(From : Sutermeister, Frontispiece)

FIGURE 4.6.6.2

ORGANISATION OF A SMALL STORE



(From Duncan and Hermanson P28)

TABLE 4.6.6.2

FOUR COMMON RETAIL COMPENSATION PLANS (Salespeople and sales-supporting)

Types	*Basic formula*	*Common Positions covered by such plan*	*Primary advantage(s)*	*Primary disadvantage(s)*
Straight salary ..	Paid for stipulated pay period	Office employees and non-technical sales areas	Easily understood and easy to calculate and administer	Lack of incentive
Salary plus commission ..	Base salary plus small additional percent	Areas of goods where special effort might get plus sales (drapery, garden shop, etc.)	Incentive to sell more	Somewhat complicated in dealing with small amounts
Quotas	Different dollar levels of goal established at which varying percentages of sales are paid	Selected big-ticket departments or departments in which money incentives usually produce extra effort; examples—furniture, shoes, carpeting, etc.	Establishes a "target" for employees needing an incentive and can result in sales of more high markup, sell-up merchandise	Can become complicated to administer, especially substantiating factors in establishing quotas
Straight commission ..	This is truly the incentive plan. Employee pay based on percent of sales—usually percent goes up on price lines within a specific line of goods to encourage selling volume-profitable items	Women's coats, men's suits, furniture, carpeting, outside drapery sales, major appliances, building supplies, etc.	From employer point of view, sales performance directly tied to sales results; from employees point of view, true incentive compensated directly for efforts made; easy to understand	Salesperson often doesn't take care of small-ticket customer and uses high pressure to close sales

(From : Mason and Mayer P649)

FIGURE 4.6.6.3

HOW MUCH A SALESPERSON SHOULD SELL

WEEKLY SALARIES → / AMOUNT OF WEEKLY SALES	$75.00	$80.00	$85.00	$90.00	$95.00	$100.00	$110.00	$120.00	$130.00	$140.00	$150.00	$160.00	$170.00	$180.00
SALARY COST PERCENTAGES														
$ 300	25.0	26.7	28.3	30.0	31.7	33.4	36.7	40.0	43.3	46.7	50.0	53.3	56.7	60.0
325	23.1	24.6	26.2	27.7	29.2	30.8	33.8	36.9	40.0	43.1	46.2	49.2	52.3	55.4
350	21.4	22.9	24.3	25.7	27.1	28.6	31.4	34.3	37.1	40.0	42.9	45.7	48.6	51.4
375	20.0	21.3	22.7	24.0	25.3	26.7	29.3	32.0	34.7	37.3	40.0	42.7	45.3	48.0
400	18.8	20.0	21.3	22.5	23.8	25.0	27.5	30.0	32.5	35.0	37.5	40.0	43.0	45.0
425	17.6	18.8	20.0	21.2	22.4	23.5	25.9	28.2	30.6	32.9	35.3	37.6	40.0	42.4
450	16.7	17.8	18.9	20.0	21.1	22.2	24.4	26.7	28.9	31.1	33.3	35.6	37.8	40.0
475	15.8	16.8	17.9	18.9	20.0	21.1	23.2	25.3	27.4	29.5	31.6	33.7	35.8	37.9
500	15.0	16.0	17.0	18.0	19.0	20.0	22.0	24.0	26.0	28.0	30.0	32.0	34.0	36.0
525	14.3	15.2	16.2	17.1	18.1	19.0	21.0	22.9	24.8	26.7	28.6	30.5	32.4	34.3
550	13.6	14.5	15.5	16.4	17.3	18.2	20.0	21.8	23.6	25.5	27.3	29.1	30.9	32.7
575	13.0	13.9	14.8	15.7	16.5	17.4	19.1	20.9	22.6	24.3	26.1	27.8	29.0	31.3
600	12.5	13.3	14.2	15.0	15.8	16.7	18.3	20.0	21.7	23.3	25.0	26.7	28.3	30.0
625	12.0	12.8	13.6	14.4	15.2	16.0	17.6	19.2	20.8	22.4	24.0	25.6	27.2	28.8
650	11.5	12.3	13.1	13.8	14.6	15.4	16.9	18.5	20.0	21.5	23.1	24.6	26.2	27.7
675	11.1	11.8	12.6	13.3	14.1	14.8	16.3	17.8	19.3	20.7	22.2	23.7	25.2	26.7
700	10.7	11.4	12.1	12.9	13.6	14.3	15.7	17.1	18.6	20.0	21.4	22.9	24.3	25.7
725	10.3	11.0	11.7	12.4	13.1	13.8	15.2	16.6	17.9	19.3	20.7	22.1	23.4	24.8
750	10.0	10.7	11.3	12.0	12.7	13.3	14.7	16.0	17.3	18.7	20.0	21.3	22.7	24.0
775	9.7	10.3	11.0	11.6	12.3	12.9	14.2	15.5	16.8	18.1	19.4	20.6	21.9	23.2
800	9.4	10.0	10.6	11.3	11.9	12.5	13.8	15.0	16.3	17.5	18.8	20.0	21.3	22.5
825	9.1	9.7	10.3	10.9	11.5	12.1	13.3	14.5	15.8	17.0	18.2	19.4	20.6	21.8
850	8.8	9.4	10.0	10.6	11.2	11.8	12.9	14.1	15.3	16.5	17.6	18.8	20.0	21.2
875	8.6	9.1	9.7	10.3	10.9	11.4	12.6	13.7	14.9	16.0	17.1	18.3	19.4	20.6
900	8.3	8.9	9.4	10.0	10.6	11.1	12.2	13.3	14.4	15.6	16.7	17.8	18.9	20.0
925	8.1	8.6	9.2	9.7	10.3	10.8	11.9	13.0	14.1	15.1	16.2	17.3	18.4	19.5
950	7.9	8.4	8.9	9.5	10.0	10.5	11.6	12.6	13.7	14.7	15.8	16.8	17.9	18.9
975	7.7	8.2	8.7	9.2	9.7	10.3	11.3	12.3	13.3	14.4	15.4	16.4	17.4	18.5
1000	7.5	8.0	8.5	9.0	9.5	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0
1025	7.3	7.8	8.3	8.8	9.3	9.8	10.7	11.7	12.7	13.7	14.6	15.6	16.6	17.6
1050	7.1	7.6	8.1	8.6	9.1	9.5	10.5	11.4	12.4	13.3	14.3	15.2	16.2	17.1
1075	7.0	7.4	7.9	8.4	8.8	9.3	10.2	11.2	12.1	13.0	14.0	14.9	15.8	16.7
1100	6.8	7.3	7.7	8.2	8.6	9.1	10.0	10.9	11.8	12.7	13.6	14.6	15.5	16.4
1125	6.7	7.1	7.6	8.0	8.4	8.9	9.8	10.7	11.6	12.4	13.3	14.2	15.1	16.0
1150	6.5	7.0	7.4	7.8	8.3	8.7	9.6	10.4	11.3	12.2	13.0	13.9	14.8	15.7
1175	6.4	6.8	7.2	7.7	8.1	8.5	9.4	10.2	11.1	11.9	12.8	13.6	14.5	15.3
1200	6.3	6.7	7.1	7.5	7.9	8.3	9.2	10.0	10.8	11.7	12.5	13.3	14.2	15.0
1225	6.1	6.5	6.9	7.4	7.8	8.2	9.0	9.8	10.6	11.4	12.2	13.1	13.9	14.7
1250	6.0	6.4	6.8	7.2	7.6	8.0	8.8	9.6	10.4	11.2	12.0	12.8	13.6	14.4
1275	5.9	6.3	6.7	7.1	7.5	7.8	8.6	9.4	10.2	11.0	11.8	12.6	13.3	14.1
1300	5.8	6.2	6.5	6.9	7.3	7.7	8.5	9.2	10.0	10.8	11.5	12.3	13.1	13.9
1325	5.7	6.0	6.4	6.8	7.2	7.6	8.3	9.1	9.8	10.6	11.3	12.1	12.8	13.6
1350	5.6	5.9	6.3	6.7	7.0	7.4	8.2	8.9	9.6	10.4	11.1	11.9	12.6	13.3

The figures in the top line of the table represent weekly salaries. Those in the extreme left are the weekly sales required to justify the salaries according to salary cost percentages.

To determine how much a salesperson should sell, select the column headed with the weekly salary of the salesperson. Follow this column down to the salary cost percentage nearest that of your store. The dollar figures on the same line in the AMOUNT OF WEEKLY SALES column (extreme left) show what the salesperson should sell each week to earn his salary.

Example: A salesperson receives $110.00 per week in the men's wear store. The salary cost percentage for stores in this classification is 9.29. Under the column marked $110.00, locate the salary percentage or the one closest to it. The amount in the AMOUNT OF WEEKLY SALES column opposite 9.2 is $1200.00. This is the average amount of merchandise the salesperson should sell each week to earn his salary of $110.00.

If you know the average weekly sales of your salespeople, you can determine which ones deserve salary increases with this table. Find the salesperson's amount of weekly sales and follow that row across to your salary cost percentage. The weekly salary at the top of that column is what your salesperson is actually earning. If you're paying him less than the table indicates he should be paid, he may be entitled to a raise. But if you're paying him more, the difference is coming directly out of your profit.

(From : Shaffer and Greenwald P206)

EXHIBIT 4.6.6.1

Friendly Courtesy

Friendly Courtesy is our attitude toward every customer, rich or poor, young or old. It is our way of demonstrating that we appreciate their patronage and that we want every customer to come back again and again.

The job of each person in our organization is dependent on Customer Goodwill. Without customers, there would be no pay in our envelopes at the end of each week. Thus, it is essential that everyone, from the part-time student right on up to the President, displays friendliness each time the opportunity arises.

Not only is Friendly Courtesy good for business, it is also a way of life that is contagious, adding to job enrichment as well as job efficiency. One of the best ways to show customers this feeling of friendliness is to greet each and every one of them with a smile and a friendly "hello".

So smile at your customers and fellow employees...they may even smile back!

"Smile and the whole world smiles with you
Frown and you frown alone".

Always use "please and "thank you", and answer questions with a polite "yes" or "no". When you have finished serving a customer end the conversation with "Have a nice day" or "Have a nice week-end".

TRY IT IT WORKS

Friendly Courtesy is measured, not only in terms of words or smiles, but also by our actions. Put yourself in the customers shoes!

Do you see the buggies scattered all over the store and containing bits of paper, lettuce leaves, and other garbage? Or are they where they belong, clean and in good running order?

Is the person behind the meat counter, the snack bar, attending the scale in the Produce aisle, waiting on customers in turn? Is he or she using the number tags where they exist?

(From : Shaffer and Greenwald P204)

EXHIBIT 4.6.6.2

RETAILERS LEARN THE OLD RULES

Retailers are finding more and more that the public is responding with a definite, "No thank you I am just looking," when the sales person approaches them with the question, "May I help you?" This often prevents a sale.

In an endeavour to increase sales, retailers are experimenting with sales training and customer service aids to help their sales force initiate and conclude sales.

Although sales training is a common practice in most industries, retailers have tended to dismiss it as a costly waste because employee turnover is high. But, with rising operative costs and with stores carrying much the same merchandise, retailers are looking for ways to increase production. Some retailers have discovered that a trained sales force can set them apart from their competition, improve employee morale, and offer the greatest potential for lifting sales and profits.

A leader in the retail sales training field is Dion Friedland. He says in his experience, retailers will spend millions on building new stores and advertising goods but overlook the sales help who are the first people customers meet. Stores lose millions because untrained sales people lose the opportunity to close the sale.

Montgomery Ward, US retailer, found the people who participated in a scheme pulled in 10% more volume than their untrained counterparts. In addition, employee turnover dropped nearly 68%.

The salesforce is a retailer's most important resource. It needs to be properly trained if the retailer expects to get maximum value and sales.

(Adapted from : Market Place, 20 February, 1981)

4.6.7 Presentation Strategy

Presentation is the spoke in the wheel of retailing that deals with physical facilites, the need to improve store productivities, maintain a modern image and hence customer loyalty. According to Mason and Mayer:-

> Astute retailers are now planning for almost continual change in the arrangement and design of retail outlets and merchandise presentation. Frequent changes help maintain an atmosphere of excitement for shoppers. Flexible construction techniques are being utilised and more attention is being given to in-store merchandising. (P588)

One major goal of presentation is to get the customer to spend as much as possible while visiting the store. Also as a result of escalating construction costs and the consequent rise in rents it is essential to improve space productivity.

Mason and Mayer (P608) point out that there is a difference between modernising or remodelling an existing store and reformatting which means to change the underlying store concept. The difference between these two concepts is defined as follows:-

Remodelling	Reformatting
Modernises	Redefines
Modifies physical details	Changes essential characteristics
Perpetuates rigidity	Creates flexibility
Usually high-cost	Comparatively low-cost

In order to achieve these objectives it is necessary to plan the presentation strategy. In this section we will briefly examine the following elements of presentation:-

(i) Store front
(ii) Store layout
(iii) Merchandise presentation
(iv) Consumer behaviour and presentation
(v) Space productivity

(i) <u>Store front</u>

An old adage maintains that first impressions are lasting. The store front is a permanent advertisement which must perform the following functions:-

- Attract <u>attention</u> of the target customer
- Arouse <u>interest</u> in the store's offering
- Create <u>desire</u> to enter
- Ensure the <u>action</u> of entering the store

Davidson, Doody and Sweeney write that:-

> Within the limits of allowable costs, the objectives of exterior design planning may be stated as follows: (1) to maximise the advertising value of the facilities by achieving visual attractions and differentiation from surroundings, and (2) to convey an image of the enterprise which is harmonious with the defined marketing strategy. (P521).

They then go on to list the following components of the store exterior:-

a. <u>Store front materials</u> - the use of wood, aluminium, glass, tiles etc. can all contribute to the creation of the desired image and atmosphere of dominance.

b. Marquees - awnings are used to conceal the upper part of the building and provide protection for the customer and goods displayed in the window.

c. Recessed fronts - can be used to draw pedestrian traffic off the pavement.

d. Signs - identify the store and have advertising value.

e. Entrances - the location and number of entrances must be planned while giving consideration to factors such as store traffic flow, stock handling, security etc.

f. Windows - according to the above authors windows serve the following functions:-

- Identification of the character and type of store
- Inducement to approach premises
- Invitation to enter by creating a desire to buy

Davidson, Doody and Sweeney (P522) note that the recent trend is to de-emphasise display windows. Most modern stores favour open window displays in preference to closed window displays.

(ii) Store layout

The purposes of store layout are to provide for customer movement, present merchandise or services attractively, and generally maximise levels of sales. Layout and interior design should compliment each other. (P589)

Mason and Mayer, who wrote the above, list four basic alternative store layouts:-

a. The grid

This is the most traditional layout and is designed primarily for retailing efficiency rather than customer convenience. Customer flow is a function of the main aisles and not customer desire for merchandise. The walls become slow-moving areas. Therefore, if this layout is used high interest items should be place strategically around the walls to draw traffic there.

b. The open plan

With this plan the space is completely open and surrounded only by the walls. As a result the various departments are easily visible from any point in the store.

c. The shop concept

Under this concept each department becomes a shop within a shop. The various "shops" might have their own unique identity, including colour schemes, styles and atmosphere.

d. The cluster concept

This is a hybrid of the open-plan and the shop concept. The sales area is divided into large merchandise groupings or clusters and not smaller individualised "shops". Departments may be divided by aisles or mobile fixtures giving a greater degree of flexibility.

(iii) Merchandise presentation

Merchandise presentation has been likened to the theatre. It combines the effect of the stage, the set, the lighting and the actors to achieve the desired action. The basic elements of merchandise presentation are:-

a. The Shell - this includes walls, ceilings, floors, entrance etc.
b. The Set - this includes partitions, lighting, fixtures, decor etc.
c. The Show - this is the merchandise.

Mason and Mayer (P610) maintain that:-

> The essence of visual merchandising overall is reflected in the concept of ambiance or atmospherics.

This term is defined as:-

> The general quality of design which expresses the character of the store, resulting in an institutional personality immediately recognised by the consumer public.

This atmosphere is a reflection of two elements (1) the interior decor and (2) the exterior design. These should harmonise.

(iv) Consumer behaviour and presentation

Research has been undertaken to establish the effect of the retail environment on the behaviour of consumers. Mason and Mayer note that the following propositions have been offered about the influence of store space on consumer shopping behaviour:-

a. Space is an important modifier and shapes behaviour.
b. The store environment affects behaviour by a psychology of stimulation.
c. The retail store affects customer's perceptions, attitudes and images.
d. Space utilisation and store design can be deliberately programmed to create desired customer reactions.

The notion of territoriality is practiced in retailing. The customer may be given space to walk, stand, sit etc. There is a relationship between status and space. Thus higher status people expect more space and freedom to move about. Lighting stimulates behaviour in several ways. Thus bright illumination will encourage fast turnover while dim lighting creating a desire to browse and linger. Music can be used to achieve similar objectives. The effect of crowding on consumer behaviour in stores may affect consumer behaviour adversely. The possible results of crowding are shown in Figure 4.6.7.

(v) Space productivity

Table 4.6.7. shows most of the selling, non-selling and building decisions that must be included in decisions about space allocation when designing the layout for a small retailer who sells appliances. The following allocation of space for a typical retail store is given by Mason and Mayer (P596).

Area	Space Allocation
Non-selling areas	8 - 15 per cent
Building functions	7 - 10 per cent
Selling area	65 - 85 per cent.

'The amount of selling space allocated to each product line has a major impact on store profitability' according to the above authors. The following methods can be used to establish standards of productiviity:-

a. The sales productivity method - space is allocated to products on the basis of the following formula:-

$$\frac{\text{Expected value sales of product}}{\text{Average sales per square metre}} = \text{m}^2 \text{ to be allocated to product}$$

b. <u>The build-up method</u> - the build-up method is based on a suitable stock planning and control system. The planner asks these six questions:-

- What is the ideal stock balance to achieve expected sales volume?
- How many items should be kept on display, and how many should be kept in stock?
- What is the best method of displaying the stock?
- How many display fixtures are necessary to display the items?
- What is the best way to handle reserve stock?
- What service requirements are necessary for a department?
- What are the total space requirements as a result of asking the above questions?

c. <u>Sales or gross profit contribution</u> - space may be allocated according to sales or gross profit contribution.

TABLE 4.6.7.

CHECKLIST OF FUNCTIONS FOR AREA CONSIDERATIONS

Building Functions

Stairways	Simulated front exteriors
Lifts	Doors
Walls	Burglar alarms
Toilets	Windows
Passageways	Ceilings
Meter	Floors
Electric fittings	Lights
Fire protection equipment	

Non-Selling Functions

Packing	Account payments
Receiving and marking	Security
Storage	Staff canteen
Display preparation	Housekeeping
Office area	Loading bay

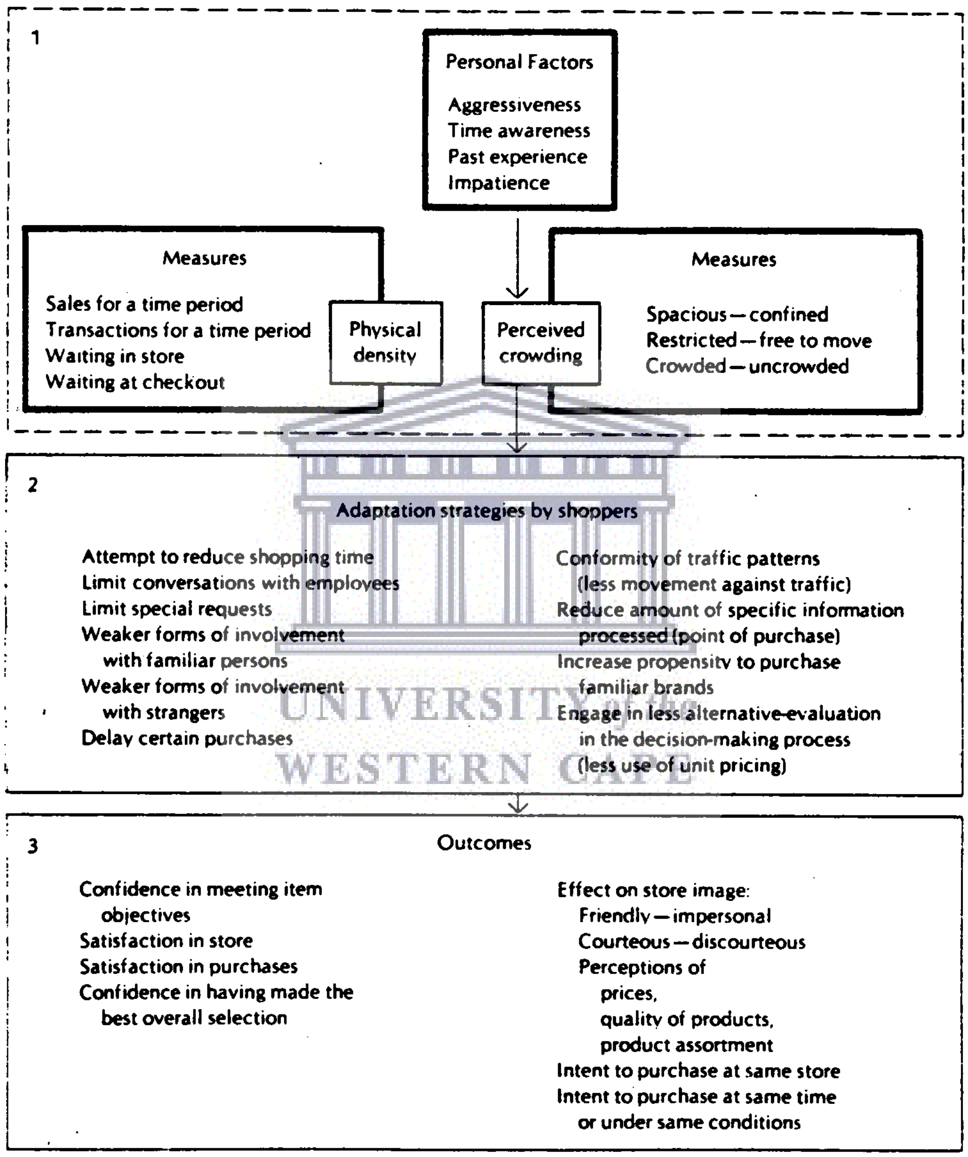
Sales Functions

Sales departments	Credit applications
Check-outs	Display fixtures

(Source - Adapted from Mason and Mayer P597)

FIGURE 4.6.7

BUYER BEHAVIOUR UNDER CONDITIONS OF CROWDING



(From : Mason and Mayer P619)

4.7 Action Plans

4.7.1 Introduction

Kotler writes that:-

> The purpose of strategy development is to consider alternative strategies that might improve the sales and profit projection over that arrived at by straightforward continuation of the present strategy. When the product manager is finally satisfied with a new strategy or with continuing the old one, he is ready to finalise the detailed marketing plan for the coming year.(P178)

The marketing plans are detailed sales, expenditure, profit and action plans for the calendar year. Detailed planning is required in order to ensure that annual and other company goals are delivered.

Frantz (P284) notes that small businesses are often losing money even when their owner's feel that they are doing well. This occurs because the owners confuse sales volume and cash position with profit while overlooking expenses and liabilities. Another pitfall is the assumption that sales will continue at peak levels throughout the year. He gives a simple profit equation for retail business:-

	Sales
minus	Cost of goods sold
equals	Gross profit
minus	Sales expenses
minus	General and administrative expenses
equals	Net profit

From the above equation it can be seen that net profit can be improved in four ways:-

a. Increasing unit sales prices
b. Increasing sales volume in units
c. Decreasing cost of goods sold
d. Decreasing expenses

What is needed is a simple and practical way of planning and controlling these key variables. A system of simple practical budgets is recommended. The following budgets represent the qualification of the short term plans of the manager:-

4.7.2 Sales Budget

Welsch writes that:-

> Unless there is a realistic sales plan, practically all other elements of a profit plan are out of kilter with reality. The sales plan is the foundation for periodic planning in the firm, because practically all other enterprise planning is built on it. The primary source of cash is sales; the capital additions needed; the amount of expenses to be planned, the manpower requirements, the production level and other important operational aspects depend on the level of sales. (P139)

According to Welsch (P144) the procedure for developing a comprehensive sales plan is to:-

Establish the foundation by developing:-

1. Enterprise objectives
2. Enterprise strategies
3. Sales forecast

Build the sales plan by developing goals specified in:-

4. A promotion and advertising plan
5. A selling expenses plan
6. A marketing plan

We will discuss the following briefly:-

> <u>Sales forecast</u> - this is simply the technical projection of sales under certain assumptions. Sales forecasting activities include (1) Economic analysis to establish how the state of the economy will affect the firm. (2) Industry analysis. (3) Analysis of past sales performance by period, product, customers, salesmen etc.
>
> <u>Sales plan</u> - in the Welsch procedure this includes three sub-budgets: the promotions budget, the selling expenses budget and the final marketing plan or sales budget. Here the sales plan will be taken to mean the last mentioned.

According to Welsch the difference between a sales forecast and sales plan is that during preparation of the last mentioned management judgement is brought to bear.

> Developing a sales plan involves consideration of numerous policies and related alternatives and a final choice by executive management from among many possible courses of action. Decisions must be made about new products, discontinuance of present products, pricing, expansion or contraction of sales areas, size of sales force, distribution cost limitation and advertising and other promotions. (P146)

During the sales planning process it is desirable to establish specific standards of performance so the results can be controlled. The following list of standards for a retailer has been adapted from Welsch:-

- Number of sales interviews per period per salesman
- Cost of direct selling expenses per salesman
- Selling costs as a percentage of sales turnover
- Monetary sales targets per salesman per period

- Profit contribution per salesman per period
- Sales per square metre per period
- Sales per department per period
- Sales per product line per period
- Sales per product unit per period

TABLE 4.7.1

PREPARING A SALES BUDGET

The seven major steps are:-

1.	Clarify overall Company objectives	
2.	Forecasts	- Economy - Industry - Company
3.	Apply judgement	- Strengths - Weaknesses - Policies - Resources
4.	Methods	- Non-statistical - Statistical - Combination
5.	Financial tests	- Projected profits - Cash flow - Breakeven
6.	Final plan with check points	
7.	Implement it!	

(From : Adapted from Welsch P152)

TABLE 4.7.2.

PROPA ENTERPRISES (PROPRIETARY) LIMITED *

Sales Plan 1982

	Totals	Dept.A	Dept.B	Dept.C	Dept.D
Jan	9500	3000	2000	4000	500
Feb	18000	6000	4000	7000	1000
Mar	22500	6000	6000	9000	1500
Total 1st Quarter	50000	15000	12000	20000	3000
2nd Quarter	71000	18000	18000	30000	5000
3rd Quarter	85000	22000	21000	34000	8000
4th Quarter	94000	25000	24000	36000	9000
Total	300000	80000	75000	120000	25000
% Gross Profit Margin	47,6	33,3	100,0	25,0	44,0
Gross Profit	142700	267000	75000	30000	11000
Cost of Sales	157300	53300	-	90000	14000
% Total Sales	100,0	26,7	25,0	40,0	8,3
% Profit Contribution	100,0	18,7	52,6	21,0	7,7

Note: Dept. B is a service, hence cost of sales are nil.

* Although the name has been changed these figures were taken from an actual Small Business Case Study.

4.7.3 Planning and Controlling Profit Margins

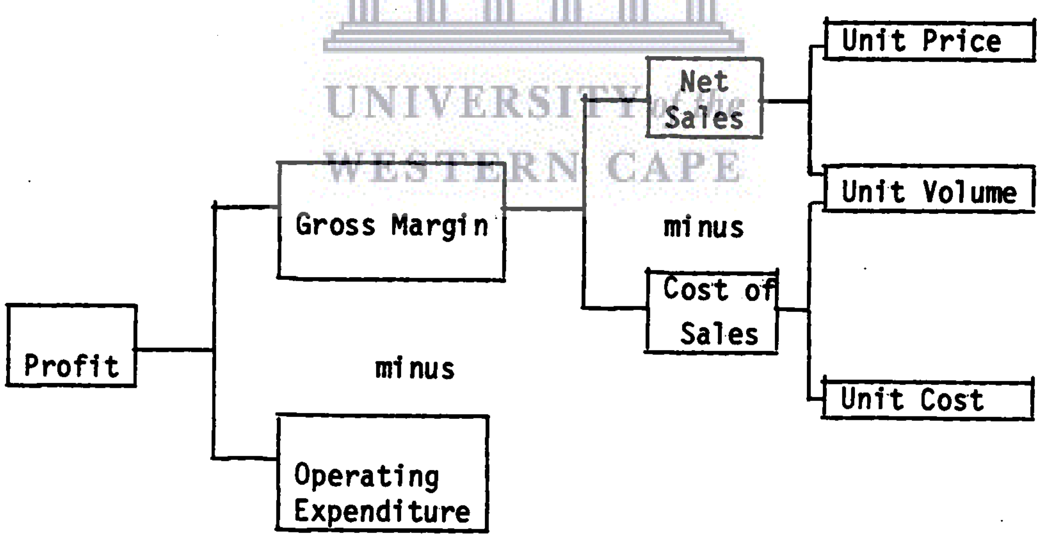
It was mentioned earlier that failure to maintain a gross profit margin that is in line with industry standards is a major problem area in the field of small business management. Therefore, it is essential to have a method of planning and controlling gross profitability.

Davidson, Doody and Sweeney note that there are four profit margin variables:-

1. Unit price
2. Volume of units sold
3. Unit cost of goods sold
4. Operating expenses

The relationship between these variables is shown in Figure 4.7.3.

FIGURE 4.7.3



(Adapted from Davidson, Doody and Sweeney P132)

The model highlights the fact that there are several opportunities to improve profit performance by making relatively slight adjustments to the variables affecting the gross margin. Small changes in one or more of the variables can greatly affect net profitability. Therefore, planning and control procedures must not neglect this important aspect.

TABLE 4.7.3

GROSS PROFIT PLANNING

Important Variables are:-

Pricing policy

Product mix

Stock shrinkage

Discounts

Mark-downs

Stock control

Goods reception security

Cash register security

Owner's unofficial drawings

4.7.4 Managing Operating Expenses

Mason and Mayer have this to say about expense budgeting in small stores:-

> Realistically, small stores seldom have even informal expense budgets, just as they seldom have formal merchandising plans. To the "Uninformed" and unsophisticated small retailer, expense management simply means cut expenses to increase profits.
>
> In addition, the management of small- and medium-sized outlets often do not support the idea of budgeting expenses. They feel that it is too time-consuming, that it breeds inflexibility, and that it costs more than it is worth. The point of view is exemplified by the merchant who guards expenses so carefully that he attempts to "save" money by cutting back on essential promotional activities. (P275)

The main purpose of expense management is to maintain a healthy balance between planned sales income and planned expenses. The gross profit contribution from sales must cover operating expenses and planned net profit.

Mason and Mayer recommend a bottom-up approach as opposed to a top-down approach to expense budgeting. Under the former, expenses for each department are first calculated and then combined in a total operating expense budget. With the second approach management calculates total allowable expenses and then the allocation to each department. Mason and Mayer feel that this approach may lead to inequitable allocations to some departments.

Dun and Bradstreet analysed American tax returns and established the following ratios for retailers of furniture, home furnishings and equipment:-

TABLE 4.7.4.1

ITEM	PERCENTAGE OF SALES
Cost of goods sold	66,38
Compensation of officers	4,38
Rent paid on business property	2,94
Repairs	0,34
Bad debts	0,68
Interest paid	0,71
Taxes paid	1,60
Depreciation	0,89
Advertising	3.04
Pension and employee benefits	0,19

Some suggested expense budget allocations are shown in Table 4.7.4.2.

TABLE 4.7.4.2

EXPENSE BUDGET RATIOS FOR ELECTRICAL APPLIANCE DEALERS

Ratio	Percentage Range
Total operating costs/sales turnover	20 - 24
Total staff costs/sales turnover	12 - 14
Total staff costs/gross profits	45 - 50
Rent/sales turnover	2 - 4
Rent/gross profit	10 - 13
Interest/sales turnover	1 - 2
Advertising/sales turnover	1 - 2
Advertising/gross profit	10 - 15

(From : Small Business Advisory Bureau)

TABLE 4.7.4.3

A CLASSIFICATION OF RETAIL COSTS

1. Staff
   - Salaries and wages of employees
   - Owner's remuneration
   - Bookkeeping services
   - Auditor's fees
   - Medical aid and pensions
   - Levies

2. Facilities
   - Rent
   - Insurance
   - Maintenance
   - Depreciation

3. Finance
   - Interest
   - Leases

4. Selling
   - Commissions
   - Advertising
   - Promotions
   - Delivery
   - Publicity

5. Administration
   - Insurance
   - Office supplies
   - General

TABLE 4.7.4.4

PROPA ENTERPRISES (PROPRIETARY) LIMITED*

EXPENSES PLAN - 1982

		FIRST QUARTER			TOTALS QUARTERS			
	Totals	Jan.	Feb.	Mar.	First	Second	Third	Fourth
Advertising	3 000	1 000	500	-	1 500	500	500	500
Bank Charges	300	25	25	25	75	75	75	75
Bad Debts	2 400	-	-	-	-	800	800	800
Book-keeping	2 000	350	150	150	650	450	450	450
Deliveries	3 600	200	200	200	600	800	1 000	1 200
Depreciation	1 700	-	-	-	-	-	-	1 700
Electricity etc.	800	250	50	50	350	150	150	150
Insurance and Pensions	3 000	250	250	250	750	750	750	750
Interest	4 000	400	400	400	1 200	1 200	1 200	1 200
Leases - Vehicles	2 400	200	200	200	600	600	600	600
Licences	120	120	-	-	120	-	-	-
Printing and Stationery	700	150	50	50	250	150	150	150
Postage	120	10	10	10	30	30	30	30
Railage	600	50	50	50	150	150	150	150
Rent	12 000	1 000	1 000	1 000	3 000	3 000	3 000	3 000
Repairs etc.	1 200	-	-	-	-	300	400	500
Salaries	32 400	2 700	2 700	2 700	8 100	8 100	8 100	8 100
Wages	3 000	250	250	250	750	750	750	750
Telephone	2 400	200	200	200	600	600	600	600
Security	600	50	50	50	150	150	150	150
General	2 860	2 000	60	80	2 140	240	240	240
	80 000	9 205	6 145	5 655	21 015	18 795	19 095	21 095

*Although the name has been changed these figures were taken from an actual small business case study.

4.7.5 Purchases Budget

The major cost reflected in the income statement of a retail business is cost of sales. This represents cost of merchandise sold during the relevant period. Merchandise in stock represents the main current asset of many small retailers, particularly those who sell on a cash only basis. Also many small retailers create cash flow problems for themselves by buying in more stock than they require to have an ideally balanced stock-holding. To avoid the problem of over-stocking in relation to planned sales targets it is necessary to prepare a purchases budget. An example of a simple hypothetical purchases budget is given in Table 4.7.5.

TABLE 4.7.5

PROPA ENTERPRISES (PROPRIETARY) LIMITED*

1.	Sales Budget	R300000
2.	Gross Profit	142700
3.	Cost of Sales	157300
4.	Rate of Stock Turnover	6.05 times p.a.
5.	Average Stock Needed (3/4)	26000
6.	Stock on Hand	Nil
7.	Shortage (5 - 6)	26000
8.	Open-to-Buy (3+7)	183300

*Although the name has been changed these figures were taken from an actual small business case study.

4.7.6 Operating Budget

The preparation of the various budgets discussed up till now provides all the components needed to prepare an overall operating budget. This budget incorporates the sales, purchases and expenses budgets into one tentative operative plan. The operating budget must then be tested to determine it's implication before it can be finally implemented. This testing process, which is termed Impact Analysis here, is discussed in the next section.

4.8 Impact Analysis

This step marks the completion of the formal planning cycle. Before final implementation it is essential to test the implications of the tentative operating plan with regard to finances, cash flows, resource utilisation and desired image. Only once the operating plan has been tested should it be implemented. These tests are discussed in this section.

4.8.1 Financial Implications

With the information provided by the operating budget it is possible to prepare a projected income statement and a pro forma balance sheet for the coming planning period.

Table 4.8.1.1 shows the financial implications if a hypothetical company chooses between two alternative sales growth options assuming that sales/asset ratios remain constant. Note that if the company chooses the high growth option it will result in a deterioration in the current ratio and the debt/assets ratio unless the company can find additional owner's capital to finance the high growth rate.

TABLE 4.8.1.1

EXTRAVAGANZA (PROPRIETARY) LIMITED

	Year	1981	1982	
			Low	High
	% Sales	Actual	Growth	Growth
Sales	-	800	900	1200
Current Assets	30	240	270	360
Fixed Assets	20	160	180	240
Total Assets	50	400	450	600
Creditors	?	200	250	400
Owners	?	200	200	200
Total Claims	50	400	450	600
Current Ratio	-	1,2	1,1	0,9
% Debt/Assets	-	50%	55%	66%
Profit (A.T.)	6	48	54	72
Minimum Ploughback	-	-	25	100
Shortfall	-	-	-	28

TABLE 4.8.1.2

PROPA ENTERPRISES (PROPRIETARY) LIMITED *

Pro-Forma Balance Sheet as at 31.12.82

			(Rands)
CAPITAL EMPLOYED:			
Owners Capital			57,000
Long-term Loan Capital			20,000
			77,000
REPRESENTED BY:			
FIXED ASSETS			35,000
Equipment for Hire	14,000		
Fixtures and Equipment	17,000		
Vehicles	10,000		
	41,000		
Less 15% Depreciation	6,000		
NET CURRENT ASSETS			42,000
CURRENT ASSETS			90,000
Stock	33,000		
Debtors	47,000		
Cash	10,000		
CURRENT LIABILITIES			48,000
Trade Creditors (90 days)		45,000	
Sundry Suppliers		3,000	
			R77,000

*Although the name has been altered these figures were taken from an actual small business case study.

4.8.2 Cash Flow Implications

Unless the small business planner takes the trouble to prepare a cash flow budget based on the components of the operating budget it could easily happen that a looming cash crises is not realised until the situation is critical. It may also be necessary to raise additional finance in order to implement the plans. Most lending institutions will not advance a loan without a detailed cash flow forecast. Welsch defines a cash budget as follows:- "A cash budget is the planned cash position by interim periods for a specific time span." (P386)

He lists the principal purposes of the cash budget as follows:-

- (i) To indicate the probable cash position as a result of planned operations.
- (ii) To indicate cash excess or shortage.
- (iii) To indicate the need for borrowing or the availability of idle cash for investment.
- (iv) To co-ordinate cash with a) total working capital, b) sales, c) investment and d) debt.
- (v) To establish a sound basis for credit.
- (vi) To establish a sound basis for continuing control of the cash position.

To his list I would like to add the following:-

- (vii) To determine the effect of seasonal variations in sales on cash flows.
- (viii) To ascertain the impact of inflation on the cash flows of the business.
- (ix) To ascertain the impact of depreciation on cash flows.

There are two principal methods of developing a cash budget i.e.:-

(i) The cash receipts and payments method
(ii) The income statement method

It is preferable to prepare the income statement cash flow budget first. This method requires less detail and will indicate the annual cash requirements. Provided there are no warning signals as a result of preparing the income statement cash flow method, the planner can proceed to plan the detailed receipts and payments month by month for the coming year.

TABLE 4.8.2.1

PROPA ENTERPRISES (PROPRIETARY) LIMITED *

Budgeted Net Income and Cash Flow
for the Year Ending 31.12.1982

Opening Bank Balance	NIL
Cash Sources	
Owners Capital	20,000
Long-term Loan	20,000
	40,000
Add Net Income after Tax	37,000
	77,000
Add Depreciation	6,000
Total Cash Available	83,000
Cash Requirements	
Fixed Assets	41,000
Increase in Stock	33,000
Increase in Debtors	47,000
	121,000
Less Suppliers Credit	48,000
	73,000
Closing Bank Balance	R10,000

*Although the name has been changed these figures were taken from an actual small business case study.

TABLE 4.8.2.2

PROPA ENTERPRISES (PROPRIETARY) LIMITED*

CASH FLOW BUDGET : JAN - JUNE 1982

MONTH	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
Opening Bank Balance	40 000	+795	-1 100	1 495	1 480	+2 315
CASH RECEIPTS						
Receivable Collections	-	4 250	4 250	-	-	-
			9 000	9 000	-	-
				11 250	11 250	-
					11 850	11 850
						11 850
Sundries	-	-	-	-	-	-
TOTAL CASH RECEIPTS	-	4 250	13 250	20 250	23 100	23 700
CASH PAYMENTS						
Creditors	-	-	5 000	14 000	16 000	17 000
Expenses	9 205	6145	5 655	6 265	6 265	6 265
Equipment for hire (provision)	20 000	-	-	-	-	-
Equipment for Man.	10 000	-	-	-	-	-
TOTAL CASH PAYMENT	-39 205	6 145	10 655	20 265	22 265	23 265
DIFFERENCE	-39 205	-1 895	+2 595	-15	+835	+435
CLOSING BANK BALANCE	+795	-1 100	+1 495	+1 480	+2 315	+2 750
SALES	9 500	18 000	22 500	23 700	23 700	23 600
CREDIT PURCHASES BUDGET = CASH FLOW (90 days)	5 000	14 000	16 000	17 000	-	-

* Although the name has been changed, these figures were taken from an actual small business case study

4.8.3 Resource Implications

Apart from finance and cash the plan will also require inputs of other resources during the implementation phase. The planner should consider the impact of the plans on the following resources:-

(i) Information system
(ii) Manpower requirements
(iii) Owners time and abilities

It might be necessary, to introduce new or improved information systems, hire additional staff and ensure efficient time management, if the plan is to be implemented successfully.

4.8.4 Desired Image

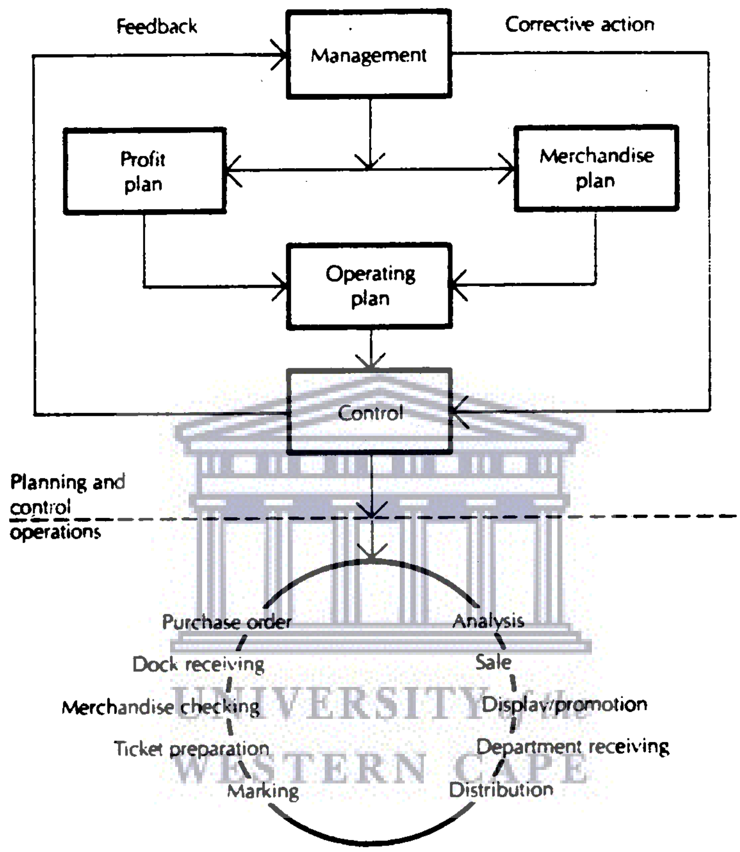
It was mentioned earlier that retailing involves a psychological dimension in that each store has a perceived store image. Before final implementation the planner should consider the image implications of the plan.

4.8.5 Review and Control

Once the plan is implemented it is essential to provide for periodic review and adjustments. This process can be illustrated by means of the well-known control loop. Mason and Mayer provide a schematic representation of the retail business process which is shown in Figure 4.8.5. Mace has prepared a long-range planning model which shows the need for feedback leading to revision of policy and plans.

FIGURE 4.8.5.1

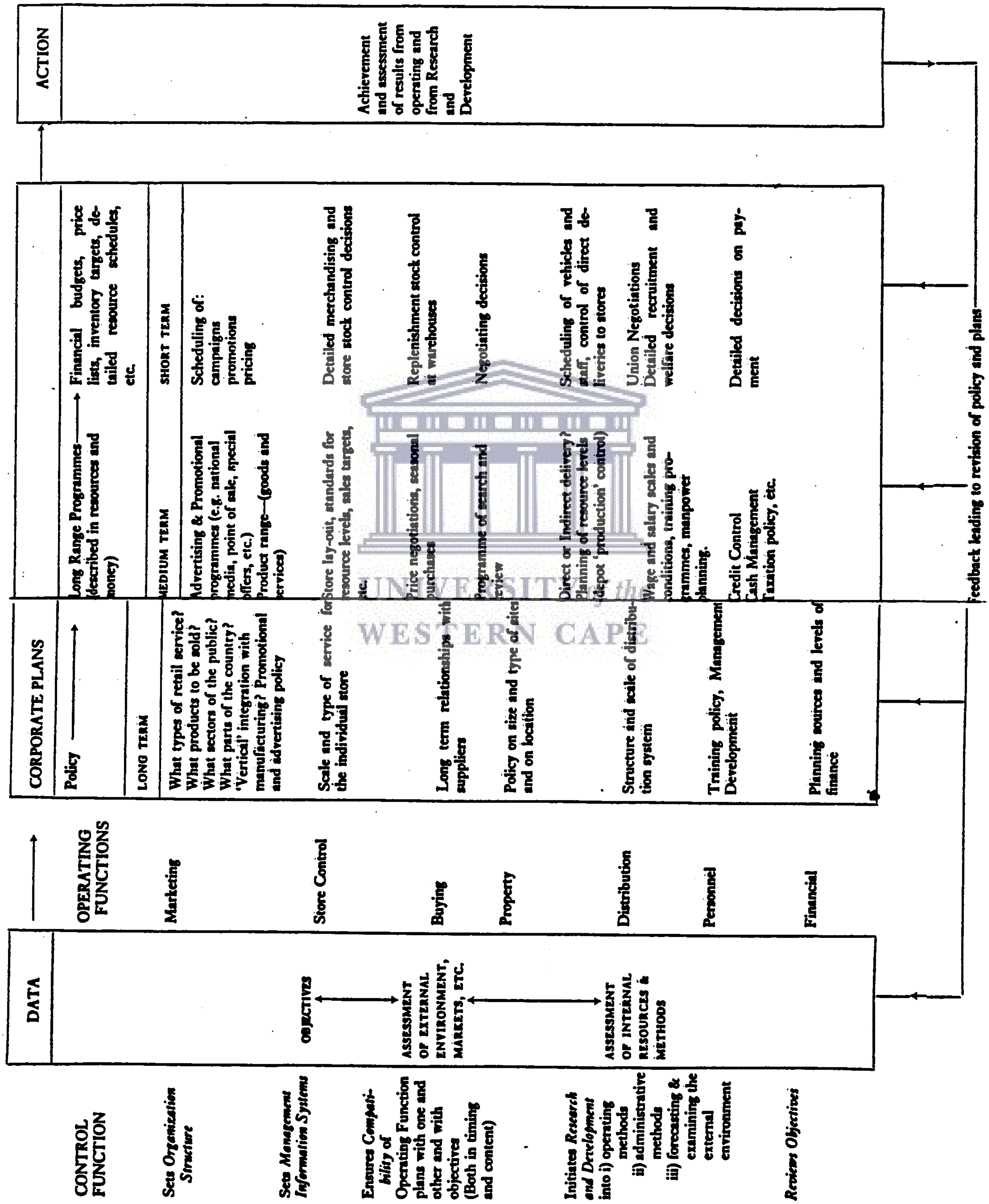
THE RETAIL BUSINESS PROCESS



(From : Mason and Mayer P773)

FIGURE 4.8.5.2

AN ILLUSTRATION OF THE STRUCTURE OF THE PLANNING PROCESS IN RETAILING



(From : Wills - New Ideas in Retailing Management P30)

CHAPTER 5

5 SURVEY OF MARKET STRUCTURE

5.1 Introduction

The purpose of this survey was to ascertain the actual structure of a natural trading area. The framework for analysis is, Hirschman's 'Principle of Natural Dominance', which is described in the previous Chapter (Section 4.3.4). The method simply involved counting all the stores, merchandising appliances, in the Highway trading area. This was done on the basis of a physical check together with cross-references from the Yellow Pages. The complete list of stores included in the survey is found in Table 5.2. The next step was to categorise the stores. In all twelve appliance store types were identified. The number of stores in each category is shown in Table 5.1.

5.2 Delineation of Trading Area

The Highway trading area was taken to include the following Municipalities:- Pinetown, Westville, Kloof, Hillcrest and New Germany. This is felt to be a natural trading area for the following reasons:-

(i) The existence of a growing central business district in Pinetown.

(ii) The area is served by three local weekly newspapers i.e. The Highway Mail, The Western Mercury and Pinetown Pictorial.

(iii) Business licences in the area are issued by the Pinetown Municipality.

(iv) The maximum driving time from a centre point, in the Pinetown central business district, to the furthest perimeter is fifteen minutes.

Davidson, Doody and Sweeney (P496) mention one study which found that the most significant driving time dimension for trade area analysis is fifteen minutes. According to the study, between 70 and 76 per cent of a shopping centre's patrons reside within fifteen minutes driving time of the centre.

5.3 Classification of Appliance Stores

Stores were classified on the basis of visual observation of the types of merchandise on display, plus interpretation of claims made on signs and in advertisements (when available). The following categories of stores were identified within the trading area:-

(i) Discount department store - Larson, Weingand and Wright define a discount store as follows:-

> Sometimes called a mass merchandiser, a discount store is a retail establishment that sells merchandise which is usually readily identified by shoppers, at less than traditional prices. (P41)

They list the characteristics of discount stores as:-

a. Price is the major sales appeal.
b. Target customers are economy minded.
c. Buildings and fixtures are inexpensive.
d. Customer service is de-emphasised.
e. Merchandise is advertised aggressively.
f. Merchandise is turned over rapidly.
g. Stores are strategically located to be available to large masses of people.
h. Stores feature long hours and are open on Sundays (if legal).
i. Acres of free parking are provided for the convenience of shoppers.
j. Emphasis is on well-known brands so that price comparison is easier.

Two types of discount stores can usually be identified i.e. speciality discount stores and full-line departmental discount stores which offer a wide variety of merchandise. The discount department store identified in the survey is Game Discount World, situated in the Blue Heights shopping centre, in Westville.

(ii) National chain department store - Hirschman distinguishes between national chain department stores and traditional department stores. The former offer a full-line of medium quality merchandise at medium prices. They are controlled centrally and have nationally administered marketing programs. The only national chain department store identified in the highway trading area, which met Hirschman's specifications, was the Pinetown branch of O.K. Bazaars.

(iii) Traditional department store - in terms of Hirschman's classification a traditional department store serves a local market and is therefore, able to respond quickly to local conditions. The only store to fit this description was Knowles. In fact Knowles is more of a combination supermarket and department store. However, it does fit the description to a certain extent. For example Knowles offers some services including credit facilities.

(iv) Local furniture discount chains - these are speciality stores which merchandise furniture and appliances at discount prices on a local or regional basis. Four of these stores were identified in this survey.

(v) National chain furniture stores - these are speciality furniture and appliance retailers which generally offer medium quality merchandise at medium prices. Their relative popularity lies in the fact that they offer extended credit facilities. Such credit facilities are an essential requirement for the lower income groups to satisfy their shopping needs for big ticket items. The survey found that there were ten of these stores in the trading area. Based on target market, location and type of merchandise stocked, they can, in turn, be divided into two sub-classes i.e. those who specialise in the Black market and those who define their target market on a non-racial basis.

(vi) Independent appliance specialists - all the appliance specialists identified in the survey were independents. The nine appliance specialists located could in turn be classified into two distinct sub-classes: those that projected the image of a service facility and those that had a product concept image. For example one specialist store was found to concentrate on gas appliances while another focused on top quality imported appliances. See Exhibit 5.3.1. An interesting observation was that these two stores, with a clear product concept, also displayed a good "Presentation" strategy. On the other hand the service-type stores generally projected a poor image.

(vii) Independent furnishers - these are speciality new furniture and appliance stores which are independently owned. Only two independent furnishers were found in the trading area. This indicates the dominant position of the furniture chains in the market area. One store displayed an innovative marketing strategy (See Exhibit 5.3.2.) while the other appeared to be positioned directly in opposition to the discount stores. The name of Double Discount Store indicated an attempt to achieve a better price image than the larger discounters. Since the total selling space was less than 100 square metres it is difficult to believe that this business will generate sufficient sales volume to justify a low price strategy. In terms of Gist's low-turnover, low-margin, classification, it is likely to be a "Disaster".

(viii) Independent music, sound and television specialists - seven of these eight stores represented a continuum from those which specialised in radios and sound equipment to those which specialised in television installation and repairs. The remaining store could be classified as a music centre, but also sold sound equipment and television sets.

(ix) National chain sound and television specialists - only one store was identified that fell within this category. The store in question was identified as a television rental business.

(x) Sewing machine centres - these are speciality stores which are franchised dealerships or are actually owned by the distributor manufacturer. Thus a high degree of vertical integration is found within this category.

(xi) Home video centres - nine video film centres were located, mostly in conveneince shopping centres within the areas.

(xii) Second hand furniture dealers - five stores which concentrated on second-hand or reconditioned furniture and appliances were identified. Note that this category excludes antique dealers who do not sell appliances.

TABLE 5.1

CLASSIFICATION OF APPLIANCE RETAILERS IN THE HIGHWAY TRADING AREA.

Category	Number of stores found
1. Discount department store	1
2. National chain department store	1
3. Traditional department store	1
4. Local furniture discount chains	4
5. National chain furniture store	10
6. Independent appliance specialists	9
7. Independent furnishers	2
8. Independent music, sound and television specialists	8
9. National chain, sound and television specialists	1
10. Sewing machine centres	5
11. Home video centres	9
12. Second hand furniture dealers	5
	56

5.4 Other Appliance Store Types

Reference to the literature revealed that several types of retail institutions, which sell appliances were not located within the Highway trading area. These included the following types of retail institutions:-

a. Hypermarkets
b. Appliance warehouse
c. Catalogue showroom
d. Non-store retailers

These types are briefly discussed below:-

a. Hypermarkets - according to Mason and Mayer (P31) hypermarkets have the following characteristics:-

High volume.
Heavy use of warehousing techniques.
Heavy emphasis on large sizes.
Large average transaction size often associated with infrequent purchasing.
A tendency to shift functions to shoppers or suppliers.

b. Appliance warehouse - Mason and Mayer (P31) list the characteristics of warehouse markets as:-

Extreme warehouse orientation
Strong price appeal
Very low general merchandise emphasis
Very low operating expense ratio
Very limited customer services

c. Catalogue showrooms - according to Mason and Mayer (P35) catalogue showrooms concentrate on selling hard goods, including jewellery, housewares, consumer electronics and giftware.

d. Non-store retailers - this category includes mail-order firms and door-to-door selling. While mail-order houses usually stress price and guarantee of satisfaction, door-to-door selling operations usually stress product quality and availibility of credit. Both forms of retailing, while highly developed in America, are not very popular in South Africa. However, mail-order has experienced an upsurge since the introduction of credit cards.

5.5 Schematic Representation

Figure 5.1 shows a schematic representation of the appliance retail structure in the Highway trading area. The three dominant department stores, in terms of Hirschman's theory, are positioned, along a price-quality continuum. Speciality stores and independents are positioned in clusters around the dominent department stores. This presentation highlights the fact that only two independents have positioned themselves in the high quality/high- price quadrant. They all choose to battle it out with the national chains and discounters.

5.6 Presentation

The survey revealed that most of the independent stores did not compare favourably with the chain stores when it comes to "Presentation" strategy. Stores were generally small and had a cluttered appearance. The small independents, with three or four exceptions, did not match the chains on the following attributes:-

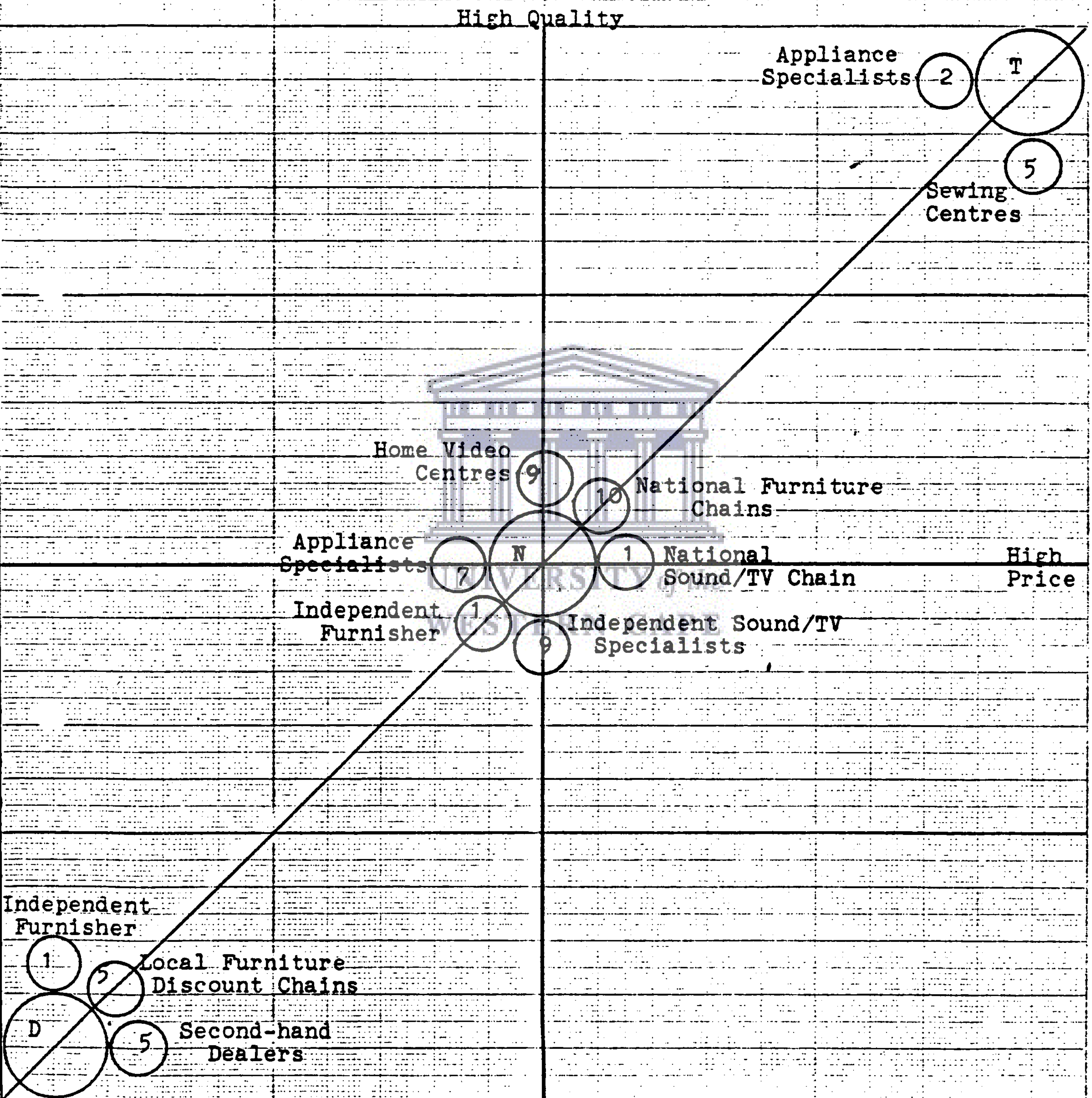
(i) Status - social-class appeal and self-image identification.

(ii) Physical facilities - air-conditioning, lighting etc.

(iii) Promotion - window displays, external signs, symbols etc.

FIGURE 5.1

APPLIANCE RETAIL STRUCTURE IN THE HIGHWAY MARKET AREA



CODES : D.= Discount Department Store (Game Discount World)
N.= National Chain Department Store (O.K. Bazaars)
T.= A Traditional Department Store (Knowles)

(iv)	Modernity	- projection of modern-image.
(v)	Reliability	- projection of reputable image good service, and post-transaction reliability
(vi)	Location	- Location in prime positions such as busy corner sites.
(vii)	Layout	- arrangement of store, fixtures, space all allocation of merchandise etc.
(viii)	Store-hygiene	- good housekeeping, uncluttered appearance cleanliness etc.

In short it can be said that in general the small independent retailers did not project a planned store image.

TABLE 5.2

LIST OF APPLIANCE STORES INCLUDED IN SURVEY

1. Discount Department Store
   Game Discount World, Westville

2. National Chain Department Store
   O.K. Bazaars, Pinetown

3. Traditional Department Store
   Knowles, Pinetown

4. Local Furniture Discount Chains
   Mathie Brothers, Pinetown
   Mathie Brothers, Westville
   Mathie Brothers, Hillcrest
   Allans Furnishers, Pinetown

5. National Chain Furniture Stores
   U.F.S. Furnishers, Pinetown
   Smalridges, Pinetown
   Russels Furnishers, Pinetown
   Beares, Pinetown
   Savells, Pinetown
   Happy Homes, Pinetown
   Frasers Furnishers, Pinetown
   Gold Dollar Furnishers, Pinetown
   Ellerines Furnishers, Pinetown.
   Lubners, Pinetown
6. Independent Appliance Specialists
   Nero and Gore, Pinetown
   Gas Electric, Pinetown
   Aztec, Ashley
   Fixit Electrical, Pinetown
   Electrical Sales and Service, Pinetown

Appliance Centre, Pinetown
Hillcrest Electronics, Hillcrest
Electrix Sales and Service, Hillcrest.
Electric Master, Hillcrest.

7. Independent Furnishers

Pinetown Furnishers, Pinetown
Double Discount Furnishers, Pinetown

8. Independent Music, Sound and Television Specialists

Clives T.V., Pinetown
Scotts Musical, Pinetown
Max's Radio City, Pinetown
Westville Television, Westville
Direct T.V., Pinetown
Urban's Transistor Services, Pinetown
T. and N. Television, Pinetown
Neil Pitt Electrical, Westville

9. National Sound and Television Chains

Visionhire, Pinetown

10. Sewing Machine Centres

Elna, Pinetown
Husqvarna, Pinetown
Empisal, Pinetown
Singer, Pinetown
Bernina, Pinetown

11. Home Video Centres

Filmworld, Westville and Hillcrest
Cine Place, Pinetown
Movie Time Video, Pinetown
Video Inn, Pinetown
Film Fun Video, Pinetown
Video Home, Kloof, Westville and Pinetown

12. <u>Second-Hand Dealers</u>

Chain Furnishers, Ashley
Current Reconditioned Appliances, Pinetown
J.P. Second-hand Furnishers, Pinetown
Second-hand Shop, Pinetown
Bridgewood Furnishers, Pinetown

EXHIBIT 5.3.1

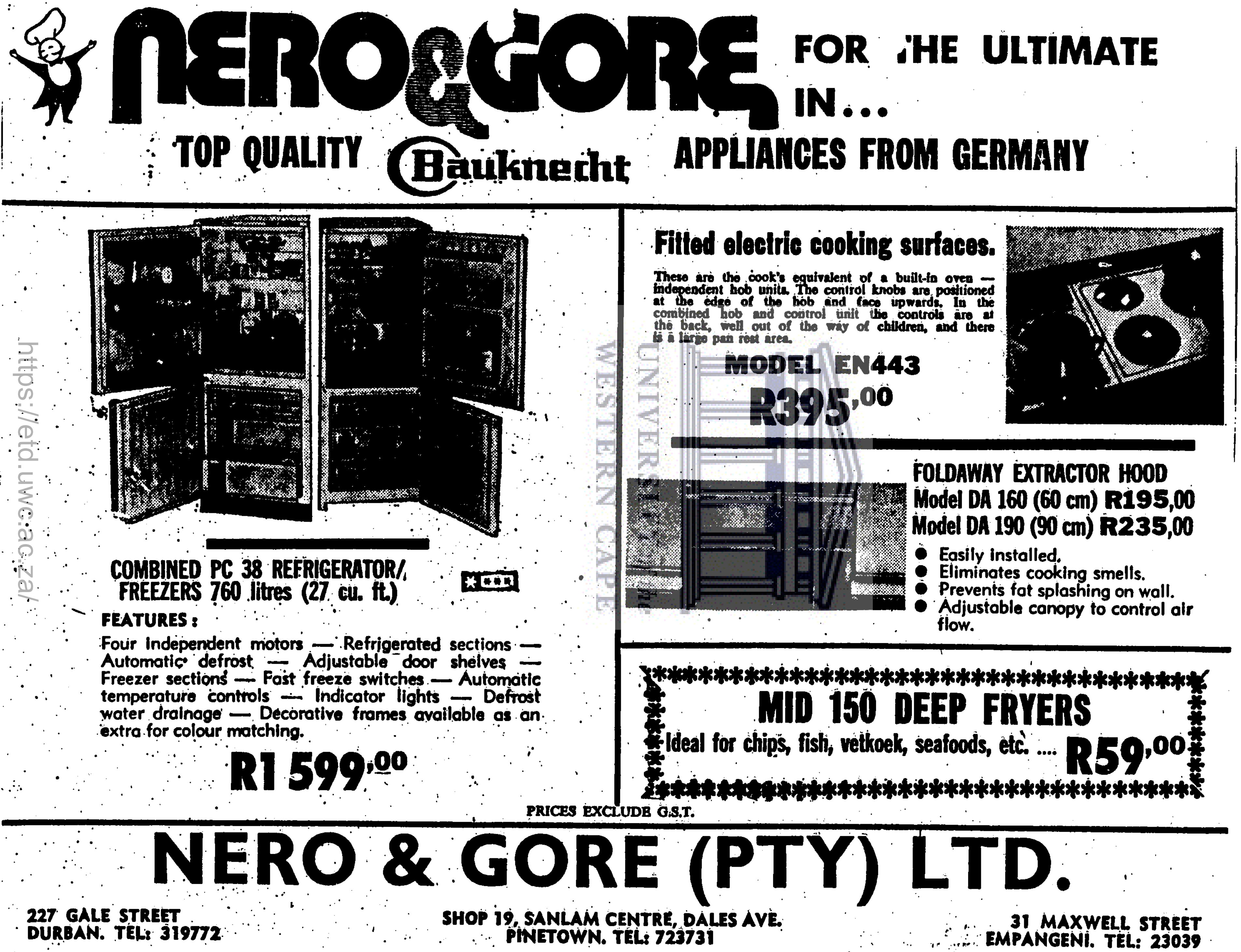

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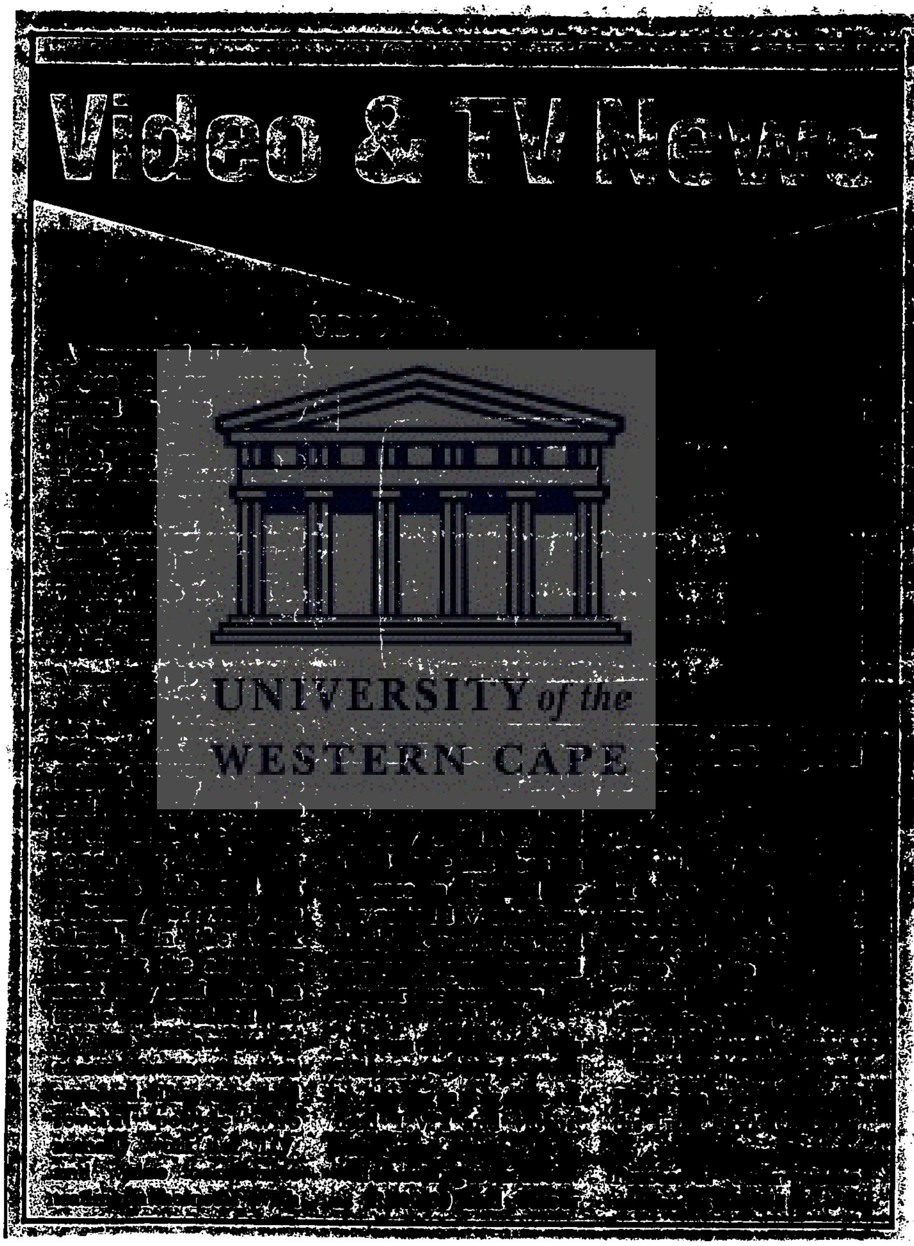
EXHIBIT 5.3.2



CHAPTER SIX

6. CASE STUDIES

In this Chapter the implicit strategies of two independent appliance retailers are analysed in some detail. The method of investigation included:-

a. Structured interviews with the managers and staff of the businesses (See appendix for Questionnaire used)
b. Analysis of financial statements of the businesses.

According to Morkel the first step is to identify the existing strategy. The strategies were identified here using the strategic variables specified by Katz. Briefly these are:-

(i) Product policy
(ii) Customer policy
(iii) Promotions policy
(iv) Location policy
(v) Competitive emphasis
(vi) Pricing policy
(vii) Financing and investment policy

The next step is to evaluate the strategy. In order to do so, Katz prescribes the following procedure:-

(i) Identify criteria for evaluation
(ii) Evaluate the alternatives
(iii) Consider environmental factors
(iv) Make recommendations for the future

The approach adopted is based on the methodology developed by Katz and is both descriptive and normative.

The first independent case history was chosen to illustrate the potential dangers and opportunity cost of failure to review strategy on a regular basis. It involves a relatively successful family business, which is neglecting to maximise it's opportunities in the growing 'Black Market'. The second case study describes an entrepreneur who has great flair. However, his business lacked management skills and eventually failed. Both the case studies highlight the importance of developing a proper "People" strategy and the need for formal planning procedures in a small business. The second case study illustrates the truism, that having chosen the wrong strategic option, a small retailer seldom gets a second chance to rectify his mistake.

6.1 Independent Furniture Retailer

6.1.1 Short History of the Business

The business is a well-established family firm involved in general furniture retailing mainly to the 'Black Market'. In 1971 the firm moved to modern premises which are located in a light industrial area of a major city. The family own the land and building, which has a selling area of approximately 600 square metres. Both father and son are employed full-time in the business. A major problem had arisen because the father was planning to retire and was not sure whether his son had the necessary expertise to run the business on his own. Growth in sales over the years had been steady, but were showing signs of levelling off. Ninety per cent of sales were on hire purchase.

6.1.2 Criteria for Evaluation

(i) Is the strategy identifiable in writing or in practice?

There was no formal written strategy or plan. However, it was possible to identify the strategy in practice. This could be described as follows:-

The firm aims to achieve a cautious growth rate in sales, based on a single-store strategy option. Profitability will be ensured by concentrating on achieving high credit sales to the Black market. In this way gross-profitability is enhanced, operating costs are kept low and cash flows will not be problematical.

(ii) Does the strategy fully exploit the environmental opportunity?

The answer to this question is no. The Black market, for home appliances, represents a tremendous growth opportunity. However, there were no moves pending to try and exploit the potential opportunities in this market. For a description of these opportunities see Exhibit 6.1.

(iii) Is the strategy consistent with corporate competence and resources?

A major problem area was the lack of depth of management. The owner/manager was responsible for all the top management functions. The operational functions of sales and buying were delegated to the son, who was still in his twenties. It can be said that the low-growth strategy was consistent with this major constraint.

(iv) Is the chosen level of risk feasible?

The strategy was a low-risk one and was feasible given the problem of management succession. In other words it would only become risky in the event of something happening to force the owner/manager to be absent from the business for a long time-span.

(v) Is the strategy appropriate to the personal values and aspirations of key managers?

The danger arose that the son would quickly satisfy his achievement objectives and then search for new challenges. If these were not satisfied within the existing framework he might leave the business. This could force the adoption of a total or partial divestment policy as the only remaining long-term strategic option.

(vi) Are there indications of the responsiveness of markets to the strategy?

The strategy aimed to achieve satisfactory sales growth. In monetary terms this was well below the prevailing rate of inflation. Therefore, sales volumes were actually declining in real terms.

(vii) Normative analysis.

The reader should refer to Table 6.1 for the key financial ratios. These ratios highlight the following significant facts:-

a. Activity - the sales growth of 8,3 per cent was well below the prevailing rate of inflation which was 15 per cent at the time. Although sales growth was low, the growth in gross-profits was roughly in line with the suggested target. Expenses had increased but this could be attributed to abnormally high owner's remuneration necessitated for tax reasons. Stock turnover was very high in comparison with industry norms. This indicated efficient stock management.

b. Efficiency - the gross profit margin was well above the rough industry average. This was because it included a finance charge on hire purchase sales. The high profit margin was justified by the credit risk reflected in the high level of bad debts.

TABLE 6.1

KEY FINANCIAL INDICATORS FOR AN INDEPENDENT FURNITURE RETAILER

	1978	1979	Rough Industry Averages	Suggested Targets
Activity				
% Increase in sales	-	8,3	-	15
% Increase in gross profit	-	14,0	-	15
% Increase in expenses	-	15,9	-	10
Stock turnover (times p.a.)	8,3	7,7	4	8
Stock turnover period (days)	44	47	90	45
Efficiency				
% Gross profit/sales	47,1	49,6	37	49
% Total expenses/sales	42,6	45,6	29	39
% Total expenses/gross profits	90,5	92,0	80	80
% Staff costs/sales	21,0	22,9	17	18
% Staff costs/gross profits	44,6	45,9	45	45
% Rent/sales	4,2	3,5	3-5	4
% Advertising/sales	1,3	1,2	2	2
% Interest/sales	2,0	1,8	1	1,5
% Bad debts/credit sales	4,0	4,8	1-5	4
Profitability				
% Net profit before tax/sales	4,7	4,0	8	10
% Net profit before tax/ total assets	4,4	3,9	15	15
% Net profit before tax/ owners capital	9,9	8,5	30	30
Finance				
Current assets/current liabilities	2,6	2,8	1,5	2
% Outside liabilities/ total assets	54,6	53,0	50	50
Credit				
Collection period (days)	353	347	90	300
Creditors payment period (days)	163	153	120	120

With regard to expense control it was felt that:

- rent was in line with industry averages.
- the advertising allocation was low.
- interest was high.
- the high bad debt ratio indicated a need for tighter credit management.

A useful yardstick is to compare staff productivity in a small independent with the national chains. For example in 1977 Woolworths achieved R49 000 sales per employee per annum. In this instance the level of sales per employee was R39 000 per annum.

My model performance for 1979 would have produced the following results:-

	Model	% Sales	Actual	% Sales	Variance
Sales	581254	100	547258	100	33996
Gross Profit	287720	50	271570	50	16150
Expenses	230176	40	249775	46	19599
Net Profit	57544	10	21795	4	35748

c. Profitability - the level of net profit did not allow for sufficient plough-back to provide working capital to finance a high rate of sales growth. In terms of portfolio theory jargon, the business was in effect a "cash cow".

d. Liquidity - the current ratio is high which serves to underline the safety-first financial tactics.

e. Solvency - the percentage of total outside liabilities to total assets seem to be high. However, this was an artificial reading because it did not reflect the true value of the building. In short the business was financially sound.

f. Credit management - the average debtors collection period was estimated to be 347 days. This is unusually long. As a result the cash cycle of the business was an astounding 241 days. It was estimated that a 60 day reduction in the cash cycle would produce an annual saving of R6 000 in interest payment alone.

6.1.3 Evaluation of Alternatives

a. Product policy - the main emphasis of product policy was to meet market demand on demand. Thus the stockholding was on the low side and stock turnover was high. The alternative was to increase the stockholding and thereby achieve greater market penetration but a lower stock turnover.

b. Customer policy - the main target customers were Black industrial workers. These customers needed extended credit facilities to meet their durables requirements. The emphasis was on customers with a stable employment record. The alternative was to increase the percentage of cash customers. However, this would reduce the gross profit margin.

c. Promotions policy - the emphasis was on personal selling and customer satisfaction to generate positive word-of-mouth advertising. The obvious alternative was to increase the level of advertising.

d. Location policy - the policy was to be located near the customer's place of work. It was felt that this would allow customers the opportunity for comparison shopping before, between and after working hours. The alternative was to be located where the customers prefer to shop. That is to say the down-town furniture shopping area.

e. Competitive emphasis - the emphasis was on the very generous credit terms and a flexible buying policy which could cater for all the customer's requirements on demand. The alternative was tighter credit controls and a model stock policy.

f. Pricing policy - the policy was to price high and thereby generate a high gross profit margin. Credit policy resulted in higher than normal bad debts. The alternative was to lower prices and generate more cash sales via bargain conscious customers.

g. Finance and investment policy - the safety first strategy led the business to acquire it's own premises. The main investment is therefore, in property and accounts receivables. Last mentioned represented 90 per cent of current assets. The alternative was to lease premises and thereby generate additional capital which could be ploughed back into purchasing more stocks and use to finance a greater level of credit sales.

6.1.4. Environmental Analysis

a. Market trends - the market trend is for urban Black shoppers to buy their home durables in the central business districts of our major cities. The firm's location, in a light industrial area, was probably the reason for the decline in the volume of sales when measured in real terms.

b. Major threats - the major threats are - a slow decline in sales due to the location policy and the problem of management succession.

c. Competition - competition is from national furniture chains which specialise in the Black market. These chains usually employ large teams of external salesmen to canvass business. They are more advantageously located in the so-called furniture towns near to major public transport points.

d. Socio-political developments - a considerable redistribution of income from Whites to Blacks is taking place in South Africa at the present time. Real growth in the appliance market is likely to depend largely on the Black market from now on.

6.1.5 Recommendations for the Future

The main recommendations concern making improvements to the marketing mix. These recommendations are based, to a large extent, on a market survey, by the Bureau of Market Research, regarding urban Black attitudes to shops and shopping. In this survey factors of importance in trading with Blacks were examined.

(i) Product and price strategy

The abovementioned study found that both product quality and price are important when Blacks purchase articles. However, Blacks are usually prepared to pay the price for a quality article. In the case of high-price items, such as home appliances, the availability of credit is important. The high income groups, in particular, look for credit facilities. As standards of living rise we can expect that the market will become even more credit oriented. This suggests that the right product strategy is to merchandise a wide selection of quality products. These can be priced at above the market provided extended credit is available.

(ii) Place strategy

According to the Bureau of Market Research's report Blacks would prefer to shop near to their homes in order to avoid time and expense involved in travelling to relatively far away urban shopping centres. However, convenience is not the overriding factor. Educated Blacks tend to do their comparison shopping in our city centres because of the wider selection of quality products and better value for money.

We can say that in the past the business under review had occupied a propitious niche based on it's location in a semi-industrial area. However, this market offers limited growth potential and appears to be shrinking as a result of changed shopping habits. Therefore, the right-place strategy would either be to follow the stream to the city centre or otherwise to move to a shopping centre convenient to a Black residential area.

(iii) Promotions strategy

The Bureau of Market Research study indicated that Blacks prefer personal service by well-trained shop assistants whenever quality considerations and technical advice play a part in the selection process. Personal service is of particular importance when purchasing durables such as appliances. This suggests that sales assistants should adopt a problem-solving selling style as recommended by Blake and Mouton in their "Grid of Sales Excellence". Above all they should give the Black customer sound and truthful advice. When spending big amounts of money Blacks tend to take their time before making the final choice. Any tendency to get them to "hurry-up" should be avoided. Assistants should be patient and helpful at all times. Blacks prefer it when they can communicate with the sales assistants in their home language. The strength of personal selling lies in the value of giving sound advice on the quality of the products.

The above information suggests that the main thrust of the promotions strategy should be based on personal selling.

(iv) People strategy

Apart from organisational aspects the main "People" problem is the lack of depth of management and the problem of management succession. The owner/manager should consider these aspects by asking two questions:-

> How will my sudden death affect the business?
> Can my son fill my shoes when I retire?

The manager was advised to transfer the specialised knowledge he had accumulated over the years to his son. This would strengthen the management skills of the business and provide a back-up in the event of an emergency. One method suggested to facilitate the transfer of know-how was to develop formal management procedures involving policies, action plans, objective setting and performance reviews.

(v) Presentation strategy

Traditionally Blacks patronised small downtown stores such as those found in Durban's Grey Street area. The reason is they feel at ease there and like the bustle, noise, bargaining and ease of communication. However, the trend is towards large departmental stores and a Western way of shopping. Blacks now favour the spacious, clean, air-conditioned store which is well-organised and well-stocked. They prefer a large selection of goods to be on offer and prices to be clearly marked.

Thus the correct presentation strategy is to provide a store that is modern in appearance and is well organised with regard to the merchandise arrangement.

EXHIBIT 6.1

DEFY PREDICTS HEALTHY FUTURE FOR BLACK CONSUMERS

"Estimated 50 per cent television ownership in Black urban areas will make the Black housewife of 2 000 a very much more aspirational person," according to Defy Managing Director, Mr. Richard Newby.

"South Africa's 28 million Blacks will have the major share of a total annual Black disposable income of R20 000 million by the year 2 000."

According to present estimates, the elimination of the backlog for the electrification of Black areas should be complete by 2 000. In addition an extra 6 million homes will have to built for Blacks over the next 20 years. Other aspects to be considered by marketeers are:

- 90 per cent of Black homes will have 3 to 4 bedrooms (1977: 81%)
- 50 per cent of Black homes will be well furnished (1977: 31%)
- Only 10 per cent will have a primus stove (1967: 53%)
- 50 per cent will, however, still have a solid fuel stove (1977: 95%).
- The approximate 40 per cent who do have an electric stove will be an enormous improvement on 1% in 1967 and 5% in 1977.
- 90 per cent will own a radio/radiogram and 50 per cent will have a television receiver.

Mr. Newby says television will fan the aspiration of Black housewives and that Blacks should move much quicker to the fully fitted kitchen than the Whites did.

For the meantime most Blacks will be limited to one-off purchase but we estimate that by 2 000 Blacks will be major purchasers of fitted kitchens and that 50 per cent of all electrified Black households will have an electric stove.

(From : Appliance Magazine - August 1980)

6.2 Independent Specialist Music Retailer

6.2.1 Short History of the Business

This case study describes a failed specialist music retailer. The business concerned was a musical equipment and television retailer with three branches and two franchise dealers.

It was started by the owner in 1964. Seven years later the first branch store was opened to be followed by a second branch two years later. At the same time several franchise shops were started. Under the franchise arrangement the group supplied franchisees with stock on consignment. When the merchandise was sold the group received payment for the stock plus 50 per cent of the net profits earned on the consignment stock. However, due to a lack of management control the various franchise operations, had to be closed down. By the time the survey was conducted only two franchise operations remained. In addition one of these was in the process of being terminated.

The critical problems for the business began with the advent of television in South Africa in 1975. Anticipating a fall-off in sales of musical equipment, as a result of the introduction of television it was decided to enter this market in a big way.

6.2.2 Criteria for Evaluation

(i) Is the strategy identifiable in writing or practice?

The firm did not have a written strategy. However, the implicit strategy could be summarised as follows:-

> The firm aimed to grow by diversifying it's product mix and entering the new television market. Television sets would be sold through three existing stores and a franchise store. No new stores would be opened because of problems experienced in managing a franchise operation. The competitive emphasis was to remain based on the local reputation of the owner.

(ii) Does the strategy fully exploit the environmental opportunity?

The answer to this question is that the strategy aimed to exploit the wrong environmental opportunity. The new diversification strategy would mean head on competition with the major national chains and stores. Previously the firm had enjoyed occupation of a propitious niche based on local reputation and specialised music products. It was now throwing itself into a highly competitive jungle.

(iii) Is the strategy consistent with corporate competence and resources?

The corporate strengths could be summarised as follows:-

a. A strong name in music organs
b. A dealership franchise for these organs
c. Greater flexibility than the competition
d. Personal attention to customers
e. Energetic owner participation

The strategic requirements for the new market were beyond the firm's competence. The mainstay of the business had always been organs. This product required a very personalised selling approach. Time was devoted to each potential customer who invariably had to learn how to use the product from scratch. The mark-up on organs and other musical products averaged 67,5 per cent. Conversely, the average mark-up on televisions was on 21 per cent. Television would become a low-price, high-volume business ideally suited to discount type operation. On the other hand the business under discussion was historically geared for a low-volume, high price strategy. It required a relatively high profit margin to match equally high operating costs.

(iv) Is the chosen level of risk feasible?

A detailed planning procedure, involving the analysis of feasible alternatives, would probably have revealed, that the chosen strategy option would not produce a return commensurate with the risks involved. This is a classic example of the dangers of the intuitive approach when making vital strategic decisions.

(v) Is the strategy appropriate to the personal aspirations of key managers?

We had to do here with an entrepreneur who had flair and a strong set of achievement needs. Previous expansion plans with the franchise operation had failed and the new strategy of diversifying into the television market was aimed to satisfy the entrepreneur's desire for growth. In essence this represented a make or break attitude on his part.

(vi) Are there indications of the responsiveness of markets to the strategy?

With the benefit of hindsight we know that the strategy failed to make the desired inroads into the retail television market because of the high level of competition in that market.

(vii) Normative analysis

Little purpose would be served in analysing the financial statements of a failed business, except to say, that this resulted from over-trading i.e. using supplier's credit to finance growth in stocks and debtors. Efficiency results for the branches were as follows:-

	Branch A	Branch B	Branch C	Suggested Targets
% Gross profit/turnover	38,2	30,2	32,8	40,0
% Operating expenses/ turnover	40,1	27,6	32,9	26,0
% Staff costs/turnover	18,5	20,3	19,7	13,0
% Rent/turnover	2,3	2,0	6,3	3,0
% Advertising/turnover	3,5	1,3	1,1	1,0
% Interest/turnover	3,8	0,4	-	1,0
% Travelling costs/ turnover	4,7	0,9	1,8	1,0
% Profit contribution/ turnover	0,0	2,6	-	14,0

However, it was felt that with better management these results could be improved. For example a sales and cost budget prepared for one branch was summarised as follows:-

Sales	R300 000
Gross Profit (33%)	100 000
Operating costs	48 600
Profit contribution (17%)	R 51 400

6.2.3. Evaluation of Alternatives

(i) Product policy

A book on "Starting and Managing a Small Music Store", published by the Small Business Administration in America, lists the following types of music stores:-

1. Pianos and organs (keyboard instruments) only, new and used.
2. Pianos, organs and musical instruments only.
3. Musical instruments and accessories only.
4. Musical instruments and band and orchestral music.
5. Pianos, musical instruments and sheet music.
6. Studios and sales (piano, organ or other)
7. Records and sound equipment only.
8. All musical merchandise - a music department store.

Traditionally the business under discussion merchandised all musical products except records and sound equipment. The main product category was organs. These products have the advantage of exclusive dealerships providing an effective barrier-to-entry by newcomers to the market.

Note that in order to sell musical instruments it is necessary to provide the would be musician with teaching facilities. The studio is an important adjunct to a music store.

(ii) Customer policy

Potential customers can be classified as follows:-

- Parents with children taking music lessons
- Adults who are beginners
- Adults who can play musical instruments
- Professional musicians.

Customers vary according to the type of instrument involved. For example the following classification might prove useful:-

- Pianos and organs
- Band instruments
- Records and tape recorders

Concentration on customers for pianos and organs was the preferred strategy.

(iii) Promotions policy

The traditional promotions policy involved creating a personality image around tthe owner of the business through regular feature press advertising. In addition new business was canvassed through music teachers and by personal appearances at music concerts. The emphasis was on building the reputation and prestige around the owner.

(iv) Location policy

A survey of twenty music centres, in an American city, with a population of 800 000, revealed that most were located in the central business district. This applied particularly to piano stores and musical instrument stores serving bands. Studios giving guitar and accordian lessons were situated mostly in the wealthier outlying areas. Record shops were in the downtown and suburban shopping centres. In the United States of America music centres also often occupy leased space in departmental stores.

The preferred location strategy here was to locate in downtown business districts.

(v) Competitive emphasis

The competitive emphasis was on the reputation of the owner. In this way consumer confidence was enhanced while the owner entrenched his position in the community.

(vi) Pricing policy

The pricing problem is unusual in a music store for these reasons:-

- Practice of accepting trade-ins
- Practice of hiring-out equipment
- Need for extended credit facilities when selling semi-luxury products

A method of establishing the price of a trade-in is as follows:-

Estimated selling price	R395
Less Planned Profit margin (40%)	158
Less Reconditioning cost	175
Equals Cost of trade-in	R 62

Pianos for renting are usually required for a trial period until the parent of a child or the adult beginner has built up sufficient confidence to want to purchase outright. Thus the usual strategy is to include a clause, to the effect, that the rentals paid during the trial period will be deducted from the price in the event of an outright purchase.

Extended credit facilities were essential. This meant that the dealer had to establish lines of credit to finance the accounts receivable. The usual practise was to "discount" the book of debtors with a financial institution. The lack of financial resources, created difficulties in selling low deposit packaged deals. It was necessary to arrange finance through outside institutions.

(vii) Finance and investment policy

The major investment was in stocks and debtors. These two items accounted for nearly 95 per cent of total assets. The major source of finance was supplier's credit. See Table 6.2. This turned out to be a disastrous policy. Current creditors were financing 86 per cent of the business assets and when a cash shortage developed the only option was liquidation.

TABLE 6.2

INDEPENDENT MUSIC CENTRE

Balance Sheet as at 31st October 1975

Capital		
Owner's equity		R52 409
Represented by:-		
Fixed Assets		24 224
Fixtures and fittings	6 442	
Plant	585	
Motor vehicles	14 484	
Investments	801	
Others	1 912	
Net Current Assets		28 185
Current Assets	345 473	
Stocks	162 826	
Debtors	181 954	
Cash on hand	693	
Less: Current Liabilities	317 288	
Creditors	265 127	
Provision for servicing	8 086	
Overdrafts	44 075	
		R52 409

6.2.4 Environmental Analysis

(i) Market trends

The trend is towards more leisure activities and this should mean that sales of musical products will grow. However, the mass market is in the field of sound equipment, such as Hi-fi, and recorded music. Other special interest items remain geared towards the White consumer. This is a mature market typified by a high percentage of replacement sales.

(ii) Major threats

The major internal threat was the lack of long-term capital and the policy of chasing growth in sales when the working capital was not available.

(iii) Competition

The major long-term competitive threat was the rationalisation of the industry. Eventually one speciality chain (Musikland) emerged as the dominant force in the national market.

(iv) Socio-political developments

While the White market has matured the Black market represents explosive growth opportunities in the music field. However, the strategy was geared entirely towards the affluent sector of the White market.

6.2.5 Recommendation for the Future

(i) Product policy

The recommendation was to get out of the television business and in the short-term to concentrate on the organ market. This is a speciality line which requires a high degree of personal selling.

An added advantage was that the firm had an exclusive dealership for organs. It was estimated that it would be possible to capture 50 per cent of the local market for these products. This alone would generate an estimated R500 000 in sales turnover between two branches.

(ii) Place strategy

A strategy of divestment was recommended. The franchise dealership should be closed because the financial burden on the firm's strained resources did not justify the profit contribution. Out of the three branches it was recommended that only two be retained. With a smaller operation it would be possible to phase out the centralised administration department, thus effecting a significant reduction in overheads and staff costs.

(iii) Price strategy

The investigation revealed that only one of the three branches was generating a gross profit margin in line with the suggested target.

	Store A	Store B	Store C	Target
% Gross profit/sales turnover	38,2	30,2	32,8	40,0

It was estimated that by implementing controls on gross profit contribution per store that the net profit contribution could be 10 per cent.

(iv) Promotions strategy

The main recommendation was to reduce the level of expenditure on advertising which was a high 3,6 per cent of sales turnover. The money saved should be used to employ a missionary salesman. The main task of the incumbent of this new position would be to canvass high profit margin organ and piano sales via the systematic canvassing of music teachers, particularly in the rural areas.

(v) People strategy

The investigation revealed that a major problem area was a poor "People" strategy. Firstly, the firm attempted to expand without first building a management team. The only management material was the owner and his son. Both were kept occupied in sales and buying activities. Secondly, poor organisation resulted in a heavy drain on company profits. The style of leadership was autocratic which was typified by an unwillingness to delegate. All lines of communication led back to the owner/manager of the business.

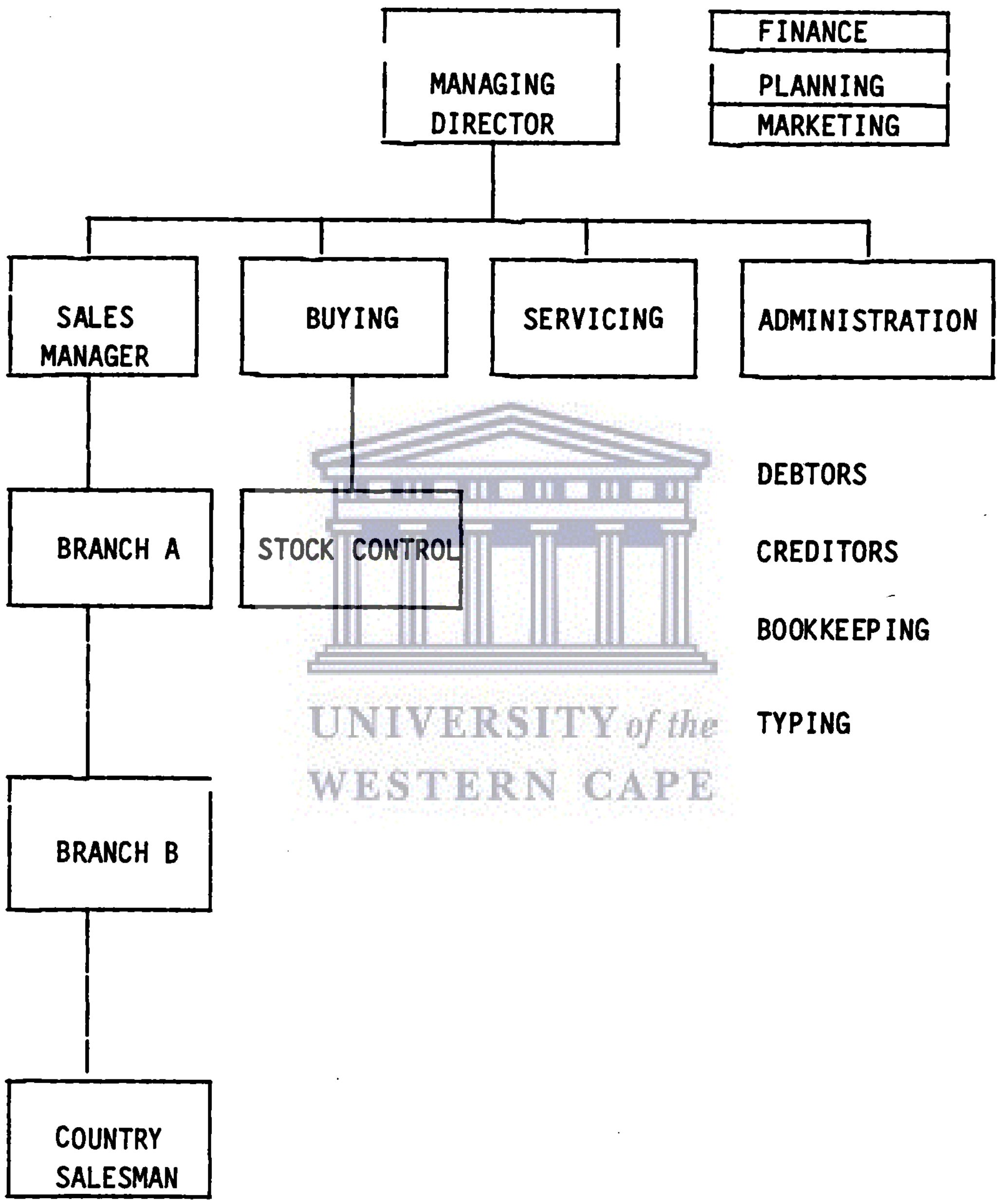
The first step was to design a more effective organisation. In order to do this it was necessary to list the important tasks and functions. These were:-

Sales
Buying
Stock control
Servicing
Deliveries
Administration
Finance
Planning
Advertising and promotions

The recommended organisation chart is shown in Figure 6.2.5.

FIGURE 6.2.5

ORGANISATION STRUCTURE FOR AN INDEPENDENT MUSIC SPECIALIST



Other "People" recommendations were as follows:-

a. Management development - to improve the management capability in the long-term plans should be made to recruit more managers.

b. Salesman productivity - As a result of the style of leadership motivation was at a low ebb. Steps should be taken to motivate the sales staff. A starting point could be to hold regular sales meetings.

(vi) Presentation strategy

The Small Business Administration, in America, recommends a store size which is 135 square metres to 180 square metres when the product range is limited to pianos and organs.

The interior atmosphere of the store is important. A carpeted floor will give a warm, homelike atmosphere. Lighting and colour is also important. Warm autumn or pastel colours are recommended. The lighting should highlight the wood of the instruments. The store should be air-conditioned and also have good accoustic properties.

Display windows must be protected from moisture and heat damage. An awning can be both protective and add to the store image. Windows should be cleaned regularly and the displays changed at least once a month. Open-back windows are recommended so that the whole shop becomes a window in itself.

The outdoor signs should be attractive and well positioned to attract attention of passing traffic and to identify the store.

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APPENDIX

SPECIMEN OF THE QUESTIONNAIRE USED IN CASE STUDIES

DATE: .... **FILE NO.:** ....

INVESTIGATION BY: ....

SECTION ONE - GENERAL INFORMATION

1.1 Nature of Business ....

1.2 Owners background

Qualifications		Experience		Age	
Non Matric		Starting		Under 20	
Matric		1 - 5 years		20 - 29	
Degree		6 - 10 years		30 - 39	
Diploma		11 - 15 years		40 - 49	
Other		15 years plus		Over 50	

1.3 Previous occupation ....

1.4 Are members of the family employed in the business? ....

1.5 Do you belong to a commercial association? ....

Chamber of Commerce		Afr. Sakekamer			

1.6 Remarks (including short history of business)

SECTION TWO - MARKET INFORMATION

2.1 What has been the trend of sales in recent years?

Growing	
Static	
Declining	

2.2 What factors do you consider responsible for this trend? ....

....

....

2.3 What are the limits of your market area? ....

....

....

2.4 Do you have information regarding the size of the population within this market area?

Whites	
Blacks	
Coloureds	
Asians	
Total	

2.5 Do you have information regarding your sales by racial group?

	% Sales
Whites	
Blacks	
Coloureds	
Asians	
Total	100

3/......

2.6 What % of your customers fall into the following income groups?

Lower	
Middle	
Higher	

2.7 What is the trend of growth in your market area?

Growing	
Static	
Declining	

2.8 How would you describe your target customers?

Housewife	
Businessman	
Young Female	
Young Male	
Other	

2.9 Are your customers brand-conscious or price-conscious? ......

....

2.10 Do your sales show seasonal fluctuations? ....

....

2.11 Remarks

SECTION THREE - THE COMPETITION

3.1 Name the direct competitors in your market area.

1. ....
2. ....
3. ....
4. ....
5. ....
6. ....
7. ....
8. ....
9. ....
10. ....

3.2 How do you regard your own position in this competitive market?

Good	
Fair	
Poor	

3.3 Do you have any specific advantages or disadvantages in relation to your competitors?

....

3.4 How do you rate yourself as a competitor?

Aggressive	
Defensive	
Passive	

3.5 Remarks

SECTION FOUR - LOCATION

4.1 How long has business been conducted at this location? ......

....

4.2 Is the business located in one of the following areas :-

Central Business	
Suburban	
Regional	
Neighbourhood	
Industrial	
Other	

4.3 What is the monthly rent? ....

RETAILERS AND WHOLESALERS

4.4 Is the location good in relation to the competition? ....

....

4.5 Is there a parking problem? ....

4.6 Is the location good for developing sales via advertising and promotion? ....

4.7 Are there any other disadvantages regarding this location? ..

....

MANUFACTURERS

4.8 Should this factory be close to its market or raw materials?

....

4.9 Does the location facilitate the best production layout? ....

....

4.10 Is adequate labour of the desired type available? ....

4.11 Is power and water readily available? ....

4.12 Are rail and delivery facilities adequate? ....

SERVICE UNDERTAKINGS

4.13 Is it necessary for customers to visit the firm? ....

4.14 Are working conditions suitable? ....

GENERAL

4.15 Is a better location available? ....

....

4.16 What are the terms of the lease? ....

....

SECTION FIVE - LAYOUT

5.1 Do the fixtures belong to you? ....

....

5.2 If leased, what are the monthly repayments? ....

5.3 Who arranged the layout? ....

5.4 Do you have a floor play of the layout? ....

RETAILERS

5.5 Is the layout self-service? ....

7/......

5.6 Analysis of Layout

	A	B	C	D
Neatness				
Space Utilisation				
Lighting				
Ventilation				
Entrance				
Cash registers				
Modern				
Indicators				
Security				
Shelves				
Aisles				
Ceiling				

MANUFACTURERS

5.7 Is this a process or product layout? ....

....

5.8 Can unproductive movements of materials, goods in process or finished products be reduced? ....

5.9. Is provision made for quality control? ....

5.10 Are materials stored close to the start of the production line?

....

5.11 Are rest rooms, toilets, etc., located in the best location?

....

5.12 Are there adequate security precautions? ....

5.13 Remarks

SECTION SIX - ORGANISATION

6.1 Is the business departmentalised? ....

6.2 Is the staff organised on a departmental basis? ....

6.3 Do you have an organisation chart which indicates the different departments and functions? ....

6.4 Do you keep departmental accounts? ....

6.5 How do you organise your own time?

	Hours Per Day
Management	
Administration	
Buying	
Sales	
Production	
Other	
TOTAL	

6.6 What is the legal form of organisation?

Limited Co.	
Partnership	
Sole Ownership	

6.7 Have you considered changing the legal form? ....

6.8 Is unlimited liability a serious potential problem for the owner? ....

6.9 Remarks

SECTION SEVEN - STAFF

7.1 What are your drawings from the business? ....

7.2 Do you have a high staff turnover? ....

7.3 Do you hold staff meetings? ....

7.4 How often? ....

7.5 Do you have a set of staff rules? ....

7.6 Do you keep staff records? ....

7.7 How is your staff paid? ....

7.8 How does your staff remuneration compare with the competition? ....

7.9 Do you have problems getting the right staff? ....

7.10 How do you relate internal staff relations? ....

7.11 Do you use temporary help? ....

7.12 What benefits do you offer your staff? ....

....

7.13 Do you require your staff to work overtime? ....

....

7.14 What do you do to train your staff to improve sales and effectiveness? ....

7.15 Do you use a system of management by objectives? ....

7.16 Remarks

SECTION EIGHT - PURCHASES

8.1 Who is responsible for purchases in your business? ....

....

8.2 Do you belong to a buying organisation? ....

8.3 Who are your main sources of supply?

1. ....

2. ....

3. ....

4. ....

5. ....

8.4 Are written copies kept of all orders placed? ....

8.5 What controls do you exercise over purchases? ....

....

8.6 Do you take advantage of cash or quantity discounts? ....

8.7 Are purchases adjusted for seasonal variations in sales? .....

....

8.8 Do you know what your stock turnover rate is? ....

8.9 Remarks

SECTION NINE- GOODS RECEPTION

9.1 Who is responsible for receiving goods in your business? ....

....

9.2 Do you have a separate reception department? ....

9.3 Are goods checked at reception regarding quality and quantity?

....

9.4 Are discrepancies followed up immediately? ....

9.5 Do you experience problems in getting credits from your suppliers?

....

9.6 Remarks

SECTION TEN - PRICING

10.1 Is every article clearly marked? ....

10.2 Which information appears on the price tag?

Selling Price	
Cost Price	
Date received	
Name	
Supplier	
Other	

10.3 Are prices determined in relation to marketing criteria or on a cost-plus basis? ....

10.4 What is your % mark-up? ....

10.5 How competitive are your prices in relation to your competition?

....

13/......

10.6 Do you make use of less-leaders? ....

10.7 Do you mark-down to move slow-moving products? ....

10.8 Do you give discounts? ....

SECTION ELEVEN - STOCK

11.1 Do you follow a specific policy in terms of variety, price and quality? ....

11.2 Do you keep stock records? ....

11.3 Do you think you are overstocked or understocked? ....

11.4 Do you have a number of items older than one year in stock?
....

11.5 How often do you take a physical stock count? ....

11.6 Please explain the method used? ....
....
....
....

11.7 Do you have a stock shortage problem? ....

SECTION TWELVE - SALES

12.1 Do you keep a record of monthly and yearly sales? ....

12.2 Do you keep separate records of cash and credit sales? ......

12.3 Do you keep records of departmental sales? ....

12.4 What methods do you use to promote sales? ....
....

12.5 Do you feel that the sales growth potential is greater than the rate of inflation? ....

12.6 Have you researched the firms image with your customers? ....

....

12.7 Do the staff simply take orders or do they try to promote sales by means of personal selling? ....

12.8 Have you any suggestions for promoting sales? ....

....

....

....

12.9 How many sales assistants do you employ? ....

SECTION THIRTEEN - ADVERTISING

13.1 Do you have a name sign? ....

13.2 Do you have window displays? ....

13.3 Who does these window displays? ....

13.4 How often do you change your window displays? ....

....

13.5 Do you advertise special offers in your windows? ....

13.6 Which advertising media do you use?

Local Press	
Outdoor	
Cinemas	
Direct Mail	
Regional Radio	

15/......

Calendars	
Leaflets	
Other	

13.7 Do you prepare a yearly advertising plan? ....

13.8 Have you samples of your advertising to discuss? ....

13.9 Do you try to check the effectiveness of your advertising? ..

....

13.10 What is the main message you try to communicate in your ads.?

....

....

SECTION FOURTEEN - MANAGEMENT AND ADMINISTRATION

14.1 How many staff are involved in the administration of your business? ....

14.2 Do you take administration work home? ....

14.3 Do you receive enough information to make decisions? ....

....

14.4 Is your administration work always up to date? ....

14.5 Are decisions based on facts or general opinion? ....

....

14.6 Are you satisfied with your system of accounting? ....

....

14.7 Can you tell quickly the amounts owing to creditors? ....

14.8 Can you tell quickly the amounts owing by debtors? ....

....

14.9 Can you tell your gross profitability on a monthly basis? ...

....

14.10 Remarks

SECTION FIFTEEN - BUDGETS

15.1 Which of the following budgets do you use?

Sales	
Purchases	
Costs	
Cash Flow	
Gross Profits	
Net Profits	
Capital	
Operating	

15.2 How often are these budgets completed? ....

15.3 How often do you compare budget figures with actuals? ....

....

15.4 Do you know what your sales break-even point is? ....

15.5 What is your gross profit as a % of sales? ....

15.6 Remarks

SECTION SIXTEEN - DEBTORS

16.1 Do you supply goods on credit? ....

16.2 What are your normal terms? ....

16.3 How do you determine credit limits? ....

....

16.4 Do you require a deposit? ....

16.5 Do you use a written application form? ....

16.6 Do you ask for trade references? ....

16.7 Do you belong to a credit bureau? ....

16.8 Do your customers sign each invoice? ....

16.9 How many accounts do you have? ....

16.10 Are your statements posted in time? ....

16.11 What is your experience with bad debts? ....

....

16.12 What is the cost of administering the credit programme? .....

....

16.13 What is your collection policy and procedure? ....

....

16.14 Does the credit programme place a financial strain on your business? ....

16.15 Remarks

SECTION SEVENTEEN - FINANCE

17.1 Do you have sufficient capital? ....

17.2 Do you need an overdraft? ....

17.3 What is your overdraft limit? ....

17.4 Is this sufficient for your needs? ....

17.5 Can you get alternate finance? ....

17.6 Do you experience a cash shortage? ....

17.7 Does the business lack any assets which would improve its efficiency? ....

17.8 Do any fixtures, equipment, vehicles, etc. need to be replaced soon? ....

17.9 Does the firm have the working capital to expand sales? .....

17.10 How are stocks and debtors valued? ....
....

17.11 Is the balance sheet a true reflection of the state of the business? ....