Table of contents

FIGURES

TABLES

CHAPTER 1

THE SCOPE AND METHOD OF THE STUDY

1.1 INTRODUCTION

This study focuses on market strategies[1] applied by the selected South African food manufacturers in the period 1996 to 1999. The selected South African food manufacturers, for purposes of this study, are the larger firms manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats listed on the Johannesburg Stock Exchange (JSE), food sector, in the period 1996 to 1999. These firms were selected because they were meaningful, in terms of value of sales and consumer expenditure, as will be seen later in this chapter. This period is the focus of the study for two main reasons, namely that (1) it is the most recent meaningful period for which information is available and (2) at that time there were changes that significantly shaped both the food industry and the selected firms. For the purposes of this study, the selected firms are considered to be those firms (see section 1.2 for details) listed under the food sector of the JSE and form part of the "food industry". The food industry, in turn, forms part of "manufacturing" as classified by the Standard Industrial Classification (SIC)[2]. Manufacturing is the third major division of all economic activities in terms of the SIC. According to statistics published by Statistics South Africa (Statssa) (*Statistics in brief* 2000), manufacturing was the major contributor to South Africa's gross domestic product (GDP) in the period 1996 to 1999, as illustrated in table 1.1 below.

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[1] Market strategies are equated with the firm's battle plan to survive and grow in the marketplace (Van der Walt 1996:542). See chapter 4, section 4.2 for more details.

[2] The SIC is a classification of economic activities of industries based on the International Standard Industrial Classification. According to the SIC, an industry consists of establishments engaged in a closely related kind of economic activity based mainly on the principal class of goods produced or services rendered (SIC 1993:iii).

Table 1.1 SA gross domestic product (GDP) by industry at market prices (R million) in the period 1996 to 1999

Industry	1996	%	1997	%	1998	%	1999	%
Agriculture, forestry and fishing	23 949	4,6	24 314	4,5	22 538	4,1	23 305	4,2
Mining and quarrying	34 542	6,6	35 118	6,5	34 845	6,4	34 499	6,2
Manufacturing	107 648	20,6	110 248	20,6	108 447	20,1	108 283	19,7
Electricity and water	18 403	3,5	19 206	3,6	19 316	3,5	19 688	3,5
Construction	16 092	3,0	16 571	3,1	16 778	3,1	16 136	3,0
Wholesale, retail and motor trade, catering and accommodation services	74 416	14,3	74 749	14,0	73 704	13,7	74 675	13,6
Transport and communication	47 368	9,1	50 885	9,5	54 442	10,1	58 558	10,7
Finance, real estate and business services	87 668	16,8	91 454	17,1	96 601	18,0	102 721	18,7
Community, social and other personal services	14 210	2,7	13 971	2,6	13 902	2,6	14 186	2,6
General government services	82 422	15,8	82 860	15,5	82 458	15,3	81 879	15,0
Other producers	14 066	2,7	14 298	2,6	14 626	2,7	14 919	2,7
GDP at market prices	**520 785**	**100***	**533 678**	**100**	**537 658**	**100**	**548 849**	**100**

* Figures do not add up to 100 due to rounding
Source: http//:www.nda.agric.za/docs/abstracts/Table//.htm 26 May 2001

From table 1.1 it is clear that manufacturing was the major (19,7%) contributor to the GDP in the period 1996 to 1999, followed by

- finance, real estate and business services (18,7%)
- general government services (15%)
- wholesale, retail and motor trade, catering and accommodation services (13,6%)
- transport and communication (10,7%)
- the remainder of the industries each contributed less than 10% to the GDP.

Although manufacturing was the dominant contributor to the South African GDP it is clear, from table 1.1, that its contribution declined slightly (from 20,6% to 19,7%) during the period 1996 to 1999. At the same time the contribution of finance, real estate and business services, and transportation and communication to the South African GDP increased to some extent (from 16,8% to 18,7% and 9,1% to 10,7%, respectively). This phenomenon points to the increased importance of the tertiary industry, such as services, as a future contributor to South Africa's GDP as opposed to the decline in the contribution of manufacturing to GDP. This is in line with overseas trends in countries such as the USA and UK. Another interesting observation regarding table 1.1 is that the contribution of the majority of industries to GDP in this period remained more or less static (for example electricity and water, community, social and other services).

Given manufacturing's important contribution to the South African GDP in the period under review, it is necessary to dissect "manufacturing" to gain further insight into it. According to the SIC (1993:iv),[3] the major division manufacturing consists of a total of nine divisions, one of which is the "manufacturing of food products, beverages and tobacco". Each division, in turn, is subdivided into major groups, such as "production, processing of meat, fish, fruit, vegetables and oils and fats". Each major group, in turn, consists of groups, like "the production and processing of meat and meat products". Each group consists of subgroups such as "production of lard and other edible fats". The contribution of these major groups and subgroups to total manufacturing output can be scrutinised to determine which of the groups and subgroups made the major contribution to the manufacturing division. Table 1.2 below gives a summary of the total manufacturing output by major group and subgroup to the figures of the latest manufacturing census, conducted in 1996 and published in 1998.

[3] The wording in this paragraph corresponds to that used in the SIC, 5th edition 1993:ix.

Table 1.2 Contribution to total SA manufacturing output in 1996 (latest available manufacturing census) in R million

Manufacturing group	Output	%
Food and food products (part of food division)	47 886	14,4
Motor vehicle, trailer and semitrailer (part of transport equipment division)	37 212	11,2
Chemical, (part of coke, refined petroleum products, chemicals, rubber and plastic division)	35 545	10,7
Basic metal (part of basic metals, fabricated metal products, machinery division)	32 158	9,7
Paper (part of wood, wood products, paper, publishing and printing division)	16 813	5,1
Petroleum products (part of coke, refined petroleum products, chemicals, rubber and plastic division)	15 899	4,8
Other groups (remainder of groups and divisions, including textiles, clothing and leather; non-metallic mineral products; electrical machinery and equipment; radio, tv communication equipment and medical and specialised instruments; and furniture)	147 028	44,1
Total manufacturing output	**332 541**	**100**

Source: Statssa Publication P3001: 2 (20 December 1998)

From table 1.2 it appears that the category food and food products was the single most important contributor (14,4%) to manufacturing output in 1996, followed by motor vehicle, trailer and semitrailer manufacture (11,2%), chemicals (10,7%), basic metal (9,7%), paper (5,1%) and petroleum products (4,8%). According to the SIC, the division manufacture of food consists of three categories, namely, (1) manufacture of food and food products, (2) manufacture of beverages and (3) manufacture of tobacco products. Statistics for each of the categories food and food products, beverages and tobacco are given separately, as indicated in table 1.2 confirming the dominance of food and food products as the major contributor to manufacturing output in 1996.

As pointed out above, the food category is divided into various major groups, groups and subgroups. The relative importance of each of these major groups can be determined by comparing the contribution of the value of sales of each of them to the food division. Table

1.3 below provides a summary of the sales of each of the major groups in the period 1996 to 1999.

Table 1.3 Total sales (R million) of the SA food divisions by major group in the period 1996 to 1999

Group	1996	%	1997	%	1998	%	1999	%
Total food	**49 582**	**100**	**52 677**	**100**	**54 944**	**100**	**57 028**	**100**
Production, processing and preserving of meat, fish, fruit, vegetables, oils and fats	13 701	28	14 923	28	16 411	30	17 190	30
Manufacture of dairy products	5 834	12	6 834	13	6 954	13	7 125	13
Manufacture of grain mill products, starches and starch products and prepared animal feed	13 769	28	14 542	28	14 300	26	14 880	26
Manufacture of other food products, bakery products, sugar, including golden syrup and cocoa, chocolate and sugar confectionery, macaroni, noodles, tea and nut foods, condiments, vinegar, yeast, egg products and soup	16 277	32	16 540	31	17 277	31	17 830	31

Source: Statssa Publication P3041.4: 23-33 (8 December 1999) and http://www.statssa.gov.za/release/manufacture/Dec1999.pdf updated 8 February 2000

According to table 1.3, the Rand value of sales of dairy products was the lowest of the four major food groups throughout the period 1996 to 1999. The importance of dairy in terms of percentage contribution to sales of food increased marginally (from 12 to 13%) in this period. From table 1.3 it appears that the Rand value of sales of the major group meat, fish, fruit, vegetables, oils and fats increased marginally during the period 1996 to 1999. The importance of this major group, in terms of percentage contribution to total sales, also increased marginally (from 28 to 30%). At the same time, the Rand value of sales of grain mill products, starches and starch products and prepared animal feed increased minimally and its importance in terms of percentage contribution declined slightly (from 28 to 26%). The Rand value of sales of other products increased insubstantially in the period under review, while its importance in terms of percentage contribution decreased slightly (from 32 to 31%). The trend in the Rand value of sales as illustrated in table 1.3 suggests that the major group meat, fish, fruit, vegetables, oils and fats is growing slightly in importance compared to the other major groups.

Apart from studying the value of sales of the different major food groups, one may also look at consumer expenditure on food to determine the importance of the different major food groups. Table 1.4 below gives South African consumer expenditure on food in the period 1996 to 1999.

Table 1.4 SA consumer expenditure on food in the period 1996 to 1999 in R million

Food category	1996	%	1997	%	1998	%	1999	%
Total food	**78 087**	**100**	**87 437**	**100**	**93 357**	**100**	**96 046**	**100**
Meat, fish, fruit, vegetables, oils and fats	41 386	53	45 467	52	50 413	54	50 193	52
Dairy products	6 247	8	7 869	9	8 402	9	8 718	9
Grain mill products, starches, starch products, and prepared animal feed	17 179	22	20 111	23	21 472	23	22 880	24
"Other" food products	13 275	17	13 990	16	13 070	14	14 255	15

Source: Adapted from *Abstract of Agricultural Statistics* (2000:104-106)

From table 1.4 it is clear that consumer expenditure on the major group meat, fish, fruit, vegetables, oils and fats was the largest (more than 50%) throughout the period 1996 to 1999, followed by grain mill products, starches and starch products and prepared animal feed (more than 20%), "other" (more than 10%) food products. Table 1.4 indicates that consumer expenditure on dairy products was the lowest (less than 10%) throughout the same period. One may therefore conclude that the major group meat, fish, fruit, vegetables, oils and fats was the most important major group in terms of consumer expenditure, followed by grain mill products, "other" food products and dairy products.

The available information demonstrates that manufacturing is the "major division"[4] contributing the most to South Africa's GDP. According to this information, the food division, in turn, is the major contributor to manufacturing in terms of output. This means that manufacturing, on the one hand, is the division adding the most value to the economy. Output, on the other hand, is a macro-economic indicator of success, which means that food manufacturing was successful in the period 1996 to 1999. The food major group production, processing and preserving of meat, fish, fruit, vegetables, oils and fats is deemed to be the most important food major group in terms of both value of sales and consumer expenditure in the period 1996 to 1999, given the information in tables 1.3 and 1.4. This is why this study focuses on food manufacturing, and the production, processing and preserving of meat, fish, fruit, vegetables, oils and fats in particular. Focusing on the most important major group of the food division has several advantages, including narrowing the focus of the study and hence making it manageable.

From the above information it can be seen that the JSE-listed companies manufacturing food and the manufacturers of food of the major group meat, fish, fruit, vegetables, oils and fats in particular, play a vital part in supplying food (products) to the (private) consumer in South Africa. Moreover, these firms (could) fulfil a significant role in food security on a national level (though not necessarily from a household perspective as there are households in South Africa where people are starving) – that is, access to adequate, affordable, safe and nutritious food in South Africa, which is a topical issue. The firms listed on the JSE, food sector, are reviewed in the next section.

[4] "Major division" corresponds with wording of SIC. Also see footnote 3 in this regard.

1.2 REVIEW OF THE FIRMS LISTED ON THE JSE FOOD SECTOR

This section reviews the firms listed on the JSE food sector and commences with table 1.5, which is a summary of these firms.

Table 1.5 Summary of the firms listed on the JSE food sector

Market abbreviation	Firm name	Nature of business	Date listed year, month, day	Date delisted year, month, day
Armato	Armato Corporation Ltd	Confectionery	19600101	19981002
AVI	Anglovaal Industries Ltd	Management firm focusing on food, fish, glass, toiletries and cosmetics, processing of ingredients and packaging to FMCG industry	19600101	0
CGSmith	C.G.Smith Ltd	Diversified food and fishing, sugar, pharmaceuticals, packaging, bulk liquid storage	19600101	20000218
Conafex	Conafex Societe Anonyme	Diversified agriculture and flowers	19600101	0
Huntcor	Huntcor Ltd	Diversified poultry, sugar	19600101	19971205
HLH	Hunt Leuchars & Hepburn Ltd	Diversified manufacturing grocery and household products, sugar, citrus and tea	19600101	0
Ocfish	Oceana Fishing Group Ltd	Fishing, cold storage and financing	19600101	0
Namsea	Namibian Sea Products Ltd	Fishing and investment	19600101	0
Namfish	Namibian Fishing Ind Ltd	Fishing, manufacturing and investments	19600101	0
WBHold	W B Holdings Ltd	Fruit (fresh)	19600101	0
Beckets	Beckett T.W. & Co Ord	-	19600101	19900118
CGS Food	C.G.Smith Foods Ltd	Diversified branded consumer food, including meat, fish, canned fruit, grain mill products, dairy products, poultry, animal feed, and health care products	19600101	19990820
Cadswep	Cadbury Schweppes Ltd	Confectionery, food, beverages, soft drinks	19600101	0
Cadsw13,5%Cd	Cadbury Schweppes 13,5% Cd	-	19600101	19900118
Crown	Crown Food Holdings Ltd	-	19600101	19930607
Elangen	Elangeni Holdings Ltd	-	19600101	19911220

Foodcrp	Foodcorp Ltd	Diversified branded consumer food, including meat, fish, canned fruit, grain mill products, dairy products, poultry, animal feed	19600101	19980428
Foodcrp 7%Cp	Foodcorp Ltd 7% Convpref	-	19600101	19970407
Foodcrp13%Cd	Foodcorp Ltd 13% Convdeb	-	19600101	19970407
Funa	Funa Foods Ltd	-	19600101	19900619
Gant's	Gant's Holdings Ltd	-	19600101	19910122
ICS	I C S Holdings Ltd	Diversified branded consumer food, including meat, dairy products, cold storage	19600101	19980923
ICS 32,3c Cp	I C S 32,3c Conv Pref	-	19600101	19900319
I&J	Irvin & Johnson Ltd	Fish, frozen and chilled foods	19600101	20000114
Kanhym	Kanhym Invest Ltd Ord	-	19600101	19920711
Kanhym 10%Cp	Kanhym Invest 10% Conprf	-	19600101	19900319
Norbake	Northern Bakeries Ltd	Bakery products	19600101	19990127
Milikip	Mielie-Kip Ltd	-	19600101	19901029
Tiger Brands	Tiger Brands Ltd	Diversified branded consumer food, including meat, fish, canned fruit, grain mill products, dairy products, poultry, animal feed and healthcare	19600101	0
Crookes	Crookes Bros Ltd	Producer of primary agricultural products, including sugar, fresh fruit, grain farming and animal husbandry	19600101	0
Lonsugr	Lonrho Sugar Corp Ltd	Sold to Illovo Sugar	19600101	19970711
Tongaat	Tongaat-Hulett Group Ord	Diversified sugar, building materials, textiles, aluminium, property, starch and glucose	19600101	0
Natrawl	Natal Ocean Trawling Ltd	-	19600101	19990603
Rainbow	Rainbow Chicken Ltd	Production processing of broilers and animal feed	19890619	0
Delcorp	Del Monte Royal Corp Ltd	Manufacture, marketing and distribution of branded food, including canning and export of pineapples, deciduous fruit	19890710	20010412
Prem Grp Npl	Prem Group Hldgs Ltd Npl	-	19890807	19900116
Choice	Choice Holdings Ltd	Suspended	19890821	0
Delhold	Del Monte Royal Hldgs Ld	Controlling shareholder in Delcorp	19890911	200104120
Delfood	Del Monte Royal Foods Ld	Pineapples, deciduous fruit, beverages, confectionery, and dry mixes	19910301	20010412
Royfood Npl	Royfood Ltd Npl	-	19910218	19910318
Rainbow Npl	Rainbow Chicken Ltd Npl	-	19910506	19920226

I&J Npl	Irvin & Johnson Ltd Npl	-	19910930	19911025
I&J 6%Cd	Irvin & Johnson 6%Condeb	-	19911024	20000114
AVI 5%Cd	Anglovaal Ind 5%Convdeb	-	19911024	0
Illovo	Illovo Sugar Ltd	Cane growing, sugar manufacture and downstream by-products	19920213	0
Tig Oats Npl	Tiger Brands Oats Ltd Npl	-	19920203	19920229
Langbrg	Langeberg Hldgs Ltd	Canned fruit and vegetables	19920601	19991022
Crown Npl	Crown Food Hldgs Npl	-	19920803	19920829
Seaharv	Sea Harvest Corp Ltd	Trawling of deep sea fish, processing and marketing thereof	19930712	0
Lonsugr Npl	Lonrho Sugar Corp Npl	-	19940117	19940209
Bonnita	Bonnita Holdings Ltd	Dairy	19940826	19981002
Kolosus	Kolosus Holdings Ltd	Processing of natural protein and related products	19941213	0
Sovfood	Sovereign Food Invest Ld	Poultry farming, and processing, feed milling, distribution and trading	19950606	0
Natchix	National Chick Ltd	Broilers to the broiler industry, health care products	19960423	0
Chillrs	Chillers Group Ltd	Distribution	19960619	19990603
Prem Grp Npl	Premier Group Ltd Npl	-	19960722	19960814
Huntcor Npl	Huntcor Ltd Npl	-	19960902	19960925
Huntcor 7%Cp	Huntcor 7% Comp Convpref	-	19960926	19971205
HLH Npl	Hunt Leuchars & Hepb Npl	-	19960902	19960925
HLH 7% Cp	Hunt Leuchars 7% Comp Cp	-	19960926	0
Rainbow Npl	Rainbow Ltd Npl	-	19960902	19960925
Rainbow 7%Cp	Rainbow Chicken 7% Com Cp	-	19960926	19980109
OTK	Otk Holdings Ltd	Farmers co-op converted to firm – agricultural produce, handling and storage, stores, food and cotton	19961111	0
Choice Npl	Choice Holdings Ltd Npl	-	19961118	19961211
Choice 10%Cp	Choice Hldgs 10% Convpref	-	19961212	0
Lifestyle	First Lifestyle Hldg Ltd	Holding firm investing in entrepreneurial managed niche market high quality manufacturing and distribution firms with sustainable high growth rate in earnings	19970610	0
Chillrs Npl	Chillers Group Ltd Npl	-	19970617	19970709

Afbrand	Afribrand Holdings Ltd	Manufacture and distribution of branded snack foods, beverages, sweets and confectionery	19970805	0
Kolosus Npl	Kolosus Holdings Ltd Npl	-	19980126	19980218
Conafex Opt	Conafex Societe Anonyme	-	19980414	0
Intrading	Intertrading Ltd	Procurement and international marketing of South African fruit and other commodities	19980730	0
Nimbus	Nimbus Holdings Ltd	Manufacture and distribution of food product to the retail and wholesale trade	19980721	0
HLH Npl	Hunt Leuchars & Hep Npl	-	19980928	19981021

Source: Information provided by JSE on 10 April 2000 and The *Investor's Guide*, March/May 2000, issue 94; *SA Press Group* January 2000 and April 2001

Although table 1.5 contains a host of information, only three observations pertinent to this study are highlighted. Firstly, an observation about the diverse nature of the business of these listed firms – the products range from primary agricultural products, such as the production of sugar cane (Illovo), to the production of processed food, such as canned fruit and vegetables (Tiger Brands). The firms themselves are as diverse as their interests, in terms of turnover and employment as shown in tables 1.6 to 1.10 in section 1.2.1.

The second observation is the number of listings (20) and delistings (23) that occurred in this sector, in the period 1996 to 1999. In some cases, firms were delisted because of liquidations, such as Natrawl. In other cases, such as I&J, CGSmith Foods, Premier Group and Foodcorp, the delistings were caused by so-called "unbundling". Unbundling is a world phenomenon, which was widespread in the 1990s and is expected to continue in the 2000s. Unbundling is not described or defined in the sources consulted. However, the unbundling of a firm entails the restructuring, divesting or selling off of noncore businesses with a view to improving the financial and/or competitive position of the firm. In the case of South African firms, the unbundling or restructuring of firms listed on the JSE food sector resulted in the delisting of some of the firms and/or the "delayering" of the controlling pyramid structures. In the case of the unbundling of CGSmith, the firm CGSmith Foods was delisted and at the same time one of the controlling pyramid "layers" of Tiger Brands was "removed". The CGSmith unbundling also resulted in the delisting of Langeberg and ICS, which now trade as wholly-owned subsidiaries of Tiger Brands. In the case of the unbundling of AVI, the firm I&J was delisted. It now trades as a wholly-owned subsidiary of AVI. In the case of Tongaat-Hulett, unbundling entailed the selling off of the consumer food products division with no apparent impact on either the listing status of the firm or the controlling interest. The unbundling of Malbak and Premier Group resulted in the delisting of Foodcorp and the Premier Group, respectively. In a sense unbundling can be deemed to be a specific market strategy, similar to either maintaining or divesting, followed by the listed company. (See chapter 4, section 4.2 for a detailed discussion of market strategies available to a firm.)

The final observation from table 1.5 is that Tiger Brands is the only food firm engaged in a variety of food products corresponding to the food subgroups as identified in table 1.3. AVI, on the other hand, is involved in a variety of products from food to glass and cosmetics – the latter falling in divisions different from food (also known as unrelated diversification). It would appear that the other listed firms are focused on a narrower range of products than Tiger Brands and AVI. It would also appear that a few firms, such as Intrading and WB Holdings, are engaged in niche markets such as fresh fruit. Furthermore, there are not many firms engaged in a particular activity, for example, Kolosus, Tiger Brands, Sovfood, OTK and Rainbow are involved in the production and processing of meat. Tiger Brands and Delfood are involved in the production and processing of canned fruit. I&J, Ocfish, Namsea, Namfish and Seaharv are engaged in the processing of fish. The activities of companies such as Cadswep, HLH, Crookes, Tongaat and Illovo encompasses that of the major food group "other", ranging from sugar to confectionery.

The firms selected for this study reflect the diverse nature of the firms manufacturing products classifiable under the food major group production, processing, preserving of meat, fish, fruit, vegetables, oils and fats. This study focuses on the larger firms such as Tiger Brands, manufacturing products classifiable under the food major group, production, processing, preserving of meat, fish, fruit, vegetables, oils and fats. Competitors can be determined for Tiger Brands, especially active in the food major group production, processing, preserving of meat, fish, fruit, vegetables, oils and fats. Firms such as I&J, Delfood, Kolosus and Rainbow are deemed to be competitors of Tiger Brands in certain products in the food major group production, processing, preserving of meat, fish, fruit, vegetables, oils and fats. These competitors therefore also form part of the study. The selection of these firms is specifically and comprehensively visited in chapter 5, while the next section discusses each of the selected firms that form part of this study.

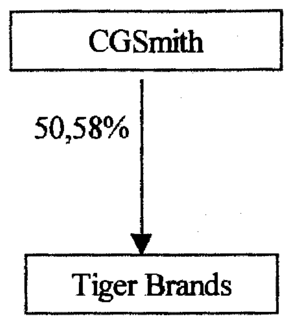
1.2.1 Details of the selected firms that form part of this study

This section discusses the controlling interest, activities/food subgroup, turnover and employment for each of the selected firms that form part of this study. The selected firms are Tiger Brands, I&J (in the stable of AVI), Delfood, Kolosus and Rainbow, and details are provided in the same order.

1.2.1.1 Tiger Brands

Since Tiger Brands is the major role player in terms of this study, its details are given first. At the end of the 1999 financial year, Tiger Brands was controlled by CGSmith, as depicted in figure 1.1 below.

Figure 1.1 Control of Tiger Brands at the end of the 1999 financial year



Source: Annual Report (1999:10)

Figure 1.1 shows that a strong listed firm, namely CGSmith, controlled Tiger Brands at the end of the 1999 financial year. Figure 1.1 does not show the relations between Tiger Brands and its subsidiaries, associated firms and joint ventures, such as Langeberg, ICS, Sea Harvest, Oceana (associated) and Earlybird Farms (50% joint venture with OTK). These associations are important because they contribute to Tiger Brands' overall performance and possibly its market dominance in the food industry. These associations could be significant because they could point to the concentrated nature of the food industry.

The activities of Tiger Brands include the manufacture of branded consumer food, such as meat, fish, canned fruit, grain mill products, dairy products, poultry, animal feed and health care. Consumer food brands include Colmans, Koo, All Gold, Black Cat, Husky, Dogmor, Tastic, Fatti's & Moni's, DairyBelle, Lucky Star, Sea Harvest, Enterprise, Renown, Sunshine D, Beacon and Cartwrights. These brand names suggest that the branded consumer goods are not exclusively from the food major group production, processing, preserving of meat, fish, fruit, vegetables, oils and fats. Products from the food major group dairy are included as is evident from the brand name DairyBelle. The brand names, Dogmor, Tastic and Fatti's & Moni's suggest that products of the food major group grain mill products, starch and starch products and animal feed are included in the branded products. The brand name Beacon suggests that the major group "other" is also involved, in this case chocolates and sweets. One may therefore conclude that Tiger Brands' activities are diverse. Unfortunately, no information on the composition of sales of the branded products is given in Tiger Brands' annual reports. It is, however, assumed that the food major group production, processing, preserving of meat, fish, fruit, vegetables, oils and fats constitutes the major portion of turnover. From the turnover information in annual reports it is clear that the food products were the single most important turnover category, followed by wholesaling, international activities and pharmaceuticals. Table 1.6 below gives details of the turnover and employment of Tiger Brands in the period 1996 to 1999.

Table 1.6 Turnover (in R million) and employment (number of persons) of Tiger Brands in the period 1996 to 1999

Turnover and employment	1996 Total	%	1997 Total	%	1998 Total	%	1999 Total	%
Turnover	15 157,5	100	16 924,9	100	19 327,7	100	22 526,8	100
Food:	13 040,7	86	14 675,5	87	17 691,9	92	20 837,4	93
Branded consumer products fishing and poultry	**4 256,9**	**28**	**4 817,9**	**28**	**5 969,9**	**31**	**7 870,4**	**35**
Employment	29 717	-	28 574	-	40 647	-	29 093	-

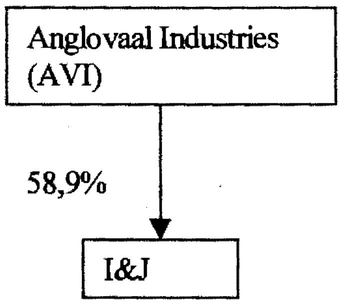
Source: Annual Reports and McGregors/BFA Information Services, April 2000

Table 1.6 indicates that the turnover of the branded consumer goods, poultry and fishing increased steadily during the period 1996 to 1999. As will be seen in chapter 2 (section 2.4.1), this trend in turnover appears to be consistent with Tiger Brands' unbundling effort, namely to become a focused branded consumer product manufacturer. It is interesting to note that the number of people employed increased dramatically in 1998 and decreased again in 1999 to a figure comparable to 1996 and 1997. Information on Tiger Brands alone does not place it in perspective. Information on competitors in similar or comparable activities is necessary to see Tiger Brands in context. The next section gives information on I&J (part of AVI) as one of Tiger Brands' major competitors.

1.2.1.2 I&J

I&J, the major subsidiary of AVI, was listed separately on the JSE until 14 January 2000 when AVI bought the minority shares of I&J. Figure 1.2 below illustrates the control of I&J at the end of the 1999 financial year.

Figure 1.2 Control of I&J at the end of the financial year 1999



Source: *Financial Mail* (3 December 1999:12)

Figure 1.2 demonstrates that I&J is controlled by AVI, but does not clarify the activities of

I&J. However, these can be established from the annual reports of I&J and AVI. According to annual reports, I&J focuses on fishing and frozen foods. Brand names include I&J (fish, prepared, frozen and chilled products), Pillsbury, Table Top and Harvestime (nowadays replaced by the brand name McCain following the acquisition by McCain of the frozen vegetable business of I&J (*Business Report* 10/4/2001)). According to the brand names, I&J manufactures food products classifiable under the major food group meat, fish, fruit, vegetables, oils and fats and other. From these brand names it would appear that I&J could be a competitor of Tiger Brands in fish and vegetables. Table 1.7 below illustrates details of the turnover and employment of I&J in the period 1996 to 1999.

Table 1.7 Turnover (in R million) and employment (number of persons) of I&J in the period 1996 to 1999

Turnover and employment	1996 Total	%	1997 Total	%	1998 Total	%	1999 Total	%
Turnover	2 225,8	100	2 656,2	100	2 469,7	100	2 762,0	100
Food (Including branded consumer products)	**578,7**	**26**	**664,0**	**25**	**990,8**	**40**	**1 135,5**	**41**
Employment	7 146	-	6 493	-	na	-	na	-

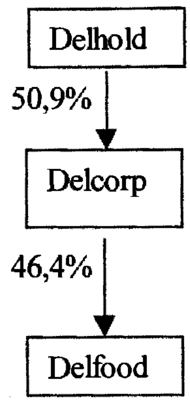
Source: Annual Reports and McGregors/BFA Information Services, April 2000

According to table 1.7, I&J's turnover fluctuated in the period under review. It increased in 1997 compared with 1996, but decreased in 1998 and increased again in 1999. The contribution of food turnover to total turnover increased from 26% in 1996 to 41% in 1999. Table 1.7 shows that both the total turnover and food turnover of I&J are smaller than those of Tiger Brands, in the corresponding period. The next section supplies details of another competitor, Delfood.

1.2.1.3 Delfood

Delfood was delisted on 12 April 2001. However, at the end of the 1999 financial year Delfood was controlled by Delcorp. Figure 1.3 below illustrates the control of Delfood as at the end of the 1999 financial year.

Figure 1.3 Control of Delfood at the end of the 1999 financial year



Source: Annual Report 1999

According to figure 1.3, Delfood is controlled by a "pyramid" and it is at the bottom of the pyramid. Delfood's activities include the growing of pineapples and deciduous fruit, the canning of fruit, and the manufacture of beverages, confectionery and dry mixes. The canning of fruit falls in the food major group production, processing and preserving of meat, fish, fruit, vegetables, oils and fats. Delfood is therefore considered to be a competitor of Tiger Brands in the area of fruit canning, and specifically the activities of Langeberg. Delfood's food brand names include Del Monte. Turnover for the categories food and beverages are given separately in the annual reports. It can be established that canning is the principal contributor to Delfood's turnover. Details of Delfood's turnover and employment in the period 1996 to 1999 are provided in table 1.8 below.

Table 1.8 Turnover (in R million) and employment (number of persons) of Delfood in the period 1996 to 1999

Year/turnover and employment	1996 Total	%	1997 Total	%	1998 Total	%	1999 Total	%
Turnover	3 301,1	100	3 223,0	100	3 378,5	100	3 510,9	100
Food (pineapple, deciduous fruit, tomatoes, vegetables and others)	na	na	na	na	2 023,7	59,9	2 081,9	59,3
Employment	14 008	-	10 810	-	9 821	-	9 425	-

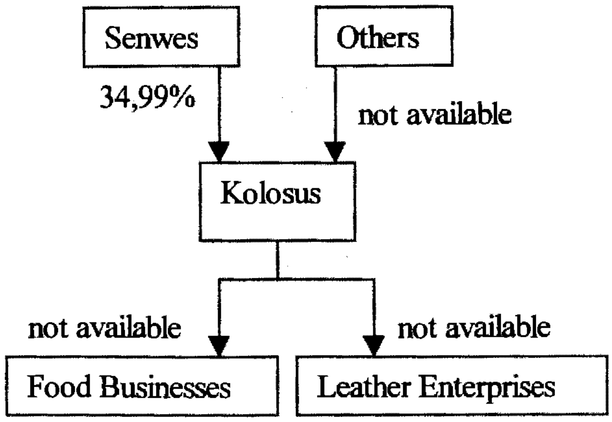
Source: Annual Reports and McGregors/BFA Information Services, April 2000

From table 1.8 Delfood's turnover increased marginally in the period 1996 to 1999. The food turnover of Delfood contributed almost 60% to turnover in 1998 and 1999. Delfood's employment decreased over the period 1996 to 1999. Both Delfood's total and food turnovers as shown in table 1.8 are significantly smaller than those of Tiger Brands. Delfood also employed fewer people than Tiger Brands in the period 1996 to 1998, making it significantly smaller than Tiger Brands. The next section supplies information on another competitor, namely Kolosus.

1.2.1.4 Kolosus

At the end of the 1999 financial year, Kolosus was controlled by Senwes, an agricultural cooperative that converted to a company. Figure 1.4 below illustrates the control of Kolosus at the end of the 1999 financial year.

Figure 1.4 Control of Kolosus at the end of the 1999 financial year



Source: Annual Reports and McGregors/BFA Information Services, April 2000

Figure 1.4 does not show the links between Kolosus and its business units, namely Bull Brand Food Ltd, Sams (Pty) Ltd and the leather business units. It would appear from figure 1.4 that Kolosus is focused on protein and related products. However the annual reports do not disclose the contribution of the various activities to total turnover, therefore the major contributor to turnover cannot be established. The protein products can be classified into the food major group production, processing and preserving of meat, fish, fruit, vegetables and edible oils and fats. The brand names of Kolosus include Bull Brand, Supreme and Spekenam. These brands suggest that Kolosus is focused on meat products. These brands compete with the Tiger Brand's Enterprise and Renown brands. Table 1.9 below depicts details of Kolosus' turnover and employment in the period 1996 to 1999.

Table 1.9 Turnover (in R million) and employment (number of persons) of Kolosus in the period 1996 to 1999

Turnover and employment	1996 Total	%	1997 Total	%	1998 Total	%	1999 Total	%
Turnover **Food**	1 808,5 Unknown	100	2 667,4 Unknown	100	1 110,9 Unknown	100	1 337,2 Unknown	100
Employment	na	-	na	-	na	-	na	-

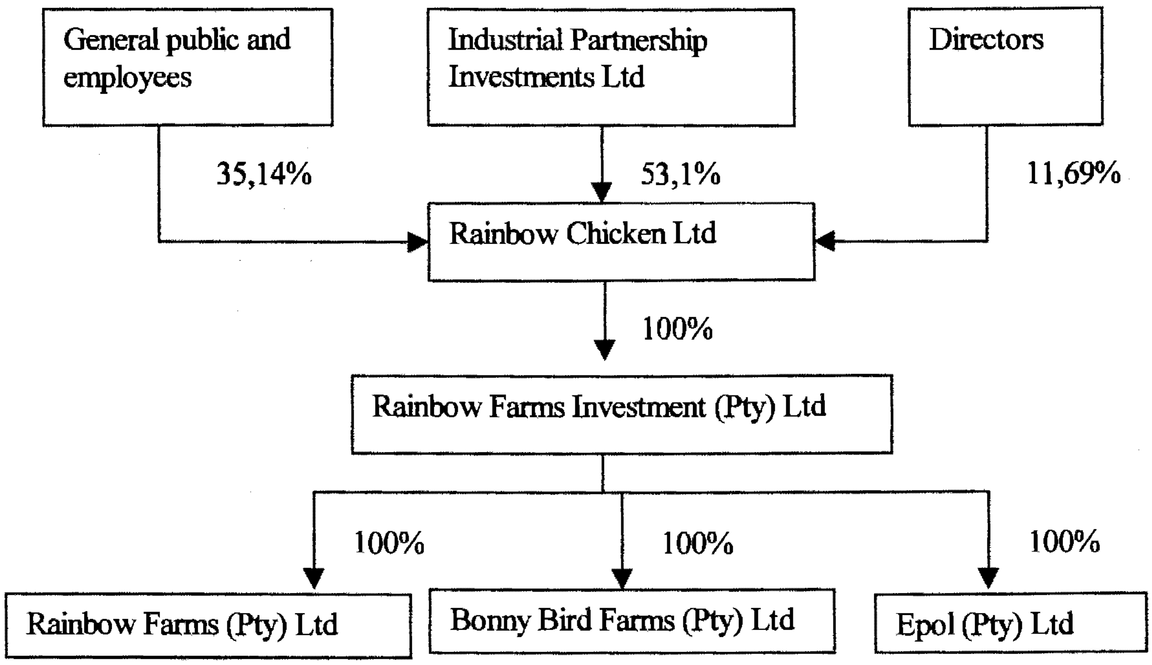
Source: Annual Reports and McGregregors/BFA Information Services, April 2000

From table 1.9 Kolosus' turnover seems to have varied in the period 1996 to 1999. This variation could perhaps be attributed to the problems that it experienced during this period. These problems stemmed from the deregulation of the agricultural industry, among other things. The figures contained in table 1.9 suggest that Kolosus' turnover was smaller than that of Tiger Brands in the period 1996 to 1999. Since no information on Enterprise's turnover is available, the "meat" activities of the two firms cannot be compared directly. The next section supplies information on the last competitor, namely Rainbow.

1.2.1.5 Rainbow

At the end of the 1999 financial year, Rainbow was controlled by Industrial Partnership Investments Ltd, a wholly owned subsidiary of Rembrandt. Figure 1.5 below illustrates the control of Rainbow at the end of the 1999 financial year.

Figure 1.5 Control of Rainbow at the end of the 1999 financial year



Source: Annual Report (1998:2)

From figure 1.5 it would seem that Rembrandt, through Industrial Partnership Investments Ltd, controlled Rainbow in the period under review and further that Rainbow focuses on poultry and animal feed. The poultry activities can be classified in the food major group meat, fish, fruit, vegetables, oils and fats, while Epol can be classified in the food major group grain mill products, starch and starch products and animal feed. Rainbow's brand Bonny Bird is regarded as being in competition with the Tiger Brands' County Fair and Festive brands. Since the contribution of the different activities of Rainbow's turnover is not disclosed in the annual reports, their relative importance cannot be established. Table 1.10 below illustrates Rainbow's turnover and employment in the period 1996 to 1999.

Table 1.10 Turnover (in R million) and employment (number of persons) of Rainbow in the period 1996 to 1999

Turnover and employment	1996 Total	%	1997 Total	%	1998 Total	%	1999 Total	%
Turnover	2 150,3	100	2 082,3	100	2 143,0	100	2 150,3	100
Food:	Unknown		Unknown		Unknown		Unknown	
Employment	11 592	-	10 680	-	8 392	-	6 925	-

Source: Annual Reports and McGregors/BFA Information Services (April 2000)

Table 1.10 indicates that Rainbow's turnover was more or less static and the number of people employed by Rainbow declined steadily over the period 1996 to 1999. The decline in the number of people employed may perhaps form part of Rainbow's restructuring efforts to improve its dismal performance. From table 1.10 it can be concluded that Rainbow's turnover is significantly lower than Tiger Brands' total turnover. Since Rainbow does not disclose particulars of the different activities, it is impossible to compare the turnover of its poultry with that of Tiger Brands. Next selected international food firms are examined in order to place Tiger Brands and its South African competitors in perspective.

1.2.1.6 Selected international food manufacturers

It is essential to provide details of international food manufacturers because South African firms are increasingly exposed to international competition, both in the domestic and overseas markets, because of globalisation and efforts to liberalise world trade. The international firms selected for this comparison form part of the Fortune 500 firms. These firms are generally considered to be benchmark firms of corporate achievement. The source of information on the Fortune 500 firms does not disclose the controlling interest of these firms. However, details of turnover and employment are available and are provided in table 1.11 below.

Table 1.11 Selected international food manufacturers for the year 1999

Rank	Firm	Nature of business	Turnover* in R million	# of employees
1	ConAgra	Diversified conglomorate active in agriculture, crop protection chemicals, fertilisers, seed distribution, commodity distribution and merchandising, grain milling and grain mill products, spices, flavourants, ingredients, meat, sea food, frozen and branded products	150 275,45	84 644
6	HJ Heinz	Canned fruit and vegetables, pickled fruit and vegetables, canned and cured fish and sea food, frozen specialities, food preparations, canned specialities, bread and other bakery products	56 823,0	38 600
7	Bestfood	Pickled fruit and vegetables, canned fruit and vegetables, food preparations, bread and bakery products, edible fat, flavouring extracts, macaroni, spaghetti, noodles	52 772,07	44 000
13	Dole Food	Fruits and tree nuts, canned fruits and vegetables, dried and dehydrated fruit and vegetables, salted and roasted nuts and seeds, vegetables and melons	30 922,71	60 000
16	Suiza Food	Milk, cream, manufactured ice, canned fruits and vegetables, pickled fruits and vegetables, ice cream and frozen desserts and frozen specialities	27 385,02	13 800
19	Dean Foods	Milk, cream, ice cream and frozen desserts, canned fruits and vegetables, pickled fruits and vegetables	23 798,45	12 950

* Exchange rate $1 = R6,11 (average exchange rate for 1999 according to *Absa Quarterly South African Economic Monitor*, second quarter 2000:5)
Source: *Fortune* (April 17, 2000:F-39) and Internet information

Table 1.11 shows that the selected international food manufacturers are diverse in terms of turnover and employment. These firms are also significantly larger that the South African firms in terms of turnover and number of employees. In 1999 ConAgra's turnover was approximately seven times that of Tiger Brands and its employment was almost three times that of Tiger Brands in 1999. According to table 1.11 ConAgra is the largest of the international food firms in terms of turnover and employment. Furthermore, it is also the most diverse in terms of activities, which range from crop protection to branded foodstuffs. The activities of HJ Heinz can be classified into three of the food major groups, namely meat, fish, fruit, vegetables, oils and fats and grain mill products, starches and starch products, animal feed and others. Bestfoods' activities can be classified into the categories meat, fish, fruit, vegetables, oils and fats and grain mill products, starches and starch products and animal feed. Dole Foods' activities can be classified into the major group meat, fish, fruit, vegetables, edible oils and fats and "other". Suiza Food and Dean Foods' activities can be classified into one major group, namely dairy.

If one compares the South African firms with each other it is clear that Tiger Brands is the largest in terms of turnover and employment as well as the most diverse because its activities can be classified into several of the food major groups. However, if the South African firms are compared with their international counterparts, they are significantly smaller both in terms of turnover and employment. Furthermore, there seem to be fewer food manufacturers in South Africa than in the USA, for example. The number of firms active in a particular activity, such as food manufacturing, relates to market structure, which is addressed in the next section.

1.2.2 The market structure in which the firms listed on the JSE food sector operate

From the foregoing it is clear that there are not many listed food firms in South Africa (see table 1.5 in section 1.2). The number and size of firms relate to market structure or industry form. Industry form refers to the classification of the industry according to the existing competitive situation, for example, monopoly, oligopoly, monopolistic competition or pure competition. The South African food industry is regarded as an oligopoly because a few large firms dominate the industry. This view of an oligopoly is consistent with the definition of oligopoly as put forward by Samuelson and Nordhaus (1992:164; 743). The aggregate food turnover of Tiger Brands, I&J, Delfood, Kolosus and Rainbow represented more than

50% of food sales in 1999[5]. Oligopolistic industry formats, generally, draw attention to two economically vital factors, namely relative costs and collaboration[6]. Relative costs refer to the cost structure of the firms in question which may be similar. Owing to similarities in cost structures, the food manufacturers in question may be constrained in making prices which include a reasonable profit. Furthermore, owing to the nature of oligopolistic industry formats, relative costs tend to be high in relation to demand, and thus prices are further depressed or dampened. In order to recover costs and to be effective, the firm should be able to supply the bulk of the demand (major volume to attain economies of scale). The oligopolistic nature of the market and the similarity in cost structures may impede competition because firms may collaborate. Collaboration refers to the arrangements made about who supplies how much, to whom, where and when. It involves an arrangement or understanding between manufacturers, either formal (documented) or informal (verbally agreed) to cooperate in order to allow participants to make a profit. Collaboration is of particular importance to this study because it may hinder the application of market strategies as the planning, implementation and control of market strategies become irrelevant. Collaboration (including cartels) constitutes anti-competitive behaviour, which is prohibited in South Africa by the Competition Act of 1998.

Despite the concentration and the oligopolistic nature of the South African food industry, it would appear that there is at least intratype competition. Intratype competition refers to competition at a horizontal level or the same type of firm manufacturing the same/similar type of food (Van der Walt et.al 1996:303). I&J and Pillsbury (both in AVI's stable) and Oceana and Sea Harvest (in Tiger Brands' stable) compete in terms of fish and fish products.

[5] The aggregate "food" turnover for 1999 (tables 1.6 to 1.9) divided by food sales (table 1.3)

[6] Experience from investigations undertaken by the Competition Board

Enterprise and Renown (in Tiger Brands' stable) compete with Bullbrand, Spekenam (in Kolosus' stable) in terms of processed meat. Langeberg (in Tiger Brands' stable) competes with Del Monte (in Delfoods stable) and I&J (in AVI's stable) in terms of canned fruit and vegetables. Bonny Bird (in Rainbow's stable) competes with Early Bird (in Tiger Brands' stable). The food group edible oils and fats of Tiger Brands has no listed competition. In fact, the only competition to these products is from Unifoods, which is not listed. This illustrates the oligopolistic nature of the food industry.

Market strategies are especially relevant where competition is concerned and are the means by which competitors are outwitted in the marketplace and enable the firm to adapt to changes in its business environment. The oligopolistic industry format of the industry under discussion could ideally lend itself to the application of market strategies. Market strategies form part of business level strategies, which, in turn, form part of a firm's strategy hierarchy (STRMAR-6 1996:7). Strategies are formulated at different levels of the firm as discussed in the next section.

1.2.3 Different levels of the firm at which strategies are formulated

According to Thompson and Strickland (1998:44-51), strategy making occurs at different levels of the firm. They identify at least four different levels of strategy making, namely the corporate, business unit (SBU), functional and operational levels. In diversified firms, the strategy formulated at corporate level is known as the "corporate strategy" that represents the strategy for the firm as a whole, which includes all its business units. The business unit strategy represents the strategy for each business unit into which the firm has diversified. This is known as the business (level) strategy. The functional level strategy is formulated at functional level and represents the strategy for each functional unit, such as human resources, marketing and finance. Operational level strategy is known as operating strategy and represents the strategy for each department, unit or operating unit within the functional unit.

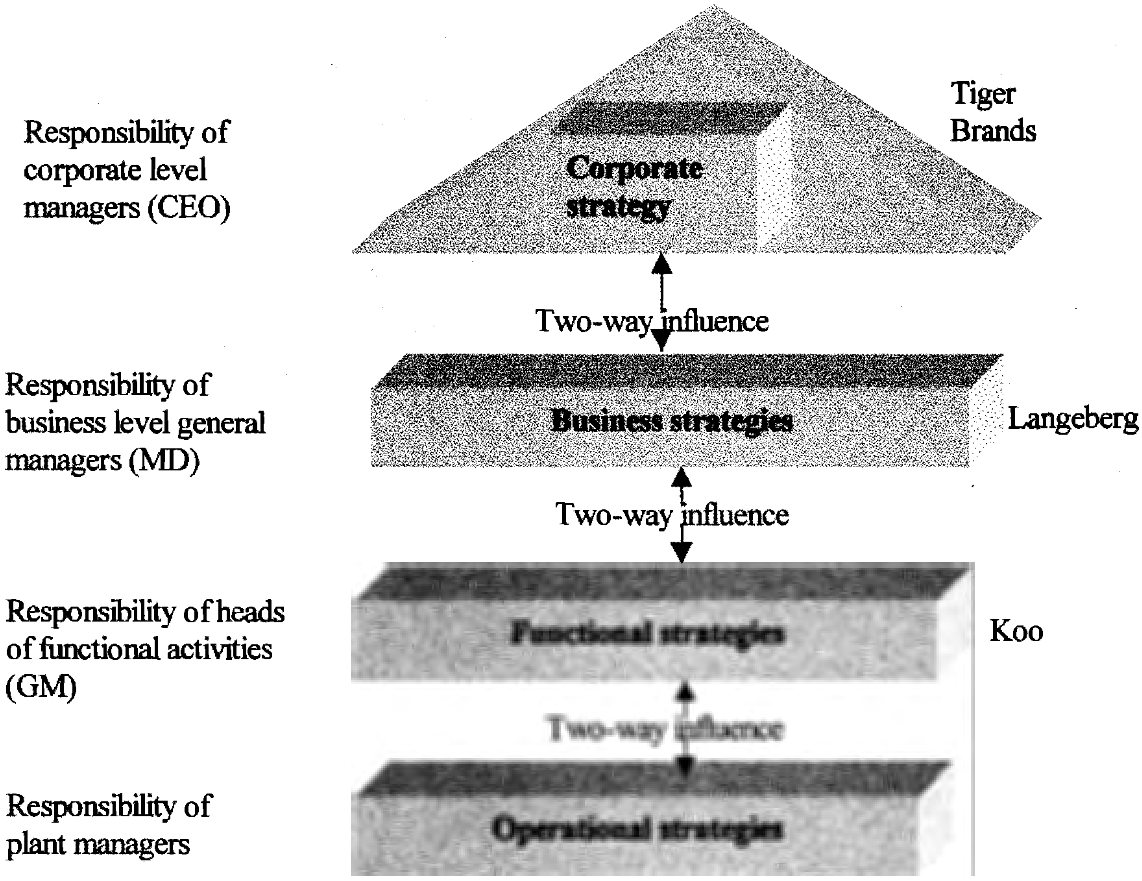
Besides the four strategy-making levels in a firm, Webster (1992:10) identifies three dimensions of marketing, namely culture, strategy and tactics. Marketing as *culture* is associated with the corporate level of strategy and revolves around the set of values and beliefs ascribed to the customers which guide the firm. Marketing as a culture contributes to answering the question "what business are we in?" and focuses on the value offered to the market, among other things (in this regard see chapter 3, section 3.3.1). Marketing as *strategy* is associated with the SBU level of strategy and revolves around the segmentation, targeting and positioning issues of the firm. Marketing as strategy focuses on the resources, skills, assets and abilities of the firm that are required to compete successfully in a given market[7]. According to Webster (1992:11), the boundaries of strategic management and marketing are blurred at the SBU level of the firm. Marketing as *tactics* is associated with the functional level of strategy and concerns the firm's marketing mix elements (product, price, promotion, and place) and marketing strategies of the firm. The latter falls outside the scope of this study.

Market strategies form part of business strategy and are marketing management's inputs to a firm's business level strategies. The role of marketing at the SBU level of the firm is to ensure that the firm is market driven. In a single firm, the corporate level strategy corresponds to the business level strategy. Figure 1.6 below illustrates how the various

[7] Chapter 3 deals comprehensively with the concept of sustainable competitive advantage. In section 3.3, reference is made to the relevance of assets, resources and skills to sustainable competitive advantage.

strategy levels can be applied to the South African food manufacturers listed on the JSE, food sector, in 1996 to 1999 using Tiger Brands as an example.

Figure 1.6 The different levels of the firm at which strategies are formulated using Tiger Brands as an example



Source: Adapted from Thompson & Strickland (1998: 44)

According to Thompson and Strickland (1998:44), the CEO and other key executives (eg, Marketing Director, Finance Director) are primarily responsible for formulating corporate strategy. The primary strategy-making tasks at corporate level include the following:

- building and managing a high performing portfolio of businesses; for example, poultry, canned fruit and vegetables and meat

- capturing the synergy among related businesses and turning it into a competitive advantage; for example, food
- establishing investment priorities; for example, branded consumer foods
- allocating corporate resources to businesses with the most promising opportunities; for example, branded consumer products
- reviewing the major strategic approaches and moves proposed by business unit managers

In terms of figure 1.6 Tiger Brands should address these issues, which represent the corporate level of strategy in the example. The core elements of a corporate strategy include decisions relating to the following:

- the kind of diversification (related or unrelated) that should be considered; for example, food related
- the focus of the diversification for example narrowly based in a few industries (eg, agriculture and food) or broadly in many industries (eg, agriculture, food, chemicals), in this case, narrow
- using diversification to create corporate identity
- efforts to build a sustainable competitive advantage by diversifying into related businesses and generating synergies; for example, canned home meal replacements
- actions to strengthen the competitive position and profitability of the different businesses that make up the firm (eg, re-engineering)
- endeavours to add new businesses or reposition the business against competitors; for example, acquiring Epic from Premier
- divesting weak or poorly performing businesses; for example, divesting the joint venture with Dahlgren

- the allocation of investment capital across the business units

Business level strategy or simply business strategy refers to the managerial game plan for a single business (Thompson & Strickland 1998:47). Business strategy presents the approaches adopted and moves made by management to ensure success in performance in one particular line of business. According to Thompson and Strickland (1998:44), the general manager or head of the business unit is primarily responsible for business strategy. The primary strategy-making tasks at business level include devising moves and approaches to compete successfully in the market and obtaining a competitive advantage, forming responses to changing external conditions, uniting the strategic initiatives of key functional departments, and taking action to tackle firm-specific issues and operating problems. According to figure 1.6, Langeberg can be seen as an SBU level of Tiger Brands. The core elements that identify a business unit strategy include decisions relating to the following:

- determinants of the basic competitive approach; for example, low cost/low price/differentiation/focus on a specific market, for example, moving the asparagus canning plant to Lesotho to reap the benefits of the Lomé Convention
- responses to changing industry conditions and other emerging developments in the external environment, such as focusing canned products on the Asian market because of the health consciousness of the European consumer which led to a decline in the demand for canned fruit in Europe
- drives to obtain a competitive advantage in a particular market; for example, canned fruit, vegetables and home meal replacements (HMR) and chilled meats
- geographical market coverage and the extent of vertical integration; for example, focusing on the African market as the main export destination

- collaborative partnerships and strategic alliances with other firms (eg, HJ Heinz)
- key functional strategies to build a competitive advantage and valuable resource strengths and capabilities; for example, investing in technology

According to Jain (1996:17), an SBU must look and act like a free-standing business and satisfy the following conditions:

- have a unique business mission, independent of other SBUs
- have a clearly definable set of competitors
- have the ability to carry out integrative planning relatively independent of other SBUs
- be large enough to justify senior management's attention but small enough to serve as a useful focus for resource allocation

The market strategy forms part of the business strategy. The former represents the inputs of marketing management to business level strategy. The focus of this study is therefore mainly on the SBU level and, to some extent, on the corporate level.

Functional level strategy, on the other hand, relates to the managerial game plan for running a major functional activity or process within a business. Research and development, marketing and finance are examples of a functional activity. Functional strategies are narrower in scope than business strategies and add relevant detail to the overall plan by establishing actions, approaches and practices to be used in managing the functional department (Thompson & Strickland 1998:50). Functional strategies aim at establishing or strengthening specific competencies and/or competitive abilities to augment the firm's position in the market. The primary role of functional strategies is to support the firm's business strategy and competitive approach. Functional strategies can be further broken down into operational strategies. Functional strategies are represented, for example, by the Koo range of products. Functional level strategies as well as operational level strategies fall outside the scope of this study.

Strategy is formulated at all three levels of the firm, although the roles and focuses of these strategies differ as pointed out in the above discussion. However, it is contended that market strategy determines the extent to which the firm performs successfully in the marketplace. Successful performance is usually associated with profit. It should be noted, though, that various factors impact on profit. Hence, profit cannot be seen as the ultimate indicator of successful performance. Profit can merely be seen as a relative indicator of successful performance. The performance of the selected food manufacturers listed on the JSE is viewed in this light and discussed in the next section.

1.2.4 The performance of the selected food manufacturers listed on the JSE

In perusing the annual financial reports of the firms manufacturing food listed on the JSE, food sector, in 1996 to 1999, these firms seem to be performing well. In the majority of cases, turnover and profit increased between 1996 and 1999. It would further appear that the success achieved by the firms differs and that they did not perform as expected, despite the seeming application of market strategies. Table 1.12 below summarises examples of firms, the market strategies seemingly applied and performance (profit/loss).

Table 1.12 Summary of selected SA food firms, the market strategies seemingly applied and resultant performance

Firm	Market strategy	Performance	Source
Delfood	Sell 50% of Royal Beechnut (ie, divest strategy)	Improved – EPS increased 25% for the six months to May 1996	*Sunday Times* 30/6/96
	Turnaround by selling noncore assets in Italy (ie, harvesting strategy)	Disappointing – operating income declined 13,5%	*Business Day* 7/7/97
	Restructure – merge or sell certain assets	Disappointing – 30% decline in headline earnings	*Business Day* 30/3/98
Rainbow	Sold Epol (ie, divest strategy)	Poor – posted R57,2m loss for year end 1996	*Business Day* 9/4/96
	Restructure by delisting and liquidation of Huntcor (ie, maintaining or harvesting strategy)	Poor – R128,6m loss (interim)	*Business Report* 18/11/97
	Management change – Lankhnati appointed CEO	Improve – Share price rose 30% and closed at 26c	*Business Report* 17/4/98
	Restructure – move head office	Improved – operating profit of R34m for year ending March 1999	*Business Day* 23/7/98 *Business Report* 12/5/99
Tiger Brands	Acquisition of ConAgra – growth by expanding into malt	Share price decreased from R71 to R60	*Rapport* 5/5/96 *Business Day* 15/5/96
	Restructuring – invest in world-class manufacturing	Headline earnings improved 25,4% to R561,6m (year end 1999)	*Business Day* 20/11/96

	Joint Venture (Heinz SA pet food)	Improved – operating profit rose to R1,1bn	*Finance Week* 24/7/97 *Business Day* 12/11/97
	Expand (grow) into emerging markets (India, Philippines, Chile)	Improved	*Citizen* 27/11/98
	Divest (sell) stake in Fedics	Improved – headline earning improved from 233c/share to 255c/share	*Business Report* 1/4/99 *Business Report* 13/5/99
Kolosus	Restructuring – closing of factories	70% drop in net income (1996); Net income drops 46% (1997)	*Business Day* 5/8/96 *Business Day* 12/2/97
	Senwes acquires Kolosus from Vleissentraal	Unknown	*Financial Mail* 19/9/97
	Restructuring	Improved – losses were smaller (R24m compared to R80m previous period)	*Business Day* 26/6/97
	Restructure – sell unprofitable businesses	Improve – loss R6,92 vs previous of R24m	*Finance Week* 6/8/98 *Sake-Beeld* 6/7/99
I&J	Introduced value-adding processes (growth)	Unknown	*Financial Mail* 11/10/96
	Joint venture between I&J Australia and US firm JR Simplot	Unknown	*Business Day* 20/6/97
	Acquisition of frozen foods of Foodcorp	Unchanged – share price remained at R2,40	*Business Report* 5/12/97
	Taking steps to restore profitability by selling noncore businesses (divest)	Disappointing – 31% decline in headline earnings	*Business Day* 8/8/99

A closer look at table 1.12 shows that the firms in question seem to apply market strategies discussed by Aaker (1998), Thompson and Strickland (1998) and Van der Walt et al (1996). This is evidenced by market strategies such as "growth", "diversification", "divest", "low cost", "harvesting" and "maintaining" (see chapter 4, section 4.2). It would further appear from table 1.12 that Tiger Brands is the only firm that applies market strategies that are consistently associated with improved performance. The performance of Rainbow and Kolosus seems to have improved in 1998 and 1999. The market strategies applied by Tiger Brands, do not appear to differ from those applied by the other firms; for example, restructuring, acquisition and joint ventures. Furthermore, the conditions prevailing in the business environment were the same – for example, depressed consumer market, dumped poultry from the USA, high feed costs. Despite similar conditions prevailing in the (external) environment, Tiger Brands appears to have performed overall better than its rivals. The question is why it has performed consistently better than its rivals if they are all seemingly applying the same or at least similar market strategies. It would appear from the media coverage indicated in table 1.12 that the under-performing firms are aware of their poor performance and are trying to rectify the situation. Steps taken by some of the firms like Delfood, Kolosus, I&J and Rainbow to rectify the situation include applying market strategies such as "turnaround, restructuring and rationalisation or harvesting". The less successful firms appear to be applying similar market strategies, yet achieving less success than a firm such as Tiger Brands, though it would seem as if the performance of Rainbow and Kolosus improved in 1998 and 1999. From table 1.12 it would appear that the market strategies applied by the firms in question are only successful to a limited extent.

The disappointing performance of some of the firms in question does not come as a complete surprise. Although they appear to apply market strategies, it may be asked whether the market strategy applied by the firms under investigation is sound, that is as described by leading authorities in the field such as Aaker (1998), Thompson and Strickland (1998) and Van der Walt et al (1996). It would not be surprising if the market strategies do not comply with the characteristics of a sound market strategy, owing to the different views on the precise meaning and application of market strategies. The conflicting information in table 1.12 and the different views in the literature on market strategy pose the problem and reasons for the study as discussed in the next section.

1.3 STATEMENT OF THE PROBLEM AND REASON FOR THE STUDY

It would appear from the foregoing section and table 1.12 that there is a possibility that the firms in question do not have a well-formulated market strategy and/or are unaware of the essential characteristics of market strategy. Schnaars (1991:19) points out that there is no consensus on the subject or the concept of market strategy except for the historical origin of the concept "strategy". According to Davies (1998:13), Morris and Pitt (1993:36) and Cummings (1993:133), the concept "strategy" is extremely old. Historically, the term is used in a military context and is derived from the Greek *strategos*, meaning general. Originally, the word was associated with the leading of military forces in warfare. The application of the term to the firm's marketing effort is a recent phenomenon. Nevertheless, the use of the term in a marketing sense is closely related to its original meaning, namely to lead. There are four main areas of difference or conflict on market strategy which are briefly explained in the ensuing paragraphs.

The first area of conflict refers to the approach to (market) strategy. There are at least two approaches to strategy: the broad and the narrow approach. These two approaches are in conflict and are elucidated in the next paragraph.

Aaker (1998), Thompson and Strickland (1998) and Wilson and Gilligan (1998) favour the broad approach and maintain that strategy starts with the mission of the firm and goes through a series of steps, which include the following:

(1) Determine long-term objectives, which are deduced from the mission.

(2) Determine the scope of the business, which is defined by

(a) the products/services offered by the firm

(b) the markets served by the firm

(c) competitors

(d) the degree of vertical integration

(3) Formulate plans to achieve objectives.

(4) Determine the degree of investment:

(a) invest to grow

(b) invest to maintain current position

(c) harvest/milk the business

(d) divest or liquidate the business to recover assets

(5) Determine functional area strategies necessary to compete in a chosen product-market.

(6) Ascertain the assets or skills underlying the competitive advantage.

(7) Allocate resources among SBUs to enable them to achieve their objectives.

(8) Develop synergy between various SBUs.

(9) Implement action plans.

This study supports the broad approach. Greenley (1989) and others are of the opinion that strategy comprises only the "generic" alternatives, namely grow, maintain, harvest and divest, which is the narrow approach to strategy.

The second area of conflict relates to the terms “strategic marketing” and “marketing”. These are different views about the part that strategic marketing management plays and whether it is a separate part of business management or part of strategic management. There are also different views on the precise meaning of the term “strategic marketing management”. Doyle (1994) and Abell and Hammond (1979) use strategic marketing management in the same context as strategic management with the focus on the corporate level of management. Wilson and Gilligan (1998) and Ferrel (1994) use strategic marketing in the same context as marketing management with the focus on the functional level of management. Aaker (1998), Van der Walt et al (1996), Kotler and Andreassen (1991) and Cravens and Lamb (1990) use strategic marketing in the same context as both strategic and functional level of management, or, as they call it, “middle-management focus”. The level of strategic marketing is important as market strategies are the result of strategic marketing (see section 1.2.3).

The third area of conflict is the interchangeable use of the terms "strategic management", "marketing management" and “strategic marketing management” even though the terms mean different things. The interchangeable use of terms defining different ideas may lead to confusion.

The final area of conflict lies in the overlapping between the choices of generic strategies at the corporate, business and functional levels of the firm. Generic strategies are a broad categorisation of strategic choices that generally exist regardless of industry or type of firm, or size. Wheelen and Hunger (1998:106-157) describe strategies such as low cost, focus, differentiation, grow, maintain and divest as business strategies or competitive and corporate strategies, while Aaker (1998), Thompson and Strickland (1998), Pearce and Robinson

(1997:248) and Van der Walt et al (1996) describe them as business or market strategies. It is interesting to note that the generic strategies are the same, regardless of the level of the firm at which the strategy is formulated; for example, low cost, focus, growth.

The problem on which this study concentrate can be stated as follows:

To what extent do the market strategies applied by the selected (larger) JSE-listed SA companies manufacturing food (major group meat, fish, fruit, vegetables, oils and fats) in 1996 to 1999 comply with the principles of a sound market strategy as put forward by leading authors such as Aaker (1998), Thompson and Strickland (1998) and Van der Walt et al (1996)?

As indicated in section 1.2.4, some of the firms in question (eg, Tiger Brands) appear to apply market strategies successfully. However, it was also indicated that the performance of the firms in question varies. It would appear that some of the firms' performance is not satisfactory (eg, Delfood and I&J). One may ask whether the firms view market strategies in the same way as put forward by Aaker (1998), Thompson and Strickland (1998) and Van der Walt et al (1996), and act accordingly.

This study assumes that the firms (eg, Tiger Brands) that understand and apply market strategy as put forward by Aaker, Thompson and Strickland and Van der Walt et al will perform successfully while those who do not know about market strategies or do not adhere to the principles of a sound market strategy will be less successful.

1.4 OBJECTIVES OF THE STUDY

The main objective of the study is to determine whether, during the period 1996 to 1999, the selected (larger) firms listed on the JSE (food sector) manufacturing food (major group meat fish, fruit, vegetables, oils and fats) applied market strategy according to the principles of a sound market strategy as described by Aaker, Thompson and Strickland and Van der Walt et al.

The secondary objectives are to

- establish possible problem areas that may hinder the application of market strategy
- determine the marketing orientation of the management of the selected companies
- contribute to the body of knowledge on market strategy
- indicate new areas of research

1.5 RESEARCH DESIGN

1.5.1 General

This study focuses on the market strategies applied by selected companies manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats listed on the JSE food sector, in the period 1996 to 1999. Both secondary and primary research was undertaken.

1.5.2 Secondary research

Secondary research involves reviewing existing data collected or processed (eg, Statssa information) to determine how the available data can be used to enhance a new study. Secondary data have the primary advantage of being economically and readily obtainable. Secondary research helps to lay the foundation for primary research. Furthermore, secondary research may be useful in the formulation of recommendations. The first part of the study deals with secondary data. The literature review and the application of the theory to the South African food sector are the subject of chapters 2, 3 and 4. A complete list of secondary sources consulted is enclosed at the end of this study.

1.5.3 Primary research

Primary research involves collecting data for a specific purpose. To be valid and reliable, primary data should be collected meticulously. In this study, the role of primary research is to establish practitioners' views on market strategy and the extent of the application of market strategy by the selected firms listed on the JSE food sector in 1996 to 1999.

This study employed exploratory research, specifically a combination of case study and expert survey. As mentioned earlier, only the major firms manufacturing food listed on the JSE food sector manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats were used for collecting primary data. A judgment sample is thus applicable. These firms represent the most important food manufacturers (in terms of turnover) and reliability should not be compromised. Most of these firms typically have three management levels, namely corporate, business and functional. These levels are relevant to this study because they influence the application of market strategy. The principal advantages of using the listed firms are that information needed to complete the study is readily available and this sector appears to be significant to the economy (in terms of its contribution to GDP and employment). Furthermore, these firms appear to be applying market strategies, albeit with different degrees of success.

The study is qualitative in nature. A questionnaire was used to obtain the data. The main advantage of using a questionnaire is the volume and variety of information that can be collected at relatively low cost. The disadvantages of this method are a possible low response rate and the time it takes to receive completed questionnaires. Steps were taken to ensure an acceptable response rate. Reliability may be at stake, should the opinions of important stakeholders be omitted because of a low response rate.

The questionnaire to be used was pretested for relevance and comprehensibility and to facilitate respondents' response. A covering letter explaining the purpose accompanied the questionnaire. Respondents were informed of the questionnaire telephonically prior to dispatching it.

Chapter 5 discuses the primary research with reference to the research design, questionnaire and data collection.

The next section deals with the layout of the study.

1.6 LAYOUT OF THE STUDY

The chapters of this study are set out below in accordance with the research methodology outlined in the previous paragraphs.

Chapter 1 outlines the study, the statement of the problem, the reason for the study, and the research methodology.

Chapter 2 deals comprehensively with an environmental analysis of the firms in question and discusses the macro-, micro- and market environments.

Chapter 3 focuses on the SWOT analysis and sustainable competitive advantage. Sustainable competitive advantage can only be developed once the SWOT analysis has been completed. The opportunities and threats in the external environment and the strengths and weaknesses in the internal environment are established by doing an environmental analysis. The SWOT factors present in the environment impact on the market strategy chosen because sustainable competitive advantage is based on the opportunities and strengths. Sustainable competitive advantage is the foundation of market strategy, which is the focus of this study.

Chapter 4 provides an exposition of market strategy in terms of a model of market strategy, and explains the terms used in market strategy. The theory relating to market strategy is applied to the firms in question.

Chapter 5 covers the research process, discussing the research design, population and sample, method of data collection, questionnaire design and the limitations and evaluation of the methodology in detail.

Chapter 6 focuses specifically on the processing, analysis and evaluation of the research findings.

Chapter 7 covers the conclusions drawn from the study and recommendations.

CHAPTER 2

BUSINESS ENVIRONMENT ANALYSIS

2.1 INTRODUCTION

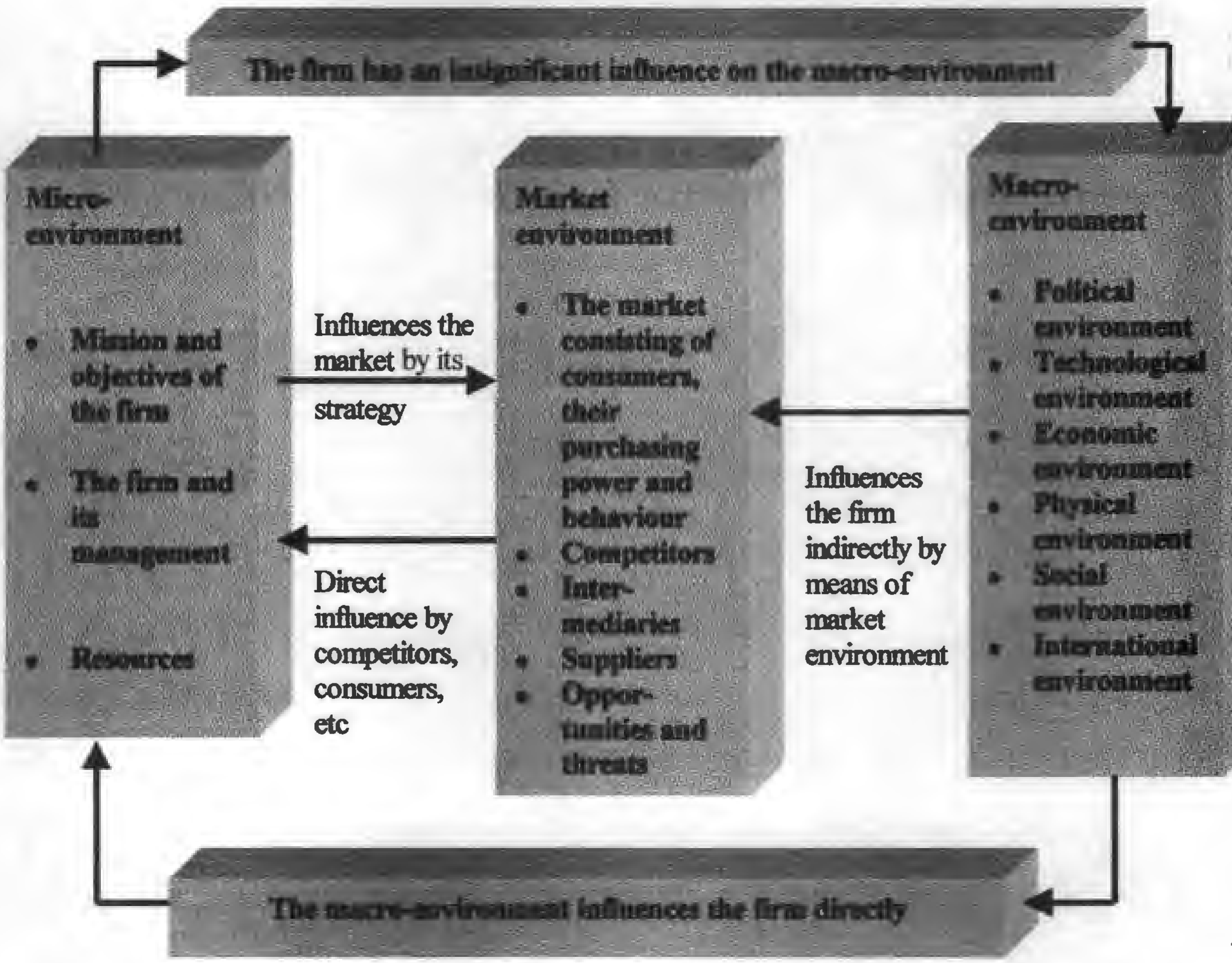
This chapter deals with environmental analysis. Analysing the business environment in which firms, particularly the firms that form the focus of this study, operate is a prerequisite for the management of market strategies. Nowadays, the environment in which firms operate changes more quickly than firms are able to adapt (Strydom, Cant & Jooste 2000:33). A number of variables present in the environment (external or internal) influence the destiny of a firm. The ultimate destiny of a firm is survival and growth[1] in an ever-changing environment. Some of the environmental changes may hold opportunities for the firm which may contribute to survival and growth, while others may pose threats to the firm which may jeopardise its survival and growth. Market strategy is the tool a firm's management uses to adapt to the environmental changes and thus ensure the arrival of the firm at its ultimate destiny, namely survival and growth. Firms that are able to adapt their market strategies proactively to anticipated environmental change, rather than reactively after the change has occurred, are considered successful.

This chapter analyses the business environment in which the selected larger companies manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats, listed on the JSE, food sector, in the period 1996 to 1999 (the selected firms) operated. The environmental analysis is done to determine the variables present in the environment, which

[1] One of the objectives of a firm in a free market system is to make a profit. Profit is expressed in different forms, such as return on investment. Nevertheless, profit is deemed to be a function of survival and growth. Survival alone is not adequate to sustain profit in the long term, therefore the firm must grow as well.

might have impacted on the market strategies applied by the firms in question in the period 1996 to 1999. The environmental analysis is approached from the view of the composition of the business environment as depicted by Strydom et al (2000:40), which is illustrated in figure 2.1 below.

Figure 2.1 Composition of the business environment



Source: Adapted from Strydom et al (2000:40)

It is clear from figure 2.1 that a host of variables impact on the survival and growth of firms. These variables are categorised as falling into one of three principal sub-environments, namely the micro-, market or macro-environment. The three sub-environments, in turn, are divided into two broad categories, namely the external and internal environments. The external environment consists of two sub-environments, namely the macro- and market environments, while the internal environment consists of the micro-environment. The business environment in which firms operate, as depicted in figure 2.1, corresponds to Strydom et al (2000:34), Aaker (1998:98), Thompson and Strickland (1998:105-113) and Wilson and Gilligan's (1998:41-64) definition of the environment, namely the sum of the variables or factors impacting on the survival and growth of the firm. Regardless of the category into which the variable falls, these variables in the environment may hold opportunities for, pose threats to, or represent strengths or weaknesses for the firms in question, all of which may influence the market strategy they apply. The objective of environmental analysis is to identify opportunities in the environment from which the firm can gain; and threats in order that the firm can avoid them or at least minimise their impact; and strengths and weaknesses to enable the firm to exploit opportunities, although only to the extent that its strengths and weaknesses allow.

The approach in this chapter is to analyse each of the sub-environments illustrated in figure 2.1 in relation to the selected firms that form the focus of this study. The analysis is restricted to the areas and variables considered to have had a significant impact on the selected firms' market strategy applied. These sub-environments are analysed in the ensuing sections.

2.2 THE MACRO-ENVIRONMENT

The macro-environment consists of variables that are beyond the control of the firm's management (Strydom et al 2000:52; Aaker 1998:99; Wilson & Gilligan 1998:237) and have a significant impact on the firm. According to figure 2.1, the macro-environment consists of six sub-environments, namely the (1) political, (2) technological, (3) economic, (4) physical[2], (5) social and (6) international environments. Firms, such as the ones in question, cannot exert any influence on these environments. However, these environments have a significant impact on the firm's market strategy and its performance through the opportunities and threats that these sub-environments hold for or pose to the firm. Each of these sub-environments, which together comprise the macro-environment, is examined in order to determine what possible opportunities or threats may arise from them and impact on the application of market strategy by the firms forming the focus of this study.

2.2.1 The political environment

The political environment defines the legal and otherwise governing parameters in which, inter alia, the firms in question must or may wish to operate (Thompson & Strickland 1998:54). It consists of, inter alia, the policy, laws and regulations of the Government that exert political pressure in the business environment. Government affects the business environment in which businesses, including the selected firms, operate primarily as a regulating institution and to a lesser extent through its policy, especially its endeavours to establish economic relations with Southern Africa and the European Union (EU). Government's policy on trade is influenced by, inter alia, the global move from protectionism

[2] Recently the literature, including Pearce and Robinson (1997), refers to the physical environment as forming part of the ecological environment. However, for the purposes of this study "physical" environment seems to be appropriate and thus used.

to free trade. This movement started with the Uruguay round of trade negotiations in 1986, which culminated in the signing of the Marrakesh Agreement in 1995. Agriculture forms part this agreement and, for the first time in history, agriculture is subject to the same rules as industry and commerce. Free trade in agriculture is deemed significant because agriculture is the principal input provider in the manufacturing of food, including the manufacture of meat, fish, fruit, vegetables oils and fats. The Marrakesh Agreement (1995) marks the beginning of free trade in the global agricultural sector. In terms of the Marrakesh Agreement, signatories may only protect their industries by means of tariffs while the use of non-tariff barriers, such as quotas, is prohibited. The provisions of the Marrakesh Agreement may also affect the negotiation of trade agreements. The political environment may thus influence the decisions of the firms in question regarding market strategy in a number of ways, as illustrated below.

An important agreement resulting from the Government's trade policy that may have influenced the firms in question is the World Trade Organisation Agreement (WTO Agreement). In terms of this agreement signatories agreed to certain maximum tariffs and the importation of a specific quota of affected products at preferential tariffs. This agreement opens up the South African food market for imported products (see table 2.1), which, because of its relatively small size compared to its counterparts, may leave it vulnerable especially to the USA and EU (see chapter 1, section 1.2.1.6, table 1.11). However, this agreement also affords South African firms, such as the firms under investigation, the opportunity to export to trading partners under beneficial conditions. These opportunities may not have existed without the WTO Agreement. It should, however, be noted that the participating countries affected by the WTO Agreement are protected in the sense that only a limited quantity of specific products can be imported at preferential rates. It should further be noted that in instances where tariff increases are deemed justifiable, the tariff may not exceed a pre-agreed level. Table 2.1 illustrates some of South Africa's obligations in terms of the WTO Agreement.

Table 2.1 Some of SA's obligations in terms of the WTO Agreement

Product	1996 quota (metric tons)	1999 quota (metric tons)	Bound tariff	Preferential tariff	Applied tariff
Bovine meat	26 254	26 254	69% and 160%	13,8% and 32%	40%
Poultry	17 420	29 033	37%; 45%; 82%	7,4%; 9%; 16,4%	220c/kg[3]; 5%; 27%
Sunflower seed	8 709	14 514	47%	9,4%	10%

Source: *Landbou Perspektief*, supplement to *Landbouweekblad* (24 July 1998)

The 1996 quota means the quota at the commencement of the agreement while the 1999 quota means the quota at the conclusion of the agreement. It is clear from table 2.1 that the quota increased between 1996 and 1999, in the case of poultry and sunflower seed. According to the WTO Agreement, the quota at the end of the period should have represented at least 5% of the market for the particular product. The bound tariff means the "ceiling tariff" – tariffs may under no circumstances exceed the bound tariff of the applicable tariff line. The preferential tariff represents favourable tariffs that should apply to the quota granted in terms of this agreement. Table 2.1 clearly shows that the preferential tariffs are lower than the applicable tariffs. The applicable tariff is the tariff that is applicable in the usual course of trade. In the majority of cases in table 2.1, the applied tariffs are lower than the

[3] The equivalent percentage represented by 220c/kg cannot be calculated. Poultry is classifiable under chapter 2 of the Customs Act with bovine meat, goat meat, other meats and offal. A total volume and value of imports under chapter 2 are available, making the calculation of an equivalent percentage for poultry alone unfeasible.

bound tariffs – for example, the applicable rate for sunflower seed is 10% while the bound rate is 47%. This indicates that South African tariff protection is moderate – South African industries are encouraged to function with minimal tariff protection or as close as possible to free market conditions with minimum Government intervention. No information on the obligations of South Africa's trading partners in terms of this agreement is available. This hampers comparisons and the exploring of possible opportunities available to South Africa.

Other important trade agreements resulting from Government's trade policy that may have impacted on the firms in question, are those enhancing economic relations in Southern Africa. These trade agreements impacted on the South African food industry, and particularly the firms under investigation, in so far as the resultant trade agreements influence the foodstuffs manufactured by the firms in question, that is meat, fish, fruit, vegetable, oil and fat products. The most important trade agreements, in the context of economic relations in Southern Africa, that may have impacted on the food industry in the period 1996 to 1999, and specifically the firms in question, include the Southern African Development Community (SADC) as well as the trade agreements with Swaziland, Zimbabwe, Mozambique and Malawi. The foodstuffs mainly affected by these agreements and relevant to this study include beef and processed foods. These trade agreements regulate the free flow of the affected products between the member countries and the application of minimal tariffs to these products. These agreements yield opportunities, which would not have existed for the selected firms (in this study). The opportunities include new markets to which the firms in question can export. The trading partners are, of course, free to export to South Africa in terms of these agreements. However, since the African trading partners are significantly smaller than South Africa, this is not regarded as posing a threat to the firms in question (for the purposes of this study). Details of exports and imports between South Africa and Africa are given in section 2.2.6 dealing with the international sub-environment.

South Africa and the European Union concluded a free trade agreement at the end of 1999. This agreement holds export opportunities for some of the firms in question. Details of this agreement are provided in subsection 2.2.6, which deals with the international environment. This shows that the different variables, although classified under a specific category, may have a bearing on other categories as well.

The Government's policy on trade agreements may have a smaller impact on the market strategy applied by the firms in question than the legislation promulgated by the Government (to which the firms must adhere everyday). By promulgating and enforcing legislation, Government creates order by means of political measures. Intervention, for example, health regulations, occurs to encourage the development of the economy in a particular direction. In this study, only those Acts that are deemed to have impacted significantly on the decisions and consequently the market strategies of the selected firms are briefly examined, namely:

(1) the Companies Act, 61 of 1973

(2) the Health Act, 63 of 1977

(3) the Foodstuffs, Cosmetics and Disinfectants Act, 54 of 1972

(4) the Fertilisers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, 36 of 1947

(5) the Agricultural Product Standards Act, 119 of 1990

(6) the Marine Living Resources Act, 18 of 1998

(7) the Competition Act, 89 of 1998

(8) the Board on Tariffs and Trade Act, 107 of 1986

(9) the Marketing of Agricultural Products Act, 97 of 1997

(10) the Genetically Modified Organisms Act, 15 of 1997

(11) Agricultural Pests Act, 36 of 1983

(12) the Labour Relations Act, 66 of 1995

2.2.1.1 Companies Act, 61 of 1973

The Companies Act, 1973 (as amended) deals with issues such as types and forms of firms, formation, objects, names, registration and incorporation of firms, share capital, reduction of capital, shares, allotment and issue of shares, the administration of firms, directors, auditors, accounting and disclosure, compromise, amalgamation, arrangement and take-overs, winding up of firms, judicial management and matters incidental thereto. This Act applies to firms incorporated under Chapter IV of the Act. One of the aims of this Act is to protect shareholders. Provisions of this Act were applied in the case of the unbundling of Huntcor, a shareholder in Rainbow (*Business Report*, 8/12/97) in order to protect shareholders. This shows that firms must adhere to certain regulations in applying specific market strategies such as unbundling (see chapter 1, section 1.2).

2.2.1.2 Health Act, 63 of 1977

The Health Act, 1977 (as amended) provides, inter alia, for measures for the promotion of health of the citizens of South Africa and related matters. These include the regulations promulgated in terms of this Act relating to food, beverages and molluscs. Sections 35, 36 and 36A of this Act are especially relevant to the selected firms that form the focus of this study. The regulations promulgated in terms of these sections relate to

- the control, restriction or prohibition of premises used for purposes connected with the handling, processing, production, manufacturing, packaging, storing, preparing, displaying, sale or serving of food;
- structural requirements to which any building on such premise shall conform and the material which shall be used in the construction thereof;
- the standards and requirements to which apparatus, equipment, storing spaces and working surfaces and places employed in connection with the handling of food and the cleansing of the facilities;
- labels used in the packaging of food (according to legal requirements rather than consumer needs);
- the regulating of imports and exports of any article of food;
- the taking and examination of samples of milk, dairy produce, meat or other articles of food;
- the supply of molluscs and fish for human consumption; and
- the addition of substances to the water used in the cultivation or breeding of molluscs or fish for human consumption.

It should be pointed out that the regulations promulgated in terms of the Health Act, 1977 apply to the formal sector only. These regulations may also have cost-raising effects for the firms in question since premises, apparatus, packaging and so on are prescribed by this Act. Furthermore, these regulations may possibly restrict participation in (formal) food manufacture owing to the stringent health requirements and costs associated with compliance with these requirements. The possible restrictions following from these regulations may contribute to the oligopolistic nature of the market (see chapter 1, section 1.2.2). However, by adhering to these regulations, the firms in question are able to guarantee the safety of consumers and thus build a good reputation. The latter is especially important to the firms, such as Delfood, which export to First-World countries such as certain European countries and the USA.

The provisions of the Health Act, 1977 were applied in 1997 when the Ebola virus affected the South African ostrich industry. The ostrich butchery in question was closed in terms of the provisions of the Act to protect the consumers. The exportation of ostrich meat from South Africa was also prohibited to safeguard the health of consumers in export destinations.

2.2.1.3 Foodstuffs, Cosmetics and Disinfectants Act, 54 of 1972

This Act (as amended) controls the sale, manufacture and importation of foodstuffs, cosmetics and disinfectants and related matters. The sale, manufacture or importation of foodstuffs containing or treated with a prohibited substance, or containing a particular substance in a greater measure than permitted by regulation, or not complying with any standard of composition, strength, purity or quality prescribed by regulation is prohibited. The use or employment of prohibited processes, methods, appliances, containers or objects is also prohibited, as is the false description of articles. This Act also prescribes the packaging of foodstuffs, cosmetics and disinfectants. The aim of the Act is to protect the wellbeing of consumers by prohibiting the sale of foodstuffs containing or treated with detrimental substances. In terms of the provisions of this Act, a Port Health Officer is required to inspect all imported foodstuffs to ensure that they comply with the provisions of the Act. So, for example, the importation of beef infected with "mad cow disease" and chicken meat contaminated with poultry flu was prohibited in 1996. The provisions of this Act were once again applied in 1999 when the Department of Agriculture's Directorate: Animal Health discovered that contaminated meat was imported from Belgium. In this instance, all imports of Belgian meat, poultry, and dairy products were banned owing to the fact that these animals consumed animal feed contaminated with the cancer-causing chemical by-product, dioxin (*Citizen* 4/06/99). South Africa's major trading partners have similar Acts – the provisions of these Acts were applied to prevent South Africa from exporting ostrich meat contaminated with the Ebola virus in 1997. Although the safety of consumers is protected, the provisions of this Act may have cost-raising effects for the firms in question.

2.2.1.4 Fertilisers, Farm Feeds and Agricultural Remedies and Stock Remedies Act, 36 of 1947

This Act (as amended) provides, among other things, for the appointment of a Registrar of Fertilisers, Farm Feeds, Agricultural Remedies and Stock Remedies, the registration of such products and the regulation of the importation of such products. Animal feeds may not be sold or imported unless they are registered with the Registrar in terms of the provisions of this Act. The aim of this Act is to protect the health of animals, and ultimately that of humans. Tiger Brands and Rainbow, which manufacture animal feed, are registered in terms of this Act. It is possible that the provisions of this Act and regulations promulgated in terms of it may create barriers to entry, which may, in turn, contribute to the oligopolistic nature of this market.

The aim of this and similar Acts is to protect people's health and wellbeing, hence they are important to the firms in question, even though they may have cost-raising effects. Diseases such as "mad cow disease" and chemical by-products such as dioxin originate in animal feed, especially those with (contaminated) animal tissue (bone meal) as basis. Theses may be contagious from contaminated animal to humans.

2.2.1.5 Agricultural Product Standards Act, 119 of 1990

The Agricultural Product Standard Act, 1990 (as amended) provides for the control over the sale and export of certain agricultural products, such as fruit and related products, and matters connected therewith. In terms of this Act, the export of a prescribed product may be prohibited unless the relevant authorities determined in the Act have approved each quantity of the particular product intended for export. False or misleading descriptions of products are also prohibited. This Act applies mainly to products intended for export and endeavours to ensure that South African firms adhere to the import regulations of trading partners, such as the European Union, the USA and Asia. In so doing, the reputation of South African firms is protected. In terms of this Act, a firm cannot export without complying with the standards set by trading partners. This may have a cost-raising effect on the exporting firm, although these provisions would protect its reputation.

2.2.1.6 Marine Living Resources Act, 18 of 1998

This Act provides for the conservation of the marine ecosystem and the orderly exploitation, utilisation and protection of certain marine resources, the exercise of control over sea fishery and matters connected therewith. It replaced the Quota Board, provided for in the Sea Fisheries Act 1988, and vested the powers for quotas in the Minister of Environmental Affairs.

The majority of fish species are subject to quotas allocated by the Minister and previously the Quota Board. The quotas allocated appear to be declining. Table 2.2 below illustrates quotas allocated in terms of this Act in the period 1996 to 1999, based on available information.

Table 2.2 Quotas for certain fish species in the period 1996 to 1999

Type of fish	1996	1997	1998	1999
Hake	148 000 ton	110 000 ton	152 000 ton	na
Sardines	105 000 ton	25 000 ton	na	na
Anchovies	70 000 ton	0	na	na
Abalone	615 ton	550 ton	na	na

Source: *F&T Weekly* 8/8/97; *F&T Weekly* 19/9/97 and *Engineering News* 13/3/98

Table 2.2 shows that the information on quotas is not readily available since the restructuring of the fishing industry. It also appears from table 2.2 that the quotas declined in the period 1996 to 1997. The declining quotas adversely affect the firms in question through lower capacity utilisation with consequent higher production costs and lower profits. The reduction in quotas may have resulted in job losses that could have caused industrial action which, in turn, may have had detrimental effects on the financial position of the firms in question – the sources consulted did not give conclusive evidence to this effect.

The whole idea of quotas is to preserve the South African fishing resources by restricting the catches of formal businesses. However, it would appear that the Government is unable to protect the fishing resources from poachers (*Argus* 28/11/96; *Business Report* 19/12/97), because poachers still help themselves to controlled fish sources without the necessary permits. Abalone (*perlemoen*) sources are exceptionally vulnerable to poachers. It would appear from table 2.2 that the firms in question are punished for the poachers' actions by the reduction of the legally controlled quotas.

In the period under review, the fishing quotas were controversial because of the Government's redistribution policy. According to the Government, the quotas should be redistributed among Black empowerment groups and fishermen rather than to established firms such as I&J and Sea Harvest (part of Tiger Brands) (*Finance Week* 18/12/97). The fishing firms reallocated shares to their employees to escape their quota dilemma. The Government was generally criticised because quotas were not equitably allocated in the period 1998 to 1999 (though information on these is not readily available), resulting in an investigation into the marine and coastal directorate of the Department of Environmental Affairs. The recommendation of the investigation was that the Department of Trade and Industry should in future handle the regulation of the fishing industry. It is hoped that this decision will resolve the uncertainty in the fishing industry on quotas.

Increased production costs may arise from this Act, although it would generate opportunities such as diversification. Sea Harvest (part of Tiger Brands) bought a pastry concern as a result of the uncertainty surrounding quotas (*Beeld* 14/8/97) in the period 1996 to 1999. This Act appears to have resulted in the application of a related diversification strategy by Sea Harvest.

2.2.1.7 Competition Act, 89 of 1998

The aim of the Competition Act, 1998 is to encourage and maintain competition in the South African market. This Act was amended and, in particular, its scope broadened to take care of future customer-related issues. This Act is especially important for the food industry, which is already a concentrated market. The take-over of Silveroak, an automotive leather manufacturer, by Kolosus was cleared by the Competition Board. The Board announced that the possible merger between Premier Milling, with similar activities to Tiger Brands, and Tiger Brands would warrant an investigation since these firms are the major players in an oligopolistic market. Further concentration in an already concentrated market may perhaps not be acceptable, since the dominant players may engage in anti-competitive behaviour. However, the Act may also create exist barriers that may have cost-raising effects for the participants. For example, in the case of Premier's unbundling Tiger Brands was the only (South African) firm that could afford to buy it. Should the Competition Board have disapproved this move, Premier would have been stuck in this market.

2.2.1.8 Board on Tariffs and Trade Act, 107 of 1986

The Board on Tariffs and Trade Act, 107 of 1996 (as amended) provides for the establishment of a Board on Tariffs and Trade and for matters related thereto. Matters falling within the jurisdiction of this Act include business relating to the common customs union, disruptive competition and dumping. The provisions of this Act were applied in the case of the USA that dumped poultry on the South African market (*Beeld* 15/1/96).

2.2.1.9 Marketing of Agricultural Products Act, 97 of 1997

This Act replaced the Marketing Act, 68 of 1963 and introduced free marketing in the arena of agricultural products. The marketing schemes promulgated in terms of the Marketing Act, 1963 were abolished with the introduction of this Act. Any person can now freely engage in the export and import of agricultural products, creating opportunities for new entrants. Firms such as Intrading, active in inter alia the procurement and international marketing of South African fruit, could enter this market (see chapter 1, section 1.2, table 1.5).

2.2.1.10 Genetically Modified Organisms Act, 15 of 1997

The Genetically Modified Organisms Act, 1997 came into effect on 1 December 1999. It provides for measures to promote the responsible development, production, use and application of genetically modified (GM) organisms. The aim of the Act is to ensure that all activities involving the use of genetically modified organisms are carried out in such a way as to limit possible harmful consequences to the environment. It also pays attention to the prevention of accidents and the effective management of waste. It establishes common measures for the evaluation and reduction of the potential risks arising from activities involving the use of genetically modified organisms. The Act also lays down the necessary requirements and criteria for risk assessments, and establishes a council for genetically modified organisms. It ensures that genetically modified organisms are appropriate and do not pose a hazard to the environment. Another aim is to establish appropriate procedures for the notification of specific activities involving the use of genetically modified organisms, and related matter. This Act is important for the food industry, and specifically the firms investigated, as GM products may hold opportunities for the firms in question (see section 2.2.2 for a detailed discussion in this regard).

2.2.1.11 Agricultural Pests Act, 36 of 1983

This Act makes provision for measures to prevent and combat agricultural pests and for related matters. Until 1999, the importation of genetically modified organisms fell under the

Agricultural Pests Act 36 of 1983 when the Genetically Modified Organisms Act 15 of 1997 came into effect.

2.2.1.12 Labour Relations Act, 66 of 1995

The Labour Relations Act (as amended) gives effect to section 27 of the Constitution and regulates the organisational rights of trade unions and promotes collective bargaining and employee participation in decision making and related matters. Employee participation in decision making may have significant ramifications for the firms in question. This Act also regulates the procedures for strikes and lockouts. Beacon (a wholly-owned subsidiary of Tiger Brands) was affected, inter alia in 1999, by a six-week strike over a wage and working hour dispute. The calculated costs of this strike were wages of R8,5 million and lost revenue of R2 million. Related costs that could not be calculated included injured people, a backlog of raw materials and packaging (*Sunday Tribune*, 17/8/99). This shows that the cost of this strike is more significant than meets the eye – which is probably true of any strike.

Most of the Acts discussed in this section are intended to control the manufacture, sale and importation of foodstuffs and animal feeds, which may impact directly or indirectly on the market strategy applied by the firms in question. To some extent, these Acts prescribe the way in which the firms in question may conduct their business; for example, the way in which the products may be manufactured, premises and equipment used in the manufacture and the composition of the products. These interventions are aimed at the wellbeing of the consumers of the products manufactured by the firms in question, but may at the same time have cost-raising effects for them. The legislation thus holds opportunities (ie, consumer safety and wellbeing and thus the firms' good reputation) and at the same time poses threats (cost-raising effects, which may possibly contribute to the oligopolistic nature of this market) to the firms in question. The Marketing of Agricultural Products Act, 1997 and Competition Act, 1998 appear to be the only Acts that encourage competition, and possibly contribute to the eradication of the oligopolistic nature of this market. Some of the trade agreements resulting from government policy as well as some of the legislation, especially the Health Act, may impact on the technological environment. The technological environment is discussed in the next section.

2.2.2 The technological environment

Webster's Dictionary (1995:1015)[4] defines technology as: "The science of technical process in a wide, though related, field of knowledge. Thus industrial technology embraces the chemical, mechanical and physical sciences as these are applied in industrial processes". This definition corresponds to that in *Collins Dictionary* (1991:1583). Furthermore, it lives up to the expectation, as illustrated in the ensuing paragraphs.

Technology, specifically technological innovation, can impact on the methods and processes used by the firms in question. Developments in technology originate in research and development and result, inter alia, in new machines, methods and processes that bring about change in the environment. These changes may necessitate an adjustment in the market strategy applied by the selected firms in question.

[4] *Webster's Dictionary* was used to define technology as the sources (textbooks and journals) consulted do not specifically define technology.

Technology can impact on machines; for example, electronic and automation apparatus. The computer is one of the most obvious examples of how the technological environment has a tremendous effect on the food manufacturing industry, especially from a cost and innovative perspective. The following examples show the impact of technology on the firms forming the focus of this study, in the period 1996 to 1999:

- Kolosus replaced computers at a cost of R5 million (*Computer Week* 1/7/96) to improve product quality.
- I&J, part of AVI, upgraded its financial and management systems (*Computer Week* 29/7/96) to improve efficiency.
- I&J upgraded processing facilities on trawlers carrying 1 200 tonnes fish which are headed, gutted and filleted, separated and frozen to -25°C (*Engineering News* 5/9/97) to improve efficiency.
- I&J installed new equipment that revolutionised the way in which it processes convenience products including the reduction of processing times, improving quality of products such as consistent shape, size and quality, and doubling of its capacity (*Food Review*, November 1998: 27) to improve efficiency.
- Sea Harvest, part of Tiger Brands, spent R32 million on the modernisation of its fishing fleet and production facilities in the financial year 1996/97 (*Argus* 6/12/96), which led to improved product quality through improved fish handling and storage methods.
- Rainbow completed a processing plant near Rustenburg with modern electronic equipment which included a programmable controller (*Engineering News* 6/6/97) to improve efficiency.
- Rainbow committed R71 million, over a two-year cycle, to upgrading plants to international standards (*Business Day* 23/7/98) to improve effectiveness and efficiency.

- I&J and Sea Harvest invested in abalone aquaculture as an alternative to the natural source. These firms can harvest cocktail-size abalone from these hatcheries, which would be illegal in the natural source (*Food Review*, July 1998:37-46) and supply niche markets.
- The role of food packing has recently changed from containing and protecting food and informing customers to interacting with the contents of the pack to improve food quality and safety (*SA Food and Beverage Manufacturing Review*, 1996:16-27) and thus increase efficiency.
- Self-heating containers used in France for ready-to-eat meals, such as pasta and bolognaise, are considered to be functional packaging. To heat the meal, the box is turned over and a die-cut section on the base is removed, then the space is pressed to start a chemical reaction that heats the container (*Food Review*, January 1999:12).
- Safari's stand-up pouches for soft dried fruit are sterilisable and cheaper than the original glass containers (*Food Review*, January 2000:3) and contribute to increased efficiency.
- The innovative technique of high pressure cell burst to produce exceptionally flavoursome and smooth peanut butter free from hydrogenated oils, preservatives and stabilisers (*Food Review*, December 1998:139-43) contributes to efficiency.
- Soy stews with the flavour and texture of real meat (*Food Review*, October 1999:15) may contribute to increased sales.
- Breakthroughs in enzyme technology contribute to improved food quality and/or reduced costs as shown by the following examples (*Food Review*, June 1999:10-15):
    - ♦ The enzymatic treatment of fruit increases the firmness of fruit in fruit preparations while retaining fruit identity and stability, which results in lower fruit dosage being needed per kilogram of preparation and consequent cost savings.

- The use of fermented soy flour that improves the flavour and mouth feel of sauces, dressings, soups and snacks, is particularly useful in enhancing vegetable notes.
- The growing demand for health foods in Europe resulted in the discovery of an enzyme used to release apple fibre in soluble form in apple juice.

- Delfood installed a vision-sorter on its diced peach line that classifies each piece according to colour, size and shape. This machine replaced manual labour thereby contributing to consistent, high quality and increasing volumes handled. This resulted in more reliable and much less blemished fruit in cans (*Food Engineering*, December 1999:20) and thus increased efficiency.
- Canned foods remain a convenience food, introducing new mixtures (*Fast Moving Consumer Goods*, August, year unknown:23-26) and new products such as pasta sauces (*FMCG*, year unknown:22).

Developments in technology may perhaps render certain existing methods and processes uneconomical and eventually perhaps outdated. This idea is conceivable as the following examples show:

- The discovery of long life milk, which means that people in rural areas without electricity may have access to fresh milk.
- Home meal replacements (HMR) and their safe packaging which save preparation time for working people.
- The extended shelf life of strawberries through radiation which enhances product quality.

The technological environment includes genetic modification (GM) of food and crops. GM food is controlled in terms of legislation and specifically the Genetically Modified Organisms Act 15 of 1998 (see section 2.2.1.10 above). GM food may have various benefits to the firms under review, including lower costs. In the case of GM tomatoes, the genes controlling the ripening process were isolated. A so-called "soft-ripening" tomato was the result of these isolated genes. The paste derived from this GM tomato is 10% cheaper than conventional tomato paste (*Food Review,* June 1996:15). Moreover, the tomato has a fuller flavour than conventional tomatoes, survives handling better and less thickeners are needed in the production of paste. GM tomatoes may affect Tiger Brands and Delfood that manufacture canned tomatoes and tomato puree. GM oil seeds enhance growth and yield, which may reduce costs. GM oil seeds are of particular relevance to Tiger Brands, which manufactures products like margarine from oil seeds. GM foods have improved nutritional qualities and lesser spoilage is associated with GM foods while costs are lowered. All of these benefits would be advantageous for the firms in question, especially in view of South Africa's food security position (at a household level – see chapter 1, section 1.2).

The technological environment includes food preservation. Various methods of preservation exist and have been improved over the last few years. Pasteurisation is a way of preserving by high pressure. Pasteurisation by high pressure (also known as "cell burst" technology) rather than high temperature produces food that looks and tastes fresh and has a long shelf life in contrast to thermal treatment that alters the foods' natural flavours, textures and colours and destroys vitamins (*Food Review*, July 1999:13) that is important to health-conscious consumers. High-pressure processing also uses less energy than thermal treatment (*Food Review*, July 1999:13), thereby saving production, storage and distribution costs, which ultimately leads to lower prices and can contribute to low cost strategy. In addition, these preserved products have an extended shelf life, which make this preservation method especially appealing to South Africa. High-pressure preservation can be applied to a wide variety of food products including seafood. High-pressure preservation is used especially in raw oysters to destroy vibro bacteria, which are dangerous bacteria that affect shellfish (*Food Engineering*, October 1999:18). High-pressure is used to preserve raw oysters as other methods such as irradiation and freezing were found to be ineffective in making seafood safer, fresher and better tasting. Furthermore, high-pressure preserving could contribute to lower costs. In addition, high-pressure preservation was found to be beneficial with oysters, because it shucked (removed) the shells thus making the use of shucking knives and hammers redundant. This method of preservation can thus also serve as a means differentiation.

Another way of preserving is freezing and chilling. Freezing and chilling seem to be the preferred way of preserving food. However, these methods are apparently questioned, especially in the context of Africa where the climate is hot and most of the population do not have ready access to electricity. Alternative preservation technologies such as hurdle technology are suggested, for these countries. Hurdle technology means combination preservation such as a combination of moderate heat treatment, slightly reduced water activity and moderately low pH (*Food Review*, February 1999:37). Besides being an appropriate preservation method for the African climate, this method extends the shelf life of food products at room temperature (*Food Review*, February 1999:39). As such, hurdle technology can also be used as a means of differentiation.

Technological breakthroughs in freezing techniques that protect food from deterioration during storage and extend storage life by reducing microbiological spoilage and staling may hold opportunities for the frozen food market (*Food Review*, February 1997:41). The frozen food market is growing owing to the higher demand for convenience foods. Technological improvements resulted in an enzymatic method of de-scaling fish commercially that contributes to lower costs (*Food Review*, July 1997:22-23), which may benefit Tiger Brands and I&J (part of AVI). This can specifically contribute to a low cost strategy.

Health-conscious consumers demand minimally processed foods, high quality, nutritionally superior and easy to prepare. Several pathogens may survive chilled and freezing preservation techniques therefore control measures must be stringently applied to refrigerated foods with extended life. These stringent control measures should not only be applied during processing but also, and perhaps equally importantly, in distribution and storage of such foods. Packaging material could play a useful role in conjunction with control measures in extending the freshness of chilled/refrigerated foods, by reducing oxygen and/or increasing gases, such as carbon dioxide, which inhibit bacterial growth (*Food Review*, September 1998:23). Packaging and innovations in packaging of food products are, therefore, also considered to be part of the technological environment. Packaging can play a vital role in market strategies such as differentiation and/or low cost as illustrated in the ensuing paragraphs.

Packaging issues include product safety, consumer convenience and product shelf life, which naturally impact on costs. Packaging plays a major role in extending the shelf life of meat and sausages by using a "barrier" film when high oxygen and moisture barriers are required and flavour retention is critical. This kind of packaging also opens up new markets (growth strategy) for these products; for example, hawker-style selling on the streets of Africa, long distance transportation of the products without chilling facilities. Comparative shelf life tests indicate that a pasteurised liver sausage packed in a "non-barrier" film has a shelf life of 7 days as opposed to 30 days when packed in a "barrier" film. Similarly, prime meat stored at -20°C packed in a "non-barrier" film has a shelf life of 30 days as opposed to the 360 days of prime meat packed in "barrier" film [*Food Review*, July 19998:47]. This kind of packaging can be useful, especially to firms such as Tiger Brands that export to Africa. In this instance packaging can assist in the application of market strategies such as growth, differentiation and low cost.

Consumers demand convenience products such as HMR, without compromising on taste, freshness, nutrition and safety. HMR could be important in differentiating the firm's products. HMR is generally kept at chilled temperatures and consumed without further cooking. This could cause potential problems with micro-organisms (bacteria) causing listeroisis, a serious form of food poisoning. Although the optimum temperature for the growth and reproduction of the bacteria that cause listeriosis is between 30°C and 37°C, they can survive and multiply within a range of 1°C to 45°C. Bacteria growth can occur in the presence and almost absence of oxygen. Bacteria in chilled foods are generally destroyed by heat treatment, usually in the final container. However, if the container is contaminated before freezing, the bacteria can survive, grow and multiply and posing a health hazard when food is thawed. The colder the temperature, the slower multiplication of the bacteria [*Food Review*, September 1998:17-23]. The distribution chain (cold chain) should thus be extremely well controlled for HMR to be effective. Packaging, especially "active packaging", can assist in making HMR safer. Active packaging fulfils a desired role in preserving food (*Food Review*, August 1999:21) and contributes to achieving lower costs and/or differentiation as illustrated below:

- *Oxygen scavengers*: They decrease the negative effects that oxygen has on food by decreasing food metabolism, reducing oxidative rancidity, inhibiting undesirable oxidation of labile pigments and vitamins, controlling enzymatic discolouration and inhibiting the growth of aerobic micro-organisms. Oxygen scavengers may form part of the packaging or be in the form of adhesive labels that can adhere to the inside of a package.
- *Ethylene*: This is a plant hormone that accelerates the respiration rate and subsequent senescence of fruit, vegetables and flowers. Ethylene scavengers are used to remove or suppress the negative effects of ethylene. Ethylene scavengers are incorporated into the packaging and storage areas of fresh fruit, vegetables and flowers.
- *Ethanol emitters*: These release ethanol in a controlled way that contributes to extending the shelf life of products like dry and semi-moist fish products. In some situations ethanol emitters may also act as an oxygen scavengers.
- *Preservative releasers*: These are generally directly incorporated into food contact packaging film. The preservative releaser allows the slow release of anti-microbial icons into the surface of the food products thereby contributing to the preservation of food.
- *Moisture absorbers*: These are used to enhance food quality by absorbing or removing excess moisture that contributes to food spoilage, and thus enhance food quality.
- *Flavour/odour absorbers*: These are incorporated into packaging to selectively remove undesirable flavours and odours.

Apart from making HMR convenient, safe and differentiating it the main requirement of packaging is that it should meet food safety (and environmental) regulations as especially determined by the Health Act, 1977 (see section 2.2.1.1).

Technological innovation is particularly important in the case of export firms. Sea Harvest and Langeberg (part of Tiger Brands) were forced to replace their machinery with technologically acceptable equipment in order to comply with the regulations of the European Union (*Business Day* 31/12/96), specifically to meet the quality requirements of the EU. Technology also embraces food quality management. Food quality includes various characteristics such as purity, flavour, texture, colour, appearance and possibly the value of the product. Food quality is mainly aimed at ensuring food safety by complying with the requirements of regulatory agencies and/or consumer requirements. Two widely-used systems to ensure food quality employed by food manufacturers are the ISO (International Organisation for Standardisation) 9000 and HACCP (Hazard Analysis Critical Control Point). ISO 9000 is a non-governmental organisation established as a world federation of national standards bodies from member countries. ISO 9000 focuses on the "what" rather than the "how" of control. HACCP is a risk management tool that provides a structured approach to the control of processing or manufacturing food products. HACCP systematically controls the processing/manufacturing process. Food quality management contributes to ensuring food safety and eventually the wellbeing of consumers, although it may come at a cost. On the other hand, it can contribute to achieve differentiation, that is relevant to market strategy.

Technological innovation creates opportunities and threats in the environment, which have an effect on the market strategy applied by the firm, especially low cost and differentiation. New products are released (eg, soy stew with the texture and flavour of real meat), products are improved (eg, HMR) and even manufacturing techniques are improved either through manufacturing techniques, or preserving or packaging that can contribute to achieving either differentiation or low cost. These are a few examples of the opportunities that the technological environment holds for the firms in question. It may, however, be expensive to acquire the technologically advanced methods and consumers may be resistant to some of the new products such as GM products. The latter are examples of threats that the technological environment poses to the firms in question especially as this may result in higher costs. The effect of the Health Act 1977, particularly the stipulations regarding manufacturing equipment and processes, should be borne in mind when considering technology. Technology may influence the market strategy applied by the firms in question as it may impact on exports, costs and even niche markets they serve.

The major contribution of the technological environment is to improve product quality, prevent or slow deterioration or staling of products that all can serve as means of differentiation and/or contribute to lower costs. Furthermore, technology could very well play an important role in revitalising the mature food industry. Technological innovation may have an influence on the economic environment, among other things, as discussed in the next section.

2.2.3 The economic environment

The economic environment generally refers to the nature of the economy in which the firm conducts business. The South African economy is considered to be founded on free market principles. This means that firms in South Africa may act freely within the legal provisions of the country. In the case of the firms in question, this means that these firms can act freely, provided that they stay within the provisions of, inter alia, the Acts described in section 2.2 1. Furthermore, the firms, such as these under investigation, that operate in a free market economy operate within the constraints of the economic situation pertaining to a particular time.

During 1996, especially towards the end of the year and throughout 1997 and 1998 and the first half of 1999, financial markets, world-wide, were unstable. South Africa could not escape the effect of the unstable financial markets because:

- It has an open economy and is therefore susceptible to "flow over" effects of other open economies.
- It is relatively small in world terms – South Africa contributed 0,4% of the world GNP in 1996 compared to the USA's 34% and Japan's 25% (Absa Economic Research input provided for a speech of Ms Nienaber to Drakensberger Breeder Association at Ermelo September 1998).
- South Africa's economy is considered to be a developing economy and is therefore more vulnerable to instability than developed economies such as the USA's.

Table 2.3 below summarises the consequences of the unstable financial markets in the period 1996 to 1999.

Table 2.3 Consequences for SA of unstable financial markets in the period 1996 to 1999

Consequence for SA of unstable financial markets	1996	1997	1998	1999
The depreciation of the Rand exchange rate that resulted in	R1=$4,30	R1=$4,61	R1=$5,53	R1=$6,11
capital outflows! which in turn resulted in	na	na	4,8	-6,1
increased pressures on the domestic liquidity resulting in	na	na	na	na
sharp increases in interest rates* that led to	20,25%	19,25%	23,0%	19,25%
a decrease in the Gross Domestic Expenditure (GDE)† and	3,2%	0,2%	2,6%	3,1%
increased levels of personal debt that resulted in	na	na	na	na
reduced consumer expenditure †	3,9%	1,9%	0,6%	2,0%
The South African Reserve Bank supported the exchange rate	-	-	-	-
a decrease in share prices on the JSE	na	na	na	na
Inflation rate	7,4%	8,6%	6,9%	6,8%

! percentage change in fixed capital formation * Prime rate † percentage change

Source: *Absa Quarterly Economic Monitor* First Quarter 1998, First Quarter 1999, First Quarter 2000

All the events listed in table 2.3 indicate that the South African economy experienced a downturn phase in the period 1996 to 1999 and thus profit prospects for firms, especially those forming the focus of this study, were not too rosy. As could be expected, the South African financial market's instability had a negative effect on the selected firms forming the focus of this study, and subsequently on their market strategies. The negative impact of the events described in table 2.3 on the selected firms is described below. Special reference is made to the major parts of the economic environment namely (1) the economic growth rate, (2) level of employment, (3) consumer income, (4) food inflation, (5) interest rates, (6) exchange rate and exchange controls, (7) country risk and (8) international competitiveness. These parts of the economic environment have cross-effects. Each of these sub-environments is addressed in the following paragraphs.

2.2.3.1 The economic growth rate

A country's economic growth is expressed as "gross domestic product" (GDP), among other things. GDP is the total value of finished goods and services produced within the borders of a country in a given year (Strydom et al 2000:56). GDP influences the market strategy of a firm directly, for example, if GDP is growing, the firm can follow a growth strategy and vice versa. Table 2.4 below depicts South Africa's GDP for the period 1996 to 1999, as well as that of major world economies.

Table 2.4 SA's as well as major world economies' GDP for the period 1996 to 1999

COUNTRY	1996	1997	1998	1999
SA	3,5%	1,7%	0,1%	1,2%
USA	2,3%	3,8%	3,3%	4,2%
UK	2,1%	3,6%	2,4%	1,6%
Japan	3,8%	0,9%	-2,7%	1,3%

Source: *Absa Quarterly South African Economic Monitor*, First Quarter 1999, Third Quarter 2000

According to table 2.4, South Africa's and Japan's GDP declined in the period 1996 to 1998, but increased in 1999 compared to 1998. The USA's GDP increased between 1996 and 1997, decreased between 1997 and 1998 and increased again between 1998 and 1999. The UK's GDP increased between 1996 and 1997, decreased in 1998 and 1999. These figures suggest that the South African and Japanese economies were more vulnerable to the effects of the instability in financial markets than those of the USA and UK, as the decline in GDP was more rapid than in the case of the USA and UK. South Africa's decline in GDP especially may have resulted in threats in the economic environment to the selected firms under review. A form of harvest market strategy (influencing both the domestic and international markets) as well as job losses may be among the threats of a declining economy to firms operating in the economy. South Africa is part of the world economy and, as such, influenced by occurrences in the world. The decline in the South African economy in the period 1996 to 1999 is consistent with the world-wide economic trend as indicated in table 2.4.

2.2.3.2 Level of employment

Employment is affected by GDP. If GDP declines, so does employment and vice versa. Table 2.5 below shows the employment figures for the South African economy in the period 1996 to 1999.

Table 2.5 Employment figures for the South African economy in the period 1996 to 1999

EMPLOYMENT/YEAR	1996	1997	1998	1999
Total number of persons employed in the SA economy	2 339 482‡	5 090 551	4 913 695	4 792 219
Number of persons employed in manufacturing	1 428 996	1 355 362	1 321 302	1 290 560
Number of persons employed in the food industry	183 641	163 779	198 904	203 208
Number of persons employed by the major group:	na	na	168 679*	171 371*
- meat, fish, fruit, vegetables, oils and fats			55 132	62 965
- dairy			26 943	24 538
- cereals			20 589	21 303
- other			66 015	62 569

‡ It is noted that this figure is significantly smaller than that for the period 1997 to 1999. However Statssa does not explain the difference.

* It is noted that these figures do not correspond to the number of persons employed in the food industry – no reasons were advanced for the difference in the source consulted

Source: Statssa, *Statistical Release P0242.1* (28 March 2001)

From table 2.5 it is evident that between 1996 and 1999 employment in the South African economy decreased in the economy as a whole, manufacturing and the food industry, except for 1999 when employment increased in the food industry. According to table 2.5, the major group meat, fish, fruit, vegetables oils and fats employed the more people than the other major groups. Furthermore, employment increased in all the major groups, except for "other" between 1998 and 1999. The employment trend is consistent with the decline in GDP in the period 1996 to 1998. The GDP increased again in 1999 (see table 2.4). Apart from being consistent with the level of economic activity, these numbers may also reflect the shift of consumer expenditure towards the major group meat, fish, fruit, vegetables, oils and fats (see chapter 1, section 1.1, table 1.3). An implication of decreased employment is that the people's level of income may have decreased, resulting in lower consumer expenditure, including lower expenditure on the foodstuffs in question – a low cost or harvesting strategy could be appropriate in these circumstances. Consumer income is addressed in the next section.

2.2.3.3 Consumer income

Consumer income is affected by employees' remuneration. Employees' remuneration impacts directly on their personal disposable income, which, in turn, affects consumer expenditure. The real personal income per capita of South Africans amounted to R4 400 and R4 350, respectively, in 1996 and 1997 (du Toit 1998:35) (at the time of writing, information was not available for 1998 and 1999). According to du Toit (1998:36), the real average annual growth in personal disposable income averaged 1,5% in the period 1990 to1997, which is lower than the 4,9% of the 1960s. The main reasons advanced for the lower growth in personal disposable income include

- sharp increases in taxes
- higher interest rates

- relatively high inflation rates.

The lower growth in personal disposable income may further impact negatively on consumer expenditure, which could impact negatively on the selected firms forming the focus of this study, as consumers have less money available to spend on food, including the foodstuffs in question. This may drive the firms under investigation to apply a low cost and/or harvesting strategy.

Decreased levels of income may impact on the consumers' spending patterns, which are exacerbated by credit extended to private households. Credit extended to the domestic private sector (households) may perhaps impact more severely on spending patterns than the level of income. Credit must first be repaid before consumers can spend money on anything else. The household debt as a percentage of personal disposable income was 59,5% in the period 1990 to1997 (du Toit 1998:34). The reasons advanced for the high level of household debt to disposable income include

- sharp increases in direct and indirect taxes
- a relatively high inflation rate encouraging credit rather than savings
- a weakening exchange rate causing the cost of imported products to rise
- relatively high interest rates
- poor agricultural conditions impacting especially on farming income.

Table 2.6 summarises the composition of bank credit in 1996.

Table 2.6 Composition of bank credit in SA in 1996

Credit type	%
Instalment	9,9
Leasing	3,6
Credit card	4
Mortgage loans	62,9
Other loans	19,6

Source: du Toit (1998: 34)

According to table 2.6, credit on mortgage loans is the highest, followed by "other" loans, instalments and credit cards. This shows that consumers' biggest expenditure in 1996 was on property (housing) as mortgage loans were the main credit item and expenditure on food (credit cards) had a lower priority. Table 2.7 shows South African consumer expenditure on food in the period under review.

Table 2.7 SA consumer expenditure on food in the period 1996 to 1999 in R million[5]

PRODUCT	1996	%	1997	%	1998*	%	1999*	%
Meat	25 767,9	33	27 815,7	32	30 707,2	33	31 273,8	33
Bread and grain products	17 549,8	22	20 191,6	23	21 367,0	23	22 880,4	24
Sugar	2 754,0	04	2 940,2	03	2 854,6	03	2 921,9	03
Milk, milk products and eggs	6 896,2	09	8 230,7	09	8 748,5	09	8 718,0	09
Oils and fats	2 407,6	03	2 759,5	03	2 850,2	03	2 975,6	03
Potatoes	3 134,9	04	3 747,4	04	3 939,0	04	4 098,0	04
Vegetables and fruit	10 362,1	13	11 434,5	13	11 874,7	12	11 845,1	12
Other	6 887,3	09	7 712,0	09	8 234,1	09	8 471,3	09
Coffee, tea, cocoa and substitutes	2 327,2	03	2 605,9	03	2 782,3	03	2 862,4	03
Total consumption expenditure on food	**78 087,0**	**100**	**87 437,5**	**100**	**93 357,8**	**100**	**96 046,5**	**100**

* Preliminary (see also Table 1.3)

Source: *Abstract of Agricultural Statistics*:105, Published by the National Department of Agriculture (January 2000)

[5] The food items listed in table 2.7 form the constituents of the four major groups as depicted in chapter 1, section 1.1, table 1.3. The overall consumption pattern supports the information provided in table 1.3.

From table 2.7 it is clear that total consumer expenditure in Rand value in the period 1996 to 1999 increased, while the percentage expenditure on the different food categories remained more or less unchanged. Table 2.7 shows that consumer expenditure on bread and grain products increased marginally (from 22 to 23%) between 1996 and 1997 and again (from 23 to 24%) between 1998 and 1999. Table 2.7 shows that consumer expenditure on sugar as well as fruit and vegetables and meat decreased slightly between 1996 and 1997. However, in the case of meat, consumer expenditure increased again in 1998 and remained unchanged in 1999. Consumer expenditure on milk, oils and fats, potatoes, other and coffee, tea, cocoa and substitutes remained static throughout the period 1996 to 1999. Though marginal, the increase in expenditure on bread appeared to hold opportunities for manufacturers of bread such as the fibre-enriched white loaf aimed at fighting malnutrition prevalent in parts of the nation while expenditure on sugar as well as fruit and vegetables appears to have been at risk. Soy milk that is produced at 10% less the cost of its dairy counterpart and a shelf life of between two to three years (*Star* 25/4/96) was also perceived to hold a potential threat to diary products. Protein replacements, such as soy powder without a beany taste and soy stews with the flavour and texture of real meat, could threaten meat. The firms in question could consider a low cost strategy, for example, to counter the threat of protein replacements.

Apart from consumer income, which could affect consumer expenditure and thus the market strategy of the firms forming the focus of this study, the effect of inflation should be borne in mind. Inflation is addressed in the next section.

2.2.3.4 Inflation

Inflation is generally described as the rise in the general level of prices and costs. Inflation is usually calculated for the economy as a whole and for food. Food manufacturers are constantly criticised for their contribution to inflation, particularly food inflation[6]. According to du Toit (1998:43), the reasons for the relatively high inflation in South Africa include

- relatively high wage increases
- low growth in labour productivity
- exchange depreciation.

Table 2.8 reflects the figures for South African inflation (CPI) and food inflation in the period 1996 to 1999.

Table 2.8 Inflation and food inflation rates for SA in the period 1996 to 1999

Year	1996	1997	1998	1999
Consumer prices	7,4	8,6	6,9	5,2
- food prices	6,2	9,5	6,3	5,1
- all items excluding food	7,7	8,4	7,4	6,9

Source: *Absa Quarterly Economic Monitor* Fourth Quarter 1997, First Quarter 1998, 1999 and Third Quarter 2000

According to table 2.8, inflation in South Africa decreased between 1996 and 1999, possibly as a result of competition from imports, among other things. It is clear from table 2.8 that food inflation was lower than the figure for inflation for the whole economy, except for 1997 when food inflation was higher than the total inflation. This means that the relative prices of

[6] Generally, the producers price index (PPI) is used when dealing with manufacturers. However, food inflation, which is relevant to the firms in question, is only related to the CPI, hence the quote on CPI rather than PPI.

food increased at a slower rate than those of the total economy. Table 2.9 shows the inflation rate for the period 1990 to1997 for the world and selected countries.

Table 2.9 Inflation for selected countries in the period 1990 to 1997

Country	Inflation rate
World	16,4
Industrial countries	3,1
Developing countries	40,8
Africa	33,5
South Africa	10,9
Latin America	173,5

Source: du Toit (1998:46)

Table 2.9 shows that the inflation rate of the industrial countries was the lowest in the period 1990 to1997, while that of Latin America was the highest. South Africa's inflation rate was significantly higher than that of the industrial countries (eg, USA), but significantly lower than that of developing countries (eg, Latin America), of which South Africa is considered a part of. Table 2.10 indicates the rate of inflation for food in 1995 for certain countries.

Table 2.10 Food inflation rate for selected countries in 1995

Country	Food inflation rate in 1995
SA	10,9
Argentina	26
USA	4
Germany	3
UK	2,9
Japan	1

Source: du Toit (1998:47)

According to table 2.10, South Africa had the second highest rate of food inflation for 1995 of the countries listed. South Africa is considered to be a developing market. It is clear that the food inflation rate of developing markets (South Africa and Argentina) was significantly higher than that of developed nations such as the USA (4%) and the UK (2,9%). The food inflation rate illustrated in table 2.10 is consistent with the inflation trends as illustrated in tables 2.8 and 2.9. The inflation rates may have impacted on the market strategies of the selected firms forming the focus of this study, and particularly the firms wishing to export especially to countries with a lower food inflation. Relevant market strategy options in this case include low cost and/or differentiation. Besides the effects of the inflation rate that may impact on the market strategies applied by the firms in question, the effect of interest rates should be considered. Interest rates are discussed in the next section.

2.2.3.1.5 Interest rates

Interest rates reflect the cost of credit. According to du Toit (1998:47), interest rates in South Africa increased markedly between 1995 and 1997, mainly owing to

- the relatively lower inflation rate
- the tight monetary policy of the South African Reserve Bank in the light of credit extension, volatile foreign capital flows, depreciating exchange rate and a low level of savings. Table 2.11 shows the (average) interest rates for South Africa and selected countries for the period 1995 to1997.

Table 2.11 (Average) interest rates for SA and selected countries for 1995 to 1997

Country	Interest rate 1995-1997 (lending rate)
SA	10,1%
UK	3,3%
Japan	2,2%
Germany	8,2%

Source: du Toit (1998:48)

According to table 2.11, South Africa's (average) interest rate in the period 1995 to 1997 was the highest of the quoted rates. The South African interest rate was approximately three times that of the UK, one of South Africa's largest trading partners (see section 2.2.6). Interest rates may have a cost-raising effect on the firms in question that may influence the market strategy applied, especially to Delfood, Langeberg (part of Tiger Brands) and firms that export to countries such as the UK (3,3%) and Japan (2,2%) where the interest rates are lower than in South Africa. In addition to the effect of the interest rate on the market strategy applied by the firms in question, the impact of the exchange rate and exchange controls on their market strategy also has to be considered. Exchange rate and exchange controls are addressed in the next section.

2.2.3.6 Exchange rate and exchange controls

The exchange rate is the rate at which a country's currency is exchanged for another one's. The exchange rate is of concern to the firms in question that export their foodstuffs. Table 2.12 indicates the exchange (average) rates for the Rand as well as the USA Dollar ($), British Pound (£)[7], and Japanese Yen (¥) for the period 1996 to 1999.

Table 2.12 Selected average exchange rates for the period 1996 to 1999

Exchange rate	1996	1997	1998	1999
R/$	4.30	4,61	5,53	6,11
R/£	6,72	7,55	10,84	10,21
R/¥	25,3256	26,2473	23,8690	19,2869

Source: *Absa Quarterly Economic Monitor* Fourth Quarters 1997, 1998 Third Quarter 2000

[7] All European currencies will be replaced by the Euro in 2002, except for the £. The £ was also used in the period 1996 to 1999, therefore, the exchange rate is quoted in £.

According to table 2.12, the Rand devalued against the \$ and £ in the period 1996 to 1999. According to table 2.12, the Rand devalued against the ¥ in 1997 and re-valued in 1998 and 1999. The movement in the exchange rate of the Rand is one of the consequences of the volatile conditions in the financial markets (see section 2.2.3). From table 2.12 it is clear that the Rand was the weakest against the £, followed by the \$ and ¥. The £ is important to South Africa as it forms part of the EU currencies and the EU was South Africa's chief trading partner in the period 1996 to 1999 (see section 2.2.6). The exchange rate was beneficial to those firms that exported, especially to the UK, during the period under review though detrimental to those that imported some of their requirements. Market forces mainly determine the exchange rate of the Rand with the South African Reserve Bank only intervening in the market in exceptional cases, to support the currency. The principal factors influencing the exchange rate of the Rand include

- the differences in the inflation rate between South Africa and its main trading partners (see table 2.9)
- conditions and developments in other emerging markets (such as Asia)
- fiscal and monetary policy and foreign debt
- non-economic factors, such as political developments, social stability and general perceptions of South Africa.

The exchange rate is also influenced by exchange control. Exchange control regulations restrict the free movement of money to protect an economy from large disruptive fluctuations in capital movements as well as other international economic shocks, and to preserve scarce foreign reserves. Exchange control was first introduced in South Africa in the 1930s and tightened in 1969. Exchange control adversely affected the South African economy. Thus in the early 1990s the South African authorities announced that they were committed to the abolition of exchange control, though in a phased removal. For the firms forming the focus of this study, the major change in this regard is that nowadays they are allowed to make offshore investments and may raise foreign capital against their domestic balance sheet. Tiger Brands raised \$120 million in offshore finance in the 1996 financial year (*Business Day* 4/4/96). It is important for these firms to invest offshore, as the South African market offers limited growth opportunities, owing to the oligopolistic nature of the market. Exchange controls may impact on the market strategy applied specifically growth and joint ventures. Besides the impact of exchange rates and exchange controls on the selected firms' market strategy, there is also the effect of the country's risk ratings on market strategy to be considered. The country risk ratings are discussed in the next section.

2.2.3.7 Country's risk ratings

A country's risk ratings are its ability and willingness to meet its foreign debt obligations. There is always the risk that a country cannot honour its commitments. This risk of default increases when foreign debt becomes too large to repay or when the political situation becomes untenable to existing lenders, who will then suddenly withdraw credit. Various institutions do risk ratings based on political and economic risk assessment factors, as summarised in table 2.13.

Table 2.13 Political and economic factors used in risk ratings

Political	Economic
• the type of political system • the quality of government administration • labour market stability • foreign policy	• economic growth • inflation • interest rate • exchange rate • foreign debt indicators • government finance

Source: du Toit (1998:60)

A country's risk grading is divided into two categories: investment and speculative grade. Ratings ranging from AAA/Aaa to BBB/Baa are regarded as investment quality, while ratings of BB/Ba or lower are regarded as speculative quality in respect of interest payment and capacity to repay the principal debt amount. Table 2.14 illustrates the risk grading for South Africa and the USA during the period 1996 to 1999.

Table 2.14 Risk grading for SA and the USA in the period 1996 to 1999

YEAR	1996		1997		1998		1999	
COUNTRY	**USA**	**SA**	**USA**	**SA**	**USA**	**SA**	**USA**	**SA**
FitchIPCA	na	na	AAA	BB	AAA	BB	AAA	BBB
Standard & Poor	na	na	AAA	BB+	na	na	AAA	BBB+
Moody's	na	na	Aaa	Baa3	na	na	Aaa	Baa3

Source: *Bankscope* (October 1997, 1998, 1999) published by Bureau van Dijk

From table 2.14 it is clear that the different rating agencies rated the USA as "investment grade" throughout the period 1997 to 1999. The rating for South Africa differed according to rating agency. According to table 2.14, South Africa obtained an investment grading from Moody's but only a speculative grading from Standard and Poor and FitchIPCA in 1997. FitchIPA graded South Africa as speculative in 1998. All the rating agencies rated South

Africa as investment grading in 1999. A risk rating of "speculative grade" means that a country's risk is questionable. This means that South Africa's risk was questionable in 1997 and 1998, according to some of the ratings. The risk grading is often connected to a country's overall economic conditions. The South African economy experienced a downturn in 1997 and 1998, which contributed to the risk grading of speculative. The country's risk grading had an effect on the market strategies of the firms in question as foreign lenders and investors viewed South Africa with suspicion. Foreign firms were not keen to invest in South Africa because of its risk grading, especially in 1997 and 1998. However, some international firms (eg, HJ Heinz) were willing to form joint ventures and partnerships with South African firms (eg, SAD and HJ Heinz and Tiger Brands and HJ Heinz pet food). International competitiveness also had an effect on investors and thus on market strategies, especially the selected firms forming the focus of this study, which is addressed in the next section.

2.2.3.8 International competitiveness

International competitiveness is defined as the ability of a country to create added value and in so doing to increase the national wealth and, by extension, the competitiveness of the country's firms (*World Competitiveness Report*, 1997:14). A number of factors influence international competitiveness. The *World Competitiveness Yearbook* (1996:11) uses eight factors, namely domestic economy, internationalisation, government, finance, infrastructure, management, science and technology and people, in analysing international competitiveness. These eight factors are classified into four categories: assets and processes, globality versus proximity, attractiveness and aggressiveness, and individual risk versus cohesiveness. Assets and processes analyse how nations combine assets and processes in the management of competitiveness. Some countries (eg, Russia) are rich in assets such as land and not competitive, while others (eg, Switzerland) are poor in assets such as land and are very competitive. The latter countries have mastered "the transformation process" (*World Competitiveness Yearbook*, 1996:12) or succeeded in adding value. Globality versus proximity analyses the extent to which a country has a balance in domestic and international markets. An economy of globality means that the economy is composed of firms that operate world-wide. The firms Tiger Brands, I&J, Kolosus and Delfood operate world-wide. Globalisation and deregulation are two factors that contribute to the possibility of operating world-wide. Globalisation contributes to price competitiveness as firms are exposed to more competitors. An economy of proximity, on the other hand, refers to an economy composed of firms competing on the domestic market, that are probably protected from international competition, which makes it expensive (in the case of the firms under investigation Rainbow operates only in the local market). Global competitiveness can only be accomplished if it survives the test of operating in international markets (*World Competitiveness Yearbook*, 1996:14). Countries manage this process by being attractive or being aggressive. The former means creating a domestic environment which is conducive to direct foreign investment, which would lead to job creation. Aggressiveness means pursuing direct foreign investment opportunities in foreign countries, even if this means relocating to the foreign country and earning revenues there. The relocation could mean giving up jobs in the domestic country, which are essential in creating wealth in the domestic country. Individual risk versus social cohesiveness distinguishes between a system that advances individual risk and one that preserves social cohesiveness. Individual risk emphasises risk, deregulation, privatisation and the responsibility of the individual through a minimalist approach to a welfare system. In contrast, social cohesiveness relies heavily on a welfare system. Individual risk and social cohesiveness relate to the value systems of nations. Some nations are able to create jobs, but fail to create revenues, while others guarantee revenues but fail to create jobs.

In the case of South Africa, international competitiveness is influenced by

- rich metal and mineral resources
- vast tourist attractions
- well-developed infrastructure
- unfavourable socio-political factors such as crime, violence and mass action
- extensive social needs in terms of education and training, housing and health
- unfavourable labour market conditions such as low productivity, high unemployment
- the country's relatively unfavourable geographic position relative to world markets (du Toit 1998:62).

South Africa's overall international competitive ranking in 1996 and 1997 was 44 out of 46 countries and in 1998 and 1999, 42 out of 47 countries (loc cit). Although South Africa's competitive position improved marginally in 1998 and 1999 compared to 1997 and 1996, it is not very competitive in relation to its counterparts. The lack of international competitiveness impact negatively on the market strategy applied by the firms in question, especially those that are export orientated. Export is deemed a growth strategy and as such comprehensively discussed in chapter 4 (see section 4.2.2.1).

Although South Africa is not doing too well in terms of world competitiveness, according to the above-mentioned ratings, the firms in question are deemed to do a bit better as

- they succeed in adding value to primary agricultural products (eg, canning of fruit) ; and

- succeed in exporting a portion of their products (especially Tiger Brands, Delfood, Kolosus and I&J). Value adding and exporting may impact on market strategy applied, especially, on the focus, differentiation and growth options. These statements may also apply to other firms /industries in a similar position.

From the discussion of the various economic variables that impact on the market strategies applied by the firms in question, it is clear that there are cross-influences (eg, GDP, employment, income, consumer expenditure, interest rate and inflation). Furthermore, it would appear that there are interfaces between the economic and physical environments (eg, capacity utilisation) as discussed in the next section.

2.2.4 The physical environment

The physical environment (nowadays part of the so-called ecological environment) consists of the limited resources from which the firm obtains its raw materials, pollution and similar factors (Pearce & Robinson 1997:67). South Africa covers an area of 122,3 million ha, of which 91% are utilised for agricultural and forestry purposes (*Agriculture in South Africa*, 1995: chapter 1). Agricultural outputs form the principal inputs for food manufacturing. South Africa's climatic conditions are the principal factor limiting agricultural production. South Africa is known for its harsh climate. South Africa's rainfall per annum averages 464mm. The annual rainfall in mountain areas is more than 2000mm but rainfall is as low as 50mm in the desert areas along the west coast (*Agriculture in South Africa*, 1995: chapter 1). Several reports (eg, *The Star* 26/1/98) on the adverse effects of climate on the firms in question appeared in the media during the period under review. According to these reports, droughts adversely affected the results of Tiger Brands while late rains damaged the fruit harvests (*Farmers Weekly* 23/7/99), which impacted negatively on Tiger Brands and Delfood's financial performance. El Niño was also active in the period under review, which caused weather disturbances that had an adverse effect on agricultural outputs. Weather affects yields and quality of primary agricultural outputs, which in turn impact on the quality of manufactured food as well as the price thereof. This in turn may influence the market strategy applied, for example differentiation, low cost and focus.

Agricultural outputs further impact on South Africa's food security position. Food security means the access to affordable, adequate and nutritious food by all persons (*Food Industries of South Africa*, November 1997:9). Food security is discussed in the next section, dealing with the social environment as it impacts on this environment as well. The physical environment is thus important for the firms in question as it may impact on their market strategies applied, specifically, options such as focus and low cost.

Capacity utilisation can also be considered as part of the physical environment. Capacity utilisation refers to the extent to which production facilities are productively/efficiently employed, which in turn impacts on cost and a market strategy option such as low cost. Table 2.15 shows the capacity utilisation for South African manufacturing and food during the period 1996 to 1999.

Table 2.15 SA capacity utilisation in the period 1996 to 1999

SECTOR	1996	1997	1998	1999
Manufacturing	81,5	81,7	80,2	78,81
Food	79,9	79,7	78,6	75,8

Source: Statssa *Statistical Release P3043* (November 1999)

According to table 2.15, capacity was under-utilised in the period 1996 to 1999 for both manufacturing and food manufacturing. The capacity utilisation of manufacturing improved marginally between 1996 and 1997 and decreased until 1999. It is interesting to note that capacity utilisation for food decreased in the period under review, however employment increased in the same period (see table 2.5). The seeming contradiction may point to, inter alia, low productivity. The capacity utilisation of food deteriorated during the period 1996 to 1999. The reason advanced for the under-utilisation of capacity is "insufficient demand" (Statssa *Statistical Release P3043*, 1999). Factors that contributed to the under-utilisation of capacity in the period under review include

- lower agricultural outputs due to El Niño
- the decline in GDP (ie, low economic activity in South Africa due to recession)

The under-utilisation of capacity led to increased production costs for the firms in question, which rendered them uncompetitive in price, which has a negative impact on market strategy applied, specifically the low cost option. Then there is the physical environment with its possible impact on the social environment (eg, food security), which is discussed in the next section.

2.2.5 The social environment

The social environment consists of the beliefs, values, attitudes, opinions and life-styles of those in a firm's external environment, developed from their cultural, demographic, religious, educational and ethnic conditioning (Pearce & Robinson 1997:64; Thompson & Strickland 1998:54; Wilson & Gilligan 1998:251). The social environment influences food consumption and thus the market strategy applied by the firms under review, for example options such as differentiation and low cost. The Human Development Index (HDI) is a meaningful measure of the social environment that may have a bearing on the firms in question. The HDI is a measure of people's ability to sustain the community's activities and have sufficient aids to conduct a decent life (CCS, *Statistics in Brief* 1997). Table 2.16 presents the HDI of various countries in the period 1996 to 1999.

Table 2.16 The HDI of various countries in the period 1996 to 1999

COUNTRY	1996	RANK	1997	RANK	1998	RANK	1999	RANK
Canada	0,951	1	0,960	1	0,960	1	0,932	1
Turkey	0,711	40	0,772	40	0,782	40	0,728	42
South Africa	0,649	42	0,716	41	0,717	42	0,695	44
India	0,436	45	0,446	45	0,451	45	0,545	46

Source: *World Competitiveness Report* (1997, 1998, 1999, 2000)

According to table 2.16, Canada's HDI was the highest during the period under review, while South Africa was almost at the bottom of the list. According to table 2.16, South Africa compares well with developing countries like Turkey and India. An HDI of between 1 and 0,8 is regarded as a level of high human development, while a value of between 0,799 and 0,5 is regarded as a level of medium human development and a value of between 0,499 and zero is regarded as a level of low human development (du Toit 1998:14). According to the information in table 2.16, South Africa thus has a level of medium human development. The level of human development may influence market strategy, for example low cost, which can contribute to affordability of food.

The HDI is a composite index of three factors, namely *longevity, knowledge* and *standards of living*[8] (du Toit 1998:14). *Longevity* is measured by life expectancy, while health affects longevity. The average life expectancy of South Africans at birth is 62,77 years (CCS, *Statistics in Brief*, 1996:3.13). This is also reflected in the population composition in terms of age of South Africans - only 6% of the population fall in the category 60-70+ (compared to 15% of the EU population *European Food and Drinks Market,* 1996). People in the age category 60+ consume less food than younger persons. The age of the population may influence the application of market strategy, specifically options such as low cost, differentiation and growth. Table 2.17 reflects the population composition of South Africans in age during the period 1996 to 1999.

Table 2.17 SA population (million persons) composition in terms of age during 1996 to 1999

Category	1996 Number	%	1997* Number	%	1998 Number	%	1999 Number	%
0-4 years			4,780	12	4,329	10	4,428	10
5-9 years			4,666	11	5,251	12	5,374	12
10-14 years	13,897	34	4,708	11	5,112	12	5,230	12
15-19 years			4,320	10	4,414	10	4,512	10
20-24 years			4,067	10	4,307	10	4,400	10
25-29 years			3,587	09	3,591	08	3,683	09
30-34 years			3,175	08	3,231	08	3,310	08
35-39 years	17,571	43	2,754	07	2,764	07	2,830	07
40-44 years			2,255	05	2,173	05	2,222	05
45-49 years			1,778	04	1,692	04	1,731	04
50-54 years			1,345	03	1,271	03	1,296	03
55-59 years			1,112	03	1,126	03	1,149	03
60-64 years	7,338	18	0,915	02	0,946	02	0,964	02
65+	1,769	04	1,973	05	2,074	05	2,117	05
Total	**40,583**	**100**	**41,444**	**100**	**42,279**	**100**	**43,325**	**100**

* Reporting format changed

Source: Statssa *October Household Survey* (1996,1997, 1998, 1999)

According to table 2.17, the majority of the population (ie, 44 %) fall in the age category 0-19 years, compared to that of 15% of the EU (*European Food and Drink Markets,* 1996:61).

[8] Food security has an impact on longevity, and to some extent, on standards of living.

Feeding is extremely important during these ages to ensure health, sound development and growth that may impact on market strategies applied (eg, low cost and differentiation). Feeding relates to food security – the aces to affordable, adequate and nutritious food. *The Nutritional Status of South Africans* (1996) found that on a national basis, 20 to 25% of pre-school children are stunted and therefore suffer from chronic undernutrition. Rural Black children were the most vulnerable. Biochemical analysis showed that pre-school children had a high prevalence of iron, vitamin A and folic deficiencies, stemming from malnutrition. High instances of parasitic infections in these children were also reported. The same trends noted in pre-school children, excluding parasitic infections, were prominent in the rest of the population. Primary school children also suffered from low calcium intake, while adolescents seem to have low calcium, vitamin E, and B6 intake. In the case of adults, obesity was observed, especially among Black women. Obesity is generally considered a disease of poverty that is largely determined by environmental factors, such as increased dietary fat and decreased physical activity (*Food Review*, April 2000:41). The nutritional status of South Africans indicates that the food security position of some South Africans is at threat. This holds opportunities for the firms in question to produce innovative solutions to eliminate nutritional deficiencies. Innovation influences market strategy options such as differentiation and low cost that could be important to the firms in question.

Health is an important factor in human development and is also important for economic reasons like productivity. Modern consumers appear to be health conscious and focus on eating correctly (*Fast Moving Consumer Goods*, August 2000:44). By being better informed, consumers can make a more informed decision about their food intake and consequently their health. Health indicators, such as diseases, reflect the general socio-economic conditions of a country. The primary diseases affecting the inhabitants of South

Africa are Human Immunodeficiency Virus (HIV), Tuberculosis and malaria. It is estimated that 17,4 % and 28,8% of the population were HIV positive in 1997 and 1998, respectively. The age groups 20 to 34 (27% of the population) are the most vulnerable to HIV (*Statistics in Brief*, 2000 published by Statssa). The diseases may impact on market strategy applied, specifically options such as differentiation and low cost.

Knowledge is the second factor impacting on the HDI. Knowledge is measured by a combination of adult literacy and average schooling. Table 2.18 reflects the knowledge level of South Africans and selected others.

Table 2.18 The knowledge level of South Africans and selected others

Country	Literacy rate % persons older than 15 years in the period 1992 to 1995	
	Males	Females
SA	82	82
USA	96	95
Japan	100	100
Nigeria	67	47

Source: du Toit (1998:8)

According to table 2.18, the knowledge level of South Africans is better than that of Nigerians, but lower than that of Americans and Japanese. As knowledge forms part of HDI, this would indicate that South Africa's HDI was better than that of Nigerians but lower than that of Americans and Japanese. This is also reflected in South Africa's HDI ranking in table 2.16. Legislation, such as the Health Act, 1977, which prescribes certain rules and regulations with regard to labelling (see section 2.2.1) can assist consumers to improve their knowledge of nutrition. Better information about nutrition on labels can assist consumers to choose food products to improve their health (eg, food enriched with micronutrients to supplement vitamin and mineral deficiencies). Better labelling may specifically influence a market strategy option such as differentiation.

Standard of living is the third and final factor impacting on the HDI. Standard of living is measured by purchasing power. Purchasing power is influenced by inflation, among other things. Over the last few years the Rand's purchasing power has declined substantially. This is illustrated by the fact that R100 worth of goods in 1970 cost approximately R2 160 in 1997 (CCS, *Statistics in Brief*, 1997). The Rand's relatively weak purchasing power contributes to lower standards of living for South Africans, which is indicative of a low HDI. Market strategy options such as low cost is particularly influence by the purchasing power of the Rand.

Social factors and economic factors are also interwoven. This is illustrated by the fact that the ultimate goal of economic growth is to improve the standard of living of the inhabitants of a country. This is not easy in South Africa as the GDP has declined over the past few years - from 5,7% in 1960s to 1,1% in the period 1990 to 1997 (du Toit 1998:20). The standard of living is deteriorating in South Africa, which is exacerbated by increased debt levels – more disposable income must be used to repay debts. According to du Toit (1998:14), only 6% of South Africans are financially independent when they reach the retirement age of 65 years. This holds immense opportunities for the selected firms forming the focus of this study to produce nutritious and affordable food, specifically market strategy options such differentiation and low cost. If the firms forming the focus of this study do not meet this challenge, South African's social conditions may be adversely affected, as is evident in the HDI.

The social environment holds nutritional opportunities for the firms in question, especially in supplying foodstuffs rich in micronutrients, particularly vitamins A, E, B6 calcium, iron and folates. Products such as new formulated Pro-Nutro can assist in supplement these shortages. Reformulated Pro-Nutro has all its traditional nutritional benefits and added nutraceuticals. The nutraceutical attributes high levels of vitamins C and E (*Food Review*, September 1997:25). Sea Harvest's iron and zinc-enriched fish fingers and fish cakes are another example of products that fill the nutritional gap (*Fast Moving Consumer Goods*, June 2000:18). Besides supplying the South African market, these products can also be exported, especially to Third-World countries where there are similar situations. Exports form part of the international environment, as discussed in the next section.

2.2.6 The international environment

The international environment embraces, inter alia, the economy and legislation of the international community (Wheelen & Hunger 1998:57). Table 2.19 describes South Africa's imports and exports according to the main trading partners.

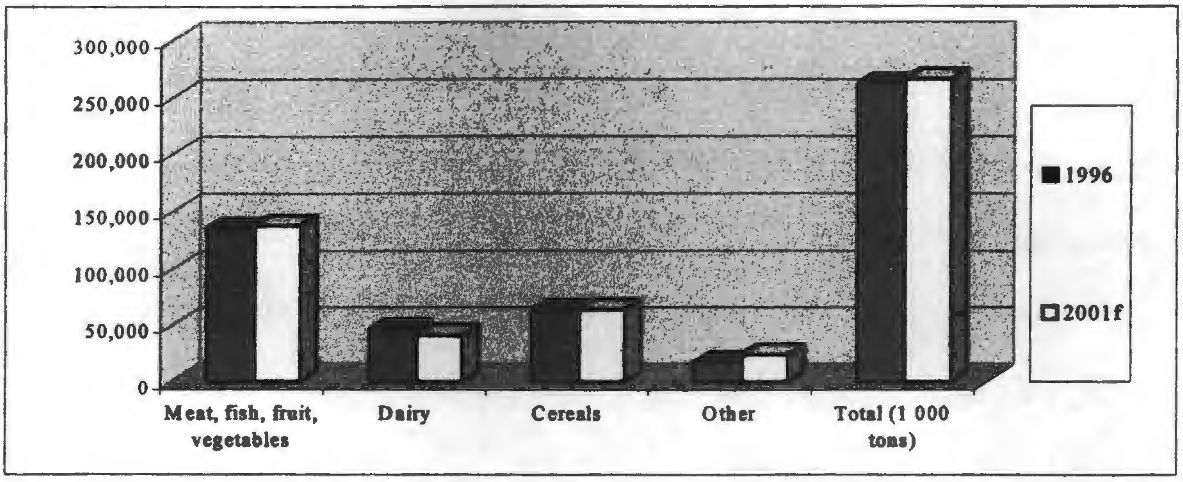
Table 2.19 SA imports and exports in the period 1996 to 1999, in R million

Country	Imports				Exports			
	1996	1997	1998	1999	1996	1997	1998	1999
Europe	54 525,6	58 147,8	69 790,5	68 417,2	39 097,1	42 903,7	56 108,5	64 549,7
USA	16 095,0	18 226,9	21 978,1	21 624,9	11 138,1	12 618,6	17 0226,3	18 501,6
Asia	22 692,9	25 304,4	33 322,9	33 913,0	17 799,7	24 679,1	23 982,2	31 243,5
Africa	2 693,5	3 352,6	4 390,3	4 730,9	17 632,5	20 099,6	21 010,2	23 367,4
Other	19 977,3	24 802,6	27 971,5	45 911,3	39 078,5	36 339,8	35 246,4	11 979,7
Total	**115 984,3**	**129 834,3**	**147 454,3**	**174 597,3**	**124 735,9**	**137 338,8**	**153 373,6**	**149 641,9**

Source: *A Presentation of South Africa's Trade*, Absa Bank (1997, 1998, 1999, 2000) table 2.12). According to table 2.19, the Rand value of South Africa's exports increased in the period 1996 to 1998, but decreased in 1999. Europe was South Africa's major trading partner, followed by Asia, Africa and the USA. The international environment influences the market strategies of the firms in question, especially those that are export orientated. Furthermore trade agreements, such as that with the SADC, Swaziland and Malawi may have impacted on imports and exports between South Africa and its trading partners as reflected in table 2.19.

Given Europe's dominant position as a trading partner of South Africa, more information is provided in this regard. Food consumption in Europe is mainly driven by preference (*European Food & Drink Markets*, 1996), which may impact on market strategy applied such as differentiation. Food consumption was almost static and provides challenges to South African firms exporting to Europe. The composition of food consumption in Europe in 1996 and an estimate for 2001 is illustrated in figure 2.2 below.

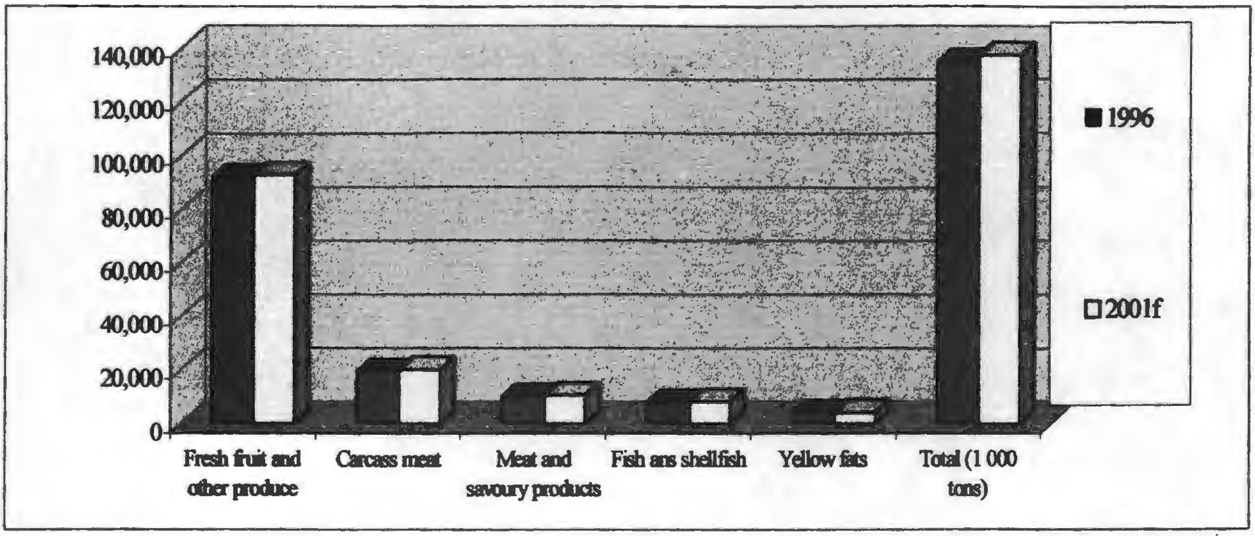
Figure 2.2 The composition of food consumption in Europe in 1996 and 2001 (forecast)



Source: Adapted from *European Food & Drink Markets* (1997:9)

It is clear from figure 2.2 that the Europeans consumed products from the major group meat fish, fruit, vegetables, oils and fats, followed by cereals, dairy and other products. This consumption pattern is more or less in line with that of South Africans (see chapter 1, section 1.1, table 1.3). The EU consumption of the products forming part of the major group meat, fish, fruit, vegetables, oils and fats is given in figure 2.2 (a) below.

Figure 2.2(a) The European consumption of meat, fish, fruit, vegetables, oils and fats in 1996 and 2001 (forecast) in tonnes



Source: Adapted from *European Food & Drink Markets* (1997:9)

According to figure 2.2(a), the Europeans consumed mainly fresh fruit and other produce, followed by carcass meat, meat and savoury products, fish and shellfish and yellow fats. This pattern does not coincide with that of South Africans. Europeans consume primarily fresh fruit and other produce compared to meat in the case of South Africans. This may hold export opportunities for South African firms, especially those involved in the trading of fresh produce, such as the new comers on the JSE (Intrading) and to a lesser degree for firms such as Tiger Brands and Delfood that are more focussed on canned fruit. A firm such as Kolosus, on the other hand, may gain from the consumption of carcass meat. The same applies to Tiger Brands and I&J in respect of fish.

Although the European food market remained almost static, in the period under review, due to the relative old age of the European population (see section 2.2.5 social environment), there are opportunities in the following areas as consumers appeared willing to pay more for foodstuffs perceived as

- convenient foods
- exotic foods
- quick preparing foods
- safe food
- high quality foods
- healthy foods
- new products
- vegetarian dishes
- good for children
- snacks

The selected firms forming the focus of this study that are export orientated, especially Tiger Brands, Delfood, Kolosus and I&J, should take note that the consumption of unprepared food products may decline as the demand for convenience and prepared foods increases. This may render excellent HMR opportunities for these firms (ie, differentiation or low cost market strategies can be applied). Furthermore, attention should be given to possible dietary changes. Nowadays people appear to be more health conscious than a decade ago. The consumption of "healthier" food, such as fresh food, may thus increase, as Langeberg (part of Tiger Brands) and Delfood found when their canned fruits exported to Europe proved not as attractive as their fresh counterparts.

While consumer demands in Europe have had an adverse effect on the exports of the selected firms, other countries such as the United Arab Emirates (UAE), Egypt and Saudi Arabia emerged as markets attracting South African exports. South Africa's largest food exports to the UAE include fresh fruit and vegetables, beef, frozen and semi-frozen foods. Saudi Arabia imports fresh fruit and vegetables, processed fruit and vegetables, frozen meat (except pork), vegetables and poultry from South Africa. Canned foods have been replaced by frozen foods, which are perceived to be healthier. Egypt also imports fresh fruit from South Africa. The import trend of the UAE, Saudi Arabia and Egypt add opportunities to the selected South African firms (*Food Review*, March 1998:10). These opportunities specifically impact on market strategy options such as growth.

The international environment also brought opportunities to the selected firms forming the focus of this study, in terms of the EU trade agreement (ie, growth strategy is affected). Products that benefit from the EU agreement include fruit and canned fruit. The duty saved by the fresh and canned fruit industries in the first three years of the agreement amounted to R100 million (undated *AgriPerspective*, published in *Landbouweekblad* 1999). Table 2.20 gives particulars of the quotas granted by the EU to South Africa.

Table 2.20 Details of the EU quotas granted to SA

Product	Size of quota	Tariff rate
Canned pears, apricots, peaches	40 000ton	50% of MFN
Canned mixtures of fruit, other than tropical	18 000ton	50% of MFN
Canned mixtures of tropical fruit	2 000ton	50% of MFN

Source: *Agriperspective* (undated) published in *Landbouweekblad* (1999)

The information table 2.20 indicates that canned fruit have a favourable dispensation in terms of the EU agreement, thus potentially presents opportunities for South African firms, specifically for Tiger Brands and Delfood that manufacture and export canned fruit to Europe

– though the European consumers prefer fresh counterparts, as shown in figure 2.2 (a). At the time of writing, however, no information was available on the South African exports of these products to the EU to place the quotas in perspective.

Another important aspect arising from the international environment that may bring opportunities to the firms in question is (international) food exhibitions, such as Anuga and Sial, showcasing the whole food industry. Furthermore, at such exhibitions, business trends and consumer preferences are indicated, which could assist the firms in question in managing their market strategies according to the latest developments and trends.

A closer look at the macro-environment shows that the sub-environment are interrelated; for example, the legal environment embraces trade agreements and the international environment reflects trade with foreign countries, which include the trade resulting from trade agreements. Although a variable is classified into a particular sub-environment, it should not be viewed in isolation. The classification merely makes the environmental analysis manageable.

The macro-environment holds several opportunities as well as poses threats to the firms in question, as illustrated above. The macro-environment is not the sole source of opportunities and threats. Opportunities and threats also come from the market environment, as discussed in the next section.

2.3 THE MARKET ENVIRONMENT

According to figure 2.1, the macro-environment influences the firm through the market environment, while the market environment influences the firm directly through the variables in the market environment. The firm itself, in turn, influences the market environment directly through its market strategy. According to figure 2.1, the variables in the market environment consist of consumers, competitors, intermediaries and suppliers. These variables indicate that this sub-environment is the principal area of competitive behaviour. The market environment is thus important to the firms in question as they cope with competition via the market strategy applied. According to Strydom et al (2000), Aaker (1998) and Thompson and Strickland (1998), there are various methods to analyse the market environment, most of which correspond to some degree. This section analyses the market environment in which the firms in question operate according to Thompson and Strickland's (1998:70) framework by answering seven questions:

(1) What are the industry's dominant economic characteristics?

(2) What competitive forces are at work in the industry and how strong are they?

(3) What are the drivers of change in the industry and what impact will they have?

(4) Which companies are in the strongest/weakest positions?

(5) Who is likely to take what competitive moves next?

(6) What key factors will determine competitive success or failure?

(7) How attractive are the prospects for above-average profits in the industry?

Each of these questions is addressed in this section.

2.3.1 What are the industry's dominant economic characteristics?

The industry's dominant economic characteristics have implications for the firm's market strategy. The industry's dominant characteristics are described in terms of a variety of variables that are addressed in this section, such as notably market size, scope of competitive rivalry, market growth rate, stage in the life cycle etc.

Market size: The market size of the South African food market is assumed to be equal to the sales of food provided in table 1.3. The total sales of food amounted to R57 028 million in 1999, of which the major group meat, fish, fruit, vegetables, oils and fats contributed 30% (also see chapter 1, section 1.1, table 1.3). (See also Annexure F for a comprehensive summary of final products (ready for sale) of the major group meat, fish, fruit, vegetables, oils and fats as provided by Statsa.)

Scope of competitive rivalry: Rivalry in the food market especially the major group meat, fish, fruit, vegetables, oils and fats, include domestic and international firms, for example Tiger Brands, Delfood, I&J, HJ Heinz, Best Food and Dole Foods. It is interesting to note that all the firms in question, except Rainbow, export a portion of their products.

Market growth rate: The market growth rate is calculated from the information in table 1.3. The market growth rate for food averaged 4,733% (6,2 % between 1996 and 1997; 4,3% between 1997 and 1998 and 3,7% between 1998 and 1999) in the period 1996 to 1999, that is greater than the GDP (of around 1% see table 2.4) of South Africa in the corresponding period. The average market growth rate for the major group meat fish, fruit, vegetables, oils and fats averaged 7,8% (8,9% between 1996 and 1997; 9,9% between 1997 and 1998 and 4,75% between 1998 and 1999) in the same period. The average market growth rate for food was lower than that for the major group meat, fish, fruit, vegetables, oils and fats, in the period under review. It is interesting to note that the market growth rate for food declined throughout the period under review, while that of the major group meat, fish, fruit, vegetables oils and fats, increased between 1996 and 1997 and 1997 and 1998, while it plummeted between 1998 and 1999. The market growth rate for both food and the major group meat, fish, fruit, vegetables and oils and fats was greater than the GDP in the same period. The trend in the market growth rate of food and the major group meat fish, fruit, vegetables and oils and fats were susceptible to changes in the GDP. In fact the GDP improved between 1998 and 1999 while the market growth of both food and the major group meat, fish, fruit, vegetables and oils and fats decreased in the corresponding period. This may be as a consequence of the decline in the GDP in the preceding periods, indicating a lag between the GDP and food movement. This indicates that the firms in question are adversely affected by a negative trend in the GDP, which may impact negatively on the market strategy applied.

Stage in life cycle: The food industry has reached the mature phase of the life cycle. However, it is revived with new products such as HMR.

Number of companies in the industry: Information on the number of companies, including companies that are not listed on the Stock Exchange, in the industry is not readily available. However, according to the information in table 1.5 (see chapter 1, section 1.2) there are not many firms active in the food industry that are listed on the JSE. Furthermore few of them are involved in the in the major group meat, fish, fruit, vegetables, oils and fats. It should be borne in mind that a number of these establishments are connected (eg, Tiger Brands, Ocfish, Seaharv). The number of firms in the food industry suggests an oligopolistic market structure.

Customers: Wholesalers and retailers are the food manufacturers' primary customers. The wholesale trade turnover of food, beverages, tobacco and farm produce and live stock amounted to R51 281,8 million in 1996, R 53 413,6 million in 1997, R58 922,9 in 1998 and

R64 999,8 in 1999 (Statssa publication *P6141.2* published 15/12/99). (There is a discrepancy between the wholesale trade turnover and the sales of the food industry as provided by Statssa and reflected in table 1.3. The total retail trade sales amounted to R19 041,4 million in 1998 and R20 075,6 in 1999, while that of perishable and processed foods amounted to R4 944,0 million and R5 137,0 million in the corresponding years (Statssa, publication *P6141.1* published 7 March 2001).) Little information is available on wholesalers, but somewhat on the listed retailers, which in any event are the major players in this field. Information that is available for listed retailers is provided to give a picture of some of the important buyers. Turnovers (in Rand millions) of the three listed retailers for the period 1996 to 1999 are given in table 2.21 below.

Table 2.21 Turnover (in R million) of the listed retailers for the period 1996 to 1999

Retailer	1996	%	1997	%	1998	%	1999	%
Shoprite	10 183,2	43	9 365,5	39	14 476,3	45	17 245,9	46
Pick'nPay	9 169,4	39	9 793,5	41	10 970,6	34	12 503,0	33
Spar	4 169,9	18	5 023,5	20	6 494,7	21	7 819,5	21
Total	**23 522,5**	**100**	**24 182,5**	**100**	**31 941,6**	**100**	**37 568,4**	**100**

Source: *Financial Mail Top Firms* June 1997, and 1999

According to the above turnover figures, Shoprite was the largest retailer (46% of turnover in 1999), followed by Pick 'n Pay (33% of turnover in 1999) and Spar (21% of turnover in 1999) in the period under review. Shoprite was also the fastest growing retailer according to the turnover figures provided. Although Shoprite was the largest of the retailers, it is small in terms of turnover if compared to Tiger Brands (see chapter 1, section 1.2.1.1, table 1.6).

Tiger Brands may be assumed to be more powerful than the retailers, in terms of turnover (see also question 2). However, the retailers may be more powerful than Tiger Brands' competitors in terms of turnover. Furthermore, Spar forms part of the Tiger Group, therefore Tiger Brands can provide its own distribution outlets. Nevertheless, if Tiger Brands and its competitors want a good representation for their products, they should note that Shoprite is the largest retailer and also the fastest growing in the South African market. Another observation from the retailers' turnover is that their turnover is significantly smaller than that of food sales as indicated in table 1.3 in chapter 1 (section 1.1). This means that food is also distributed via other channels, such as convenience stores, wholesalers and informal retailers such as spaza shops. At the time of writing, however, no information was available on these alternative outlets to place them in perspective. Outlets as such can influence the market strategy applied for example differentiation, low cost, focus and growth.

Degree of vertical integration: The food manufacturers forming the focus of this study are mostly backwards integrated (eg, Tiger Brands, Kolosus, I&J, Delfood and Rainbow). As such, they are deemed to be their own sources of supply. Tiger Brands is also forward integrated by having access to its own distribution channels (eg, Spar). The integrated nature of these firms could further complicate competition.

Ease of entry/exit: Entry and exit barriers exist due to high cost associated with technology and legislation as well as the oligopolistic nature of the market. Furthermore the country risk ratings, that are generally speculative in nature, and the low world competitiveness ranking of South Africa may also contribute to entry barriers. Entry barriers may influence market strategy options, specifically joint ventures and partnerships.

Technological innovation: Technology changes quickly (eg, GM foods, packaging improvements, preserving improvements), that impacts on the food industry. Mostly the impact of technology is positive, although it may initially be associated with cost-raising effects to the firms in question. Technological innovation may impact on market strategy options such as differentiation.

Product characteristics: Products are mainly commodity types. However, certain manufacturers (eg, Tiger Brands and Delfood) try to differentiate on the basis of branding. In so doing they endeavour to establish themselves as producers of value added products, rather than commodities. Product characteristics may impact on market strategy applied for example differentiation.

Learning and experience effects: This must be fast as technology changes fast.

Scale economies: Each firm should have economies of scale in the area of production (eg, Tiger Brands in canned vegetables, I&J in frozen vegetables, Kolosus in fresh and canned meats, Delfood in the canning of fruit and Rainbow in the production and processing of poultry).

Capacity utilisation: Capacity is not fully utilised (see table 2.15), which contributes to higher costs and less/lower price competitiveness. Capacity utilisation may impact market strategy options such as low cost.

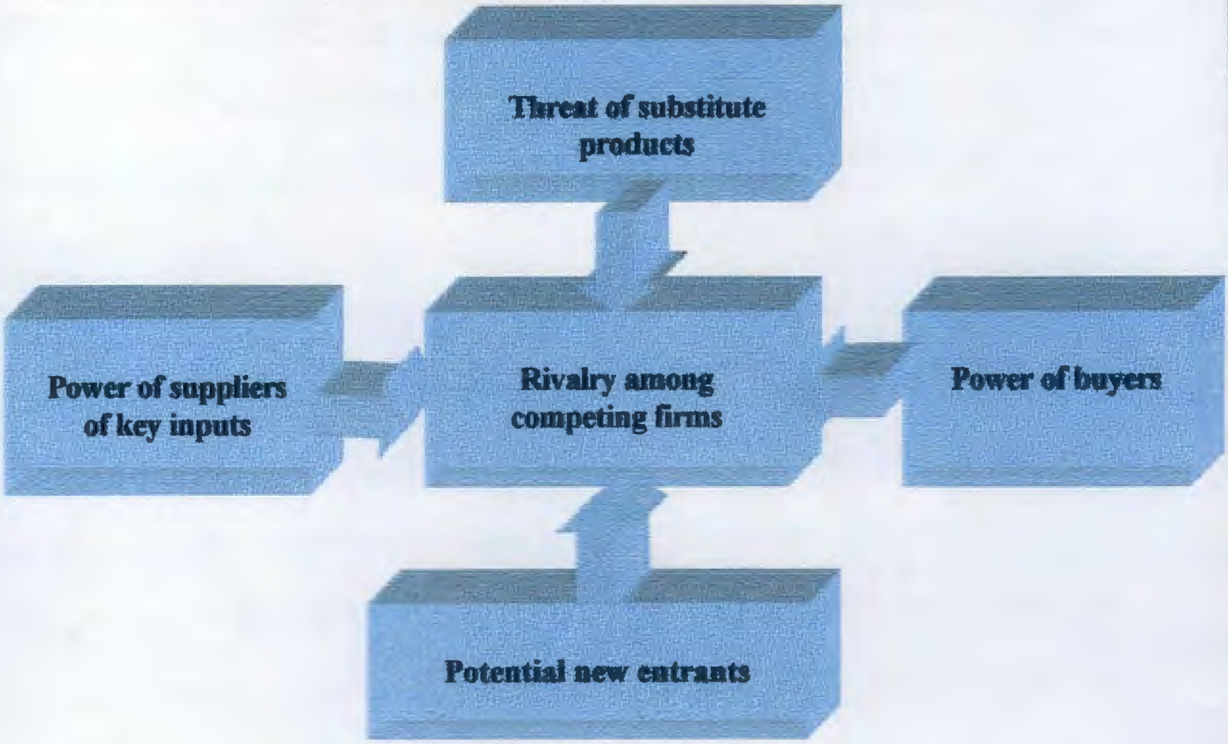
Industry profitability: Information on, inter alia, industry profitability is provided in tables 2.22 to 2.26. However, the information provided in these tables is insufficient to make meaningful conclusions. It should be noted that the industry ROE declined in 1997, increased slightly in 1998 and again declined marginally in 1999. Given the information in tables 2.22 to 2.26, the possibility for above-average industry profitability appeared disheartening.

According to foregoing, the economic characteristics of the food industry and the major group meat, fish, fruit, vegetables, oils and fats presented challenges to the firms in question that could be met via the market strategy applied, especially differentiation, low cost, focus, growth and harvesting. The next section provides information on the second question of market analysis, namely what competitive forces are at work in the industry and how strong they are.

2.3.2 What competitive forces are at work in the industry and how strong are they?

To answer this question, information was obtained about the main sources of competitive pressures and how strong these forces are. Knowledge about the competitive forces and their strength is imperative in the application of market strategy. Porter's (1980) five competitive forces were used to determine the competitive forces and their strength (see figure 2.3 below).

Figure 2.3 The five competitive forces



Source: Adapted from Thompson and Strickland (1998:75)

The centre of figure 2.3 depicts rivalry among competing firms, which means that competitors vie for the best position in the market. This is usually achieved by obtaining the favour of the buyers. The competitors vie on different bases; for example, price, product dimensions such as differentiation, quality and brand image, which are relevant in the application of market strategy. These elements form part of the marketing strategy that falls outside the scope of this study. Rivalry among firms is influenced by various factors, including the number of competitors, the demand pattern (growing or slowing) for a product; switching cost of buyers, action taken by competitors dissatisfied with their position. Not all of these factors are always equally applicable. For the purposes of this study, only a few of these factors are highlighted. First, there are a limited number of rivals on the scene (see, inter alia, chapter 1, section 1.2). In the case of oils and fats, only two firms in the food industry are involved in this category, namely Tiger Brands and Unifoods. At the time of the study only Tiger Brands was listed and as such, forms part of this study. As there are not many rivals, the competition may perhaps not be as intense as it would have been had there been more contenders for market position. However, it was established in chapter 1 (see section 1.2.2) that intratype competition is at least applicable. Secondly, if a competitor intensifies its efforts to improve its market position, it may spark reaction from the other rivals. In the case of poultry, the competition intensified at the time when the South African market was engulfed with dumped poultry of the USA. Tiger Brands and Rainbow were particularly affected by this situation. Finally, Tiger Brands is a dominant player in the South African market, so that the other players' efforts are perhaps overshadowed by Tiger Brands.

According to figure 2.3, another force that affects competition is new entrants to the marketplace. New entrants to the market may influence the competitive position of the firms. This, in turn, influences the market strategy applied. The threat of new entrants depends mainly on the barriers to entry and the expected behaviour of current competitors in reaction to the new entry. From the information provided thus far (also see section 2.3.1), entry barriers exist in the South African food industry due to

- relatively high costs caused by legislation, capacity under-utilisation, technology coupled with learning and experience effects
- the oligopolistic nature of the market, scale economies that are required, the not so rosy profitability position of the industry
- the life cycle phase of the industry and the growth prospects of the market
- degree of vertical integration.

However, the market may be attractive for current firms to engage in joint ventures with international firms (eg, SAD and HJ Heinz) which may drive the current firms to adjust their market strategies applied.

Substitute products is another force influencing the competitive position of the firms in question. The treatment of substitute products is mainly determined by factors like the attractiveness of the market, how satisfactory the substitutes are in terms of quality, and price and the ease with which consumers can switch to the substitute products. In the case of the food industry, and specifically the major group meat, fish, fruit, vegetables, oils and fats, the threat of substitute products does not yet seem to be severe at this stage. The principal source of substitute products seems to be GM foods, which are generally not accepted by the public at large, although these products can save costs and, according to scientists, are safe. In the case of meat, soy seems to be a good substitute, but breakthroughs have only recently been achieved in improving the taste of soy. In future this may perhaps put especially manufacturers of meat products under pressure.

According to figure 2.3, another competitive force is the power of suppliers. In the case of the South African food industry, and particularly the firms under investigation, this force is perhaps not as applicable since the firms are backwards integrated (ie, supply their own inputs). Therefore, this force is not discussed.

The final competitive force depicted in figure 2.3 is the power of buyers, in this case the wholesalers and retailers. Generally, buyers are considered to have significant bargaining power when they are large and buy much of the industry's output. The three listed retailers[9] are considered to be small in comparison to Tiger Brands, based on the turnover of the firms. However, these firms are considered to be large in comparison to Tiger Brands' competitors, based on turnover. Therefore, these firms may perhaps be in a position to prescribe or exercise bargaining power over the latter firms in terms of price, quality and other aspect of the sale. On the other hand, this bargaining may not be very strong, as there are only a limited number of suppliers in the local industry and imports are expensive due to the weak exchange rate of the Rand.

The market strategy applied by the firms in question should preferably protect them from the negative consequences of these five competitive forces, while it capitalises on the positive consequences. The application of market strategies such as differentiation, low cost, focus, growth, maintenance, harvesting and divesting can assist the firms in question to achieve just that. The next question that deserves attention relates to the drivers of change in the industry and their impact.

2.3.3 What are the drivers of change in the industry and what impact will they have?

This questions aims to describe the changes taking place in the industry under investigation (over and above the changes that take place due to the movement through the life cycle). As pointed out at the beginning of the chapter, nowadays change is volatile and no industry or firm can escape the effect of change. If a firm is familiar with the forces that drive change, it can adapt its strategy accordingly. A factor driving change in an industry could be market growth rate. In the case of the food industry, the market growth rate was slow in the period

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[9] Information is only available for the three listed retailers, therefore reference is only made to these buyers.

under review, which may be considered a driving force of change. In this instance market strategies such as differentiation, maintenance and harvesting could be applied successfully. The changing demand of final consumers (ie, wanting healthier food, such as fresh products, rather than canned equivalents and HRM) resulting in product innovation constitutes a driving force of change in the food industry. Innovation is deemed to form part of technological change. Technological change (ie, products, processes, packaging) constitutes a major force of change in the food industry and particularly in the major group meat, fish, fruit, vegetables, oils and fats, thus contributing to new products at lower costs that require a response in the market strategy applied. Technological change impacts on market strategies applied, specifically options such as differentiation, low cost and growth. The increased globalisation of the industry (ie, South African firms gaining prominence in international markets and vice versa) requires an adjustment in the market strategies applied especially by the firms in question. Globalisation impacts on market strategy applied, specifically growth. Although other factors drive change in the food industry, these are deemed to be the most significant factors that the firms in question should note. The next question deals with the relative positions of the competing firms.

2.3.4 Which companies are in the strongest/weakest positions?

The aim of this question is to determine the relative positions of the competing firms; that is, who is in the strongest and the weakest competitive position, as the position has an impact on the market strategy applied. From the available information it appears as if Tiger Brands is in the strongest position, given its wide product range, geographical coverage, degree of vertical integration, and its profitability position, followed by I&J. Rainbow, Kolosus and Delfood seem to be in the weakest position in terms of poultry, canned fruit, and canned meat, respectively, when compared to Tiger Brands. Accordingly, Tiger Brands, the diversified firm, is in the best competitive position in comparison to its rivals, who are more narrowly focused. The firms' positions may relate to their management abilities. As shown in section 2.4, Tiger Brands' management position is the best of all in question. The next question to answer is what competitive actions rivals are likely to take, as discussed in the next section.

2.3.5 Who is likely to take what competitive actions next?

The competitive actions that rivals are likely to make next could influence the firm's market strategy, therefore the firm should be aware of rivals' possible actions. The competitive actions made by the Tiger Brands' rivals in the period under review focused mainly on improving their profitability and competitive position (see chapter 1, section 1.2.4, table 1.12 in this regard). Although these competitive actions have not really paid off in most instances, they could be expected to concentrate on further competitive actions to improve their profit positions and ultimately their competitive positions in future. These competitive actions may lead to success, which may impact negatively on the competitive performance of Tiger Brands and the market strategy Tiger Brands apply. The next question to be considered deals with the key factors for competitive success, as discussed in the next section.

2.3.6 What key factors will determine competitive success or failure?

Key success factors are those factors considered to be paramount in the success of any particular firm in an industry to participate and survive. Key success factors usually have a bearing on the firm's profitability. In the case of the South African food industry, and particularly the major group meat, fish, fruit, vegetables, oils and fats, the most important key success factor is deemed to be technology (innovation in products, processes, packaging), including supply chain management, and branding. From section 2.2.2, it is clear that the firms in question have access to technology, which helps them to survive and grow. Technology has in impact on the market strategy applied for example, differentiation, low cost, focus and growth. The next question to attend to is the attractiveness of the industry in terms of above average profitability, as discussed in the next section.

2.3.7 How attractive are the prospects for above-average profits in the industry?

The answer to this question is the final phase in the industry and competitor analysis that would contribute to the application of a suitable market strategy by the firm. Various factors contribute to the attractiveness and profitability prospects (see sections 2.3.1 to 2.3.6). The South African food industry's growth rate was low in the period under review and, as pointed out in section 2.3.1, adversely affected by a negative trend in the GDP. Therefore, the market growth rate for the food industry, and the major group meat, fish, fruit, vegetables, oils and fats in particular, is considered to be unattractive and the profitability prospects are bleak, especially in times of an economic downturn. This is demonstrated by the information submitted in tables 2.22 to 2.26, where it is illustrated that the profit of the firms in question was generally lower than that of the industry. However, the competition at the time of the study allowed for survival even of the weakest firms, such as Rainbow, with its losses. Competitive forces may become stronger in future owing to increased globalisation, new entrants from the international scene, and substitute products such as soy stews with the flavour and texture of real meat. In the long-run technology as the primary driving force may lead to lower costs and higher profitability. If the efforts of the struggling firms to improve performance payoff, their competitive position should improve. Tiger Brands' competitive position is also expected to improve through its continued efforts. Although the South

African food industry is not deemed to be attractive, it is deemed to have pockets of profitability, if the participating firms select their opportunities carefully.

The different variables in the principal sub-environments seem to be mutually exclusive if one looks at figure 2.1. However, from the discussion so far it has transpired that these variables are dynamic and interactive. Furthermore, these variables may not be equally applicable in all situations; some may be more dominant than others at times.

Analysing the remote and competitive environments revealed opportunities and threats that can only be utilised or avoided depending on the strengths and weaknesses of the firm. Strengths and weaknesses are present in the micro- or internal environment, as assessed in the next section.

2.4 THE MICRO-ENVIRONMENT

According to figure 2.1, the micro- or internal environment consists of the firm itself and the aspects within the firm, such as the mission and objectives of the firm, the management of the firm and its resources, that impact on the successful execution of effective market strategy. The analysis of the internal environment forms part of the environmental analysis. The purpose of the internal environmental analysis is to determine the strengths, weaknesses, capabilities and limitations of the firm (Aaker 1998:114; Pearce & Robinson 1997:169). Ideally, the market strategy should be based on the firm's strengths and capabilities and take into account its weaknesses and limitations, and match these to the opportunities and threats present in the external environment (see chapter 3, section 3.2). In so doing, the firm attempts to arrive at its ultimate destination, namely survival and growth. This section analyses the internal environments of the firms in question, by profiling these firms by establishing their mission and key internal factors. The profile of a firm is discussed in the next section.

2.4.1 The profile of a firm

A firm's strengths, weaknesses, capabilities and limitations are generally considered to represent its profile (Thompson & Strickland 1998:56; Pearce & Robinson 1997:14). For the purposes of this study, the firm's mission is deemed to be the starting point for compiling the firm's profile (see chapter 1, section 1.3) as the mission is the starting point for all its activities (Wilson & Gilligan 1998:204). Furthermore, the firm's mission determines the business the firm is and should be in (Wilson & Gilligan 1998:206; Thompson & Strickland 1998:28). The mission is thus the first direction setting task or activity of general management (Thompson & Strickland 1998:27). For the purposes of this study, the first step in compiling a firm's profile is thus to establish its mission.

(i) Mission

The mission of a firm needs further clarification. The mission statement distinguishes the firm from its rivals (Thompson & Strickland 1998:29). The mission of the firm reflects the business the firm is in by indicating the needs it is trying to satisfy, the customer groups it is targeting and the technologies used to serve the target market (Thompson & Strickland 1998:28). According to Wilson and Gilligan (1998:206), the former is also known as the characteristics of a mission statement. According to Wilson and Gilligan (1998:197), mission statements have been the subject of considerable discussion in recent years - some firms still lack mission statements while others' reflect wishful thinking. In analysing the internal environment of the firms in question, these issues will be referred to.

(ii) Key internal factors

The next step in internal environmental analysis is to identify and evaluate the key internal factors that may impact on the strategy chosen. Key internal factors refer to the important aspects within the firm, such as performance, strengths and weaknesses, which impact on the strategy (Aaker 1998:25). Various methods exist to identify and evaluate the key internal factors; for example, the value chain, product life cycle stage, functional approach, financial analysis and answering questions, such as how well the strategy is working, whether the prices and costs are competitive, how strong the competitive position is and what strategic issues the firm faces (Aaker 1998:115-128; Pearce & Robinson 1997:169-189; Thompson & Strickland 1998:115-134). Some of these approaches overlap and could be addressed simultaneously (to some extent) and evaluated on the basis of ratio analysis, which forms part of financial analysis. Ratio analysis has several disadvantages, such as:

- it draws on historical data and does not provide for inflation, which may be misleading to the current position;
- its dependency on the abilities of the analyst, and
- the quantitative nature of ratio analysis tends to ignore qualitative information, it is nonetheless useful in determining key internal factors.

Ratio analysis can furthermore be used in comparing the performance of the firm with previous years as well as with competitors in the industry. Growth and profitability deterioration is also reflected in the financial analysis. Changing trends in growth and profitability may signal that a change in market strategy may be required.

This study identifies key internal factors through the use of financial ratios (based on Pearce & Robinson 1997:191-202). This method was chosen mainly because information on financial analysis is readily available, while information on the other approaches, such as the value chain, was not readily available. To some degree, the ratio analysis indicates critical success factors, as the mismanagement of one of these factors may lead to the demise of the firm. Furthermore, financial ratios are used by

- management to evaluate the firm's performance with that of previous years as well as with the performance of rivals
- creditors to evaluate risk in order to decide whether or not to grant credit
- investors to guide their decisions to buy or sell shares.

Management use financial ratios to assist them in exercising control, maximising shareholder wealth and the optimal allocation of the firm's resources. The ratios used by management to evaluate performance are called activity and profitability ratios. Activity and profitability ratios represent an assessment of the return generated by the assets of the firm. **Activity ratios** measure how effectively management uses the resources under its control. Activity ratios indicate whether the investment in assets is justified in relation to the activity as measured by turnover. One of the ratios that can be used to assess activity is the asset turnover ratio. The asset turnover ratio indicates the efficiency with which the firm uses all its assets to generate sales. The asset turnover ratio is calculated by turnover divided by total assets. The higher the ratio, the more efficiently assets are used to generate sales.

Profitability ratios indicate profitability of the firm. Profitability is the net result of a host of management decisions and actions and reflects how effectively the firm is managed. Profitability is critical for long-term survival, the ultimate purpose of a firm. Some of the ratios that can be used to indicate profitability include the net profit margin, return on assets and return on equity. The net profit margin (after tax) is calculated by profit after tax divided by turnover. The higher the ratio, the better. This ratio is a meaningful measure of "the bottom line". Return on assets (before tax) is calculated by profit before interest and tax less total profits of extraordinary nature divided by total assets. The bigger the ratio, the better. This ratio indicates whether the income earned by using the assets productively. Return on equity indicates the profit attributable to the amount invested by the owners of the firm. This ratio also indicates to potential investors what they might hope to receive in turn. Return on equity (after tax) is calculated by profit after tax divided by total owners' interest. The bigger the ratio, the better, but it must be higher than the prevailing interest rate to be profitable.

Creditors, generally, lend firms loan capital. Loan capital may be short term (eg, trade creditors) or long-term (eg, financial institutions providing long-term loans, debentures issued to the public or non participating redeemable preference shares) in nature. Creditors use mainly liquidity and leverage ratios to make their decisions to grant credit. Liquidity and leverage ratios represent an assessment of the risk of the firm. **Liquidity ratios** indicate whether or not the firm is in a position to meet its liabilities when they fall due. Liquidity is the ability to change current assets into cash. The current ratio is the liquidity ratio most often used. The current ratio indicates whether the firm will be able to meet its short-term liabilities with short-term assets. The current ratio is calculated by the current assets divided by the current liabilities. This ratio should be at least 1:1. **Leverage ratios** indicate the source (owners or external) of the firm's capital. The relationship between the owners' equity to borrowed funds is an important indicator of the firm's financial strength. The greater proportion of owners' equity funds, the greater the degree of financial strength. One of the ratios that can be used to identify the financial strength and risk of the firm is the debt/equity ratio. This ratio indicates the extent to which long-term debt is covered by the shareholders' funds. The debt/equity ratio is calculated by long-term debt divided by ordinary shareholders interest. The lower the ratio, the better.

Investors, especially equity investors, supply the basic risk capital of the firm. The risk capital is exposed to all the risks of ownership and provides for cover of debt that has a preferential claim to income and capital on liquidation. The equity investors will only have a claim against the firm in case of liquidation and only after all other claims have been paid in full. Investors are thus at significant risk and would need information to ascertain that their returns are in line with the risk. The investors' interest regards the long-term survival of the firm. Investors would thus need information on activities, profitability, liquidity, capital structure and valuation. The ratios covered in this section exclude the ratios that are needed by other interested parties such as management and creditors. Apart from the ratios already covered, investors also use market value ratios to base their investment decisions on. **Market value ratios** indicate the relationship of the firm's share price to dividends and earnings. The share price represents the market value of the share in a given period. Market value ratios are indicators of what investors think of the firms' past performance and future prospects. Market value ratios include earnings per share, dividend, yield, and price earnings. The **price earnings** ratio is the focus of these ratios as the ratio is an indicator of the premium/discount investors are prepared to pay or receive for their investment. The higher the price in relation to earnings, the higher the price/earnings ratio that indicates the higher the premium the investor is prepared to pay for the share. This indicates that the investor is confident of the potential growth and earnings of the share. The price/earnings ratio is calculated by the market price per share divided by the earnings per share. The bigger the ratio, the better. The disadvantage of price/earnings ratio is that it should be viewed in relation to current movements in the stock market. Note should also be taken that various intangible factors, such as psychology and perception (image or reputation of the firm), may play a role in the value of shares.

The above ratios are examples of the ratios most often used and are comparable to the industry information contained in the *Sectoral Financial Ratios* (1989-1998), published by Absa Economic Research (in collaboration with the Bureau of Financial Analysis (BFA) of the University of Pretoria). There are various other ratios that can be used in arriving at an assessment of the management, creditor and investment position of a firm. The above ratios may also be calculated in different ways. The calculations used in this study, however, correspond with these used by the BFA to ensure that the various ratios used are comparable.

This section does micro- or internal environmental analysis on the basis set out above. First, the mission statement is established, followed by ratio analysis according to management, creditor and investor ratios. Furthermore, the financial ratios are explained by referring to qualitative aspects transpiring from the annual reports (Chairmen's or Directors' statements) and newspaper reports. Information submitted in the macro-environmental analysis is also used to put these ratios in perspective. This is done for each of the selected firms investigated for the purposes of this study.

Profile of Tiger Brands

(i) Tiger Brands' mission

Tiger Brands' mission is: "To build a world-class branded food business with a leading position in Africa. To build in selected markets in Africa and internationally, products and services that are branded and differentiated. To consistently exceed the expectations of all stakeholders" (Annual Report 1999). Tiger Brands' mission statement can be assessed in terms of the characteristics put forward by Wilson and Gilligan (1998:206) (see section 2.4.1(i), namely the need satisfied, the customer group served and how the groups will be served, or technology used. The needs satisfied appear to be branded, differentiated food products. The customer groups are in Africa and selected international countries. The "how" or technology used to satisfy these needs is however not addressed.

(ii)Tiger Brands' key internal factors

Key internal factors are said to be indicators of a firm's performance as was set out in section 2.2.4(ii). This section is based on the information submitted in section 2.2.4 (ii). Table 2.22 below summarises Tiger Brands' financial ratios, which would assist in determining Tiger Brands' performance that might have impacted on Tiger Brands' market strategy.

Table 2.22 Tiger Brands' financial ratios in question

Ratio	1996 %	Industry average 1996 %	1997 %	Industry average 1997 %	1998 %	Industry average 1998 %	1999 %	Industry average 1999 %
Asset turnover	1,75	1,65	1,85	1,59	1,61	1,40	1,96	1,35
Net profit margin	6,29	5,76	5,80	5,28	2,93	6,64	na	6,74
ROA	16,28	13,70	17,23	13,11	17,48	14,92	23,07	14,83
ROE	22,21	19,20	20,55	16,56	12,29	17,92	na	17,59
Current ratio	na	1,33	na	1,44	na	1,42	na	1,41
Debt/equity	na	1,03	na	0,95	1,07	1,04	1,22	1,02
Price: Earnings	16,57		16,11		8,79	na	9,15	na

Source: *Absa Sectoral Financial Ratios* (1989-1998); BFA/Mcgregors Information (April 2000)

According to table 2.22, some of Tiger Brands' ratios improved during the period 1996 to 1999, others deteriorated in the same period and others fluctuated in the period under review. ROA is the only ratio that improved consistently during the period under review. The available information shows that the net profit margin and the debt/equity ratios deteriorated during the period under review. Both these ratios declined, indicating a weakening position. Asset turnover, and price:earnings fluctuated during the period under review. The decisions of management due to changes in the environment are reflected in these ratios. According to the ratios in table 2.22, a few conclusions can be drawn.

First, the ratios indicating management ability, namely activity (asset turnover) and profitability (net profit margin, ROA, ROE) give mixed signals. The activity ratio "asset turnover" fluctuated in the period under review. Asset turnover improved in 1997, declined in 1998 and improved again in 1999. Asset turnover measures how effectively Tiger Brands' management used its operating assets and specifically whether the investment in assets is justified in relation to turnover. It would appear from the figures contained in table 2.22 that

Tiger Brands managed its operating assets effectively. Furthermore, Tiger Brands used its assets more effectively than the industry in 1996 to 1999, as its ratios were higher than that of the industry. A possible explanation for the improved asset turnover ratios in 1997 and 1999 could have been due to Tiger Brands' restructuring efforts. The restructuring effort included the closure of facilities that contributed to over-capacity for example bakeries (Annual Report 1997) and the selling of non-core businesses, such as Fedics (*Business Report*, 1/4/99) and Bull Brand (*Sake-Beeld*, 6/5/99). These moves indicate that Tiger Brands' management took active steps to utilise its assets effectively.

Net profit margin declined in the period under review, meaning its profitability position worsened. However, the net profit margin was higher than the industry average in the period 1996 and 1997, which may indicate that Tiger Brands' costs were lower than that of the industry in those years. However, in 1998 Tiger Brands' net profit margin was considerably lower than that of the industry – signalling possible problems. A possible explanation for the declining trend in net profit margin could be the difficult trading conditions in the food industry. Difficult trading conditions in the food industry were caused by changes in the environment:

- The El Niño phenomenon was active in the period 1996 to 1999. El Niño caused drought that affected agricultural output negatively. The price of maize was especially vulnerable to lower output that resulted in higher feed costs. Higher feed cost affected the cost of meat, especially poultry, pork and red meat produced by Tiger Brands. Poultry, pork and red meat prices were depressed in the period under review, due to oversupply in world markets and dumping on the South African market (*Beeld* 15/1/96; *Business Report* 7/1/98; *F&T Weekly* 26/6/98; *Business Report* 31/7/98; *Business Day*

29/3/99). Thus the increased feed costs were "absorbed" by Tiger Brands in the production of poultry, pork (especially bacon and sausages) and red meat. The warm weather and El Niño also adversely affected the blooming cycle of the fruit trees (*Farmers Weekly* 23/7/99), which impacted negatively on the quality of the fruit and eventually the prices of fruit. This, in turn, affected the canned fruit produced by Tiger Brands. The presence of El Niño contributed to the decrease in Tiger Brands' net profit margin.

- Tomato crops were hit by a virus causing the tomato plants to wither (*Finance Week* 26/2/99). The effect of the virus was to adversely affect the tomato harvest, which in turn contributed to increased costs for canned tomatoes and tomato puree produced by Tiger Brands.
- Deregulation in especially the agricultural sector, for example the abolition of agricultural control boards (*Business Day* 4/2/98) resulted in free imports of agricultural products that increased price competition in this area. Prices for agricultural products were for the first time, determined by the market and not the Minister of Agriculture. This resulted in increased competition from international counterparts, such as HJ Heinz (especially canned fruit and vegetables) via its alliance with SAD and the entrance of Dole Foods (especially in connection with fruit) (*Business Report* 10/12/96) that, in turn, depressed prices of products produced by Tiger Brands. Deregulation may have contributed to the decrease in Tiger Brands' net profit margin.
- Changes in the fishing industry (*Financial Mail* 19/12/97), such as the quota setting and allocation of fishing quotas, adversely affected Tiger Brands through its fishing interests such as Sea Harvest (ie, lower quotas resulting in lower capacity utilisation and higher costs).

- The European demand for canned fruit was low and subsequently prices for canned fruit were depressed in 1997. This contributed to lower net profit margin in 1997.
- Despite the El Niño phenomenon, a bumper sunflower crop was harvested in 1998 due to improved cultivars (*Business Report* 1/5/98). This resulted in lower prices for sunflower seed. However, the lower sunflower seed prices were offset by costs associated with excess capacity in the manufacturing of edible oils for example cooking oil and margarine. This may also have contributed to lower net profit margin.
- Tiger Brands' results could have been negatively influenced by the strike action at Beacon Sweets (*Business Report* 22/7/97).

Return on equity (ROE) measures the profit in relation to ordinary equity. ROE declined over the period 1996 to 1999, meaning the profit in relation to equity deteriorated. This ratio also indicates that Tiger Brands has a high level of leverage – borrowed funds. This may be to finance the acquisition of more shares in its subsidiary and associated firms, in order to make them wholly-owned subsidiaries.

Secondly, conclusions can be drawn from the ratios in table 2.22 indicating credit risk. It must be pointed out that table 2.22 contains insufficient information regarding the ratios indicating financial risk (current ratio and debt/equity). The debt/equity ratio deteriorated slightly between 1998 and 1999, as it increased. This means that Tiger Brands' borrowed funds increased. This is consistent with Tiger Brands' philosophy to acquire eventually all the interests in subsidiaries to make them wholly owned. Tiger Brands bought the remaining interests in Beacon and ICS during 1998 and the minority shares in Langeberg during 1999. This perhaps contributed to the weakened debt/equity ratio.

Lastly, conclusions can be drawn from ratios in table 2.22 measuring investors' value. The ratio indicating investors' value, namely price:earnings also fluctuated in the period under review. The price:earnings declined in 1997 and 1998 and improved in 1999, however not to the same level of 1996. This means that Tiger Brands' share was not viewed as a good investment in the period 1997 and 1998 as in 1996. In 1999 the investors' value was again attractive, but not as attractive as in 1996. The possible main reason for the price earnings deterioration is due to the poor trading conditions in the market that affected Tiger Brands' performance.

It is important to note that Tiger Brands' ratios were generally better than the industry average, meaning its performance was better than that of the industry. However some (net profit margin, ROE, debt/equity) of its ratios were poorer than the industry average in the period 1998 and 1999, indicating that Tiger Brands was not doing as well as the industry in certain areas in 1998 and 1999. Generally, it may be concluded from this that Tiger Brands':

- management is generally better than that of the industry;
- risk is generally more acceptable than that of the industry; and
- investors value is improving, which is consistent with the general trading conditions at the stock exchange.

Profile of I&J

(i) I& J's mission statement

I&J's annual reports do not contain a mission statement.

(ii) Key internal factors

Key internal factors are said to be indicators of a firm's performance as was set out in section 2.2.4(ii). This section is based on the information submitted in section 2.2.4 (ii). Table 2.23 below summarises I&J's financial ratios, which would assist in determining I&J's performance that might have impacted on its strategy in the period under review.

Table 2.23 I&J's financial ratios in question

Ratio	1996 %	Industry average 1996 %	1997 %	Industry average 1997 %	1998 %	Industry average 1998 %	1999 %	Industry average 1999 %
Asset turnover	1,90	1,65	2,03	1,59	1,60	1,40	1,60	1,35
Net profit margin	2,41	5,76	4,22	5,28	4,79	6,64	2,26	6,74
ROA	9,31	13,70	11,67	13,11	10,8	14,92	6,41	14,83
ROE	7,72	19,20	14,70	16,56	14,0	17,92	6,38	17,59
Current ratio	2,37	1,33	1,99	1,44	1,50	1,42	1,63	1,41
Debt/equity	0,68	1,03	0,72	0,95	1,50	1,04	0,76	1,02
Price: Earnings	na	na	n.a	na	na	na	na	na

Source: *Absa Sectoral Financial Ratios* (1989-1998); BFA/McGregors Information (April 2000)

All the ratios contained in table 2.23 fluctuated in the period 1996 to 1999. The decisions of management due to changes in the environment are reflected in these ratios. The ratios reflecting management ability were, generally, lower than the industry average during the period under review. This means that I&J's management ability was weaker than that of the industry in the period under review. The ratios measuring liquidity and debt management used by creditors were, generally, better than the industry averages, meaning that I&J would be an attractive proposition to creditors, relative to other firms operating in the same industry. According to the ratios in table 2.23, a few conclusions can be drawn.

First, the ratios indicating management ability, namely activity (asset turnover) and profitability (net profit margin, ROA, ROE) fluctuated in the period under review. Asset turnover increased in 1997, decreased in 1998 and remained unchanged in 1999. Asset turnover measures how effectively I&J's management used its operating assets and specifically whether the investment in assets is justified in relation to turnover. It would appear from table 2.23 that I&J managed its operating assets effectively, as the ratio is higher than the industry average. This indicated that I&J used its assets more effectively than the industry in 1996 to 1999. A possible explanation for the asset turnover ratios in the period under review could have been due to I&J's restructuring efforts.

The profitability ratio, net profit margin, improved in 1997 and 1998 (as it increased) but deteriorated in 1999 as it decreased. Net profit margin compares net profit with turnover. A possible explanation may be that in 1997 and 1998 costs may have been lower than in 1996 while costs may have been higher in 1999. Net profit margin was lower than that of the industry, meaning I&J was not as profitable as the industry in the period under review.

ROA measures the profitability of the firm as a whole in relation to assets employed. The ROA of I&J was smaller than that of the industry in the period under review, signalling that I&J's profit resulting from assets employed was less than that of the industry.

ROE improved in 1997 (as it increased) but deteriorated in 1998 and 1999 as it decreased. ROE measures the profit to ordinary shares. The ratios in table 2.23 indicate a high level of leverage – borrowed funds and that the funds were profitably used, though not as profitably as that of the industry.

Secondly, conclusions can be drawn from the ratios in table 2.23 indicating credit risk. The current ratio indicates the extent that the firm is able to cover short-term credit. The current ratio decreased in 1997 and 1998, meaning the short-term debt position improved. However the current ratio increased slightly in 1999, meaning that the short-term debt position deteriorated marginally. I&J's current ratio was above the industry average in 1996 and 1997, meaning that its short-term debt position was weaker than that of the industry in the period under review. The debt/equity measures total debt in relation to total equity. The debt/equity ratio increased in 1997 and 1998, meaning the long-term debt position deteriorated and it decreased in 1999, meaning the long-term debt position improved. In 1996, 1997 and 1999 the debt/equity ratio was lower than the industry, thus I&J's risk was lower than that of the industry.

As no information was submitted regarding price:earnings, no conclusions could be drawn for investors' value.

It is important to note that some of I&J's ratios (asset turnover, current ratio and debt/equity ratio) were generally better than the industry average in 1996 to 1999, meaning that I&J's performance was generally better than that of the industry in the period 1996 to 1999. The remainder of I&J's ratios were generally poorer than the industry averages, meaning that I&J did not do as well as the industry in these areas. From this it may be concluded that I&J's

- management was generally weaker than that of the industry
- risk was generally more acceptable than that of the industry
- investors – no information available.

The changes in I&J's ratios were (probably) due mainly to the changes in the environment and specifically the changes in the fishing industry such as the allocation of quotas (see Tiger Brands above).

Profile of Delfood

(i) Delfood's mission statement

Delfood's mission statement reads: "The Del Monte Royal Foods Group markets well-established branded products which enjoy international respect and earn premium values for their quality. Our mission is to build on this base to create a world-wide food business to further enhance the group's wealth-producing capacity to the benefit of all our stakeholders-especially our consumers, shareholders, staff and suppliers" (Annual Report 1996:1).

The mission statement can be assessed in terms of Wilson and Gilligan's (1998:206) characteristics (see section 2.4.1 (i)), namely the need satisfied, the customer group served and how the groups will be served. From the mission statement as well as the nature of the business given in chapter 1, one may infer that the needs satisfied are high quality branded food products (especially fruit products, beverages, dry mix food products and confectionery). The customer groups served are internationally located especially in Western and Eastern Europe, Africa, the Middle East, the Indian sub-continent and South East Asia. The "how" or technology is not addressed.

(ii) Delfood's key internal factors

Key internal factors are said to be indicators of a firm's performance as was set out in section 2.2.4 (ii). This section is based on the information submitted in section 2.2.4 (ii). Table 2.24 below summarises the financial ratios of Delfood that would assist in determining Delfood's performance that might have impacted on the market strategy applied.

Table 2.24 Delfood's financial ratios in question

Ratio	1996	Industry average 1996	1997	Industry average 1997	1998	Industry average 1998	1999	Industry average 1999
Asset turnover	1,01	1,65	1,19	1,59	1,08	1,40	na	1,35
Net profit margin	6,07	5,76	9,09	5,28	4,76	6,64	na	6,74
ROA	10,93	13,70	11,92	13,11	14,50	14,92	na	14,83
ROE	33,42	19,20	86,80	16,56	8,31	17,92	na	17,59
Current ratio	1,16	1,33	1,21	1,44	na	1,42	na	1,41
Debt/equity	4,44	1,03	7,05	0,95	12,07	1,04	na	1,02
Price: Earnings	9,68		12,83	na	2,92	na	na	na

Source: *Absa Sectoral Financial Ratios* (1989-1998); Annual Reports 1996 and 1997; BFA/McGregors Information (April 2000)

The first observation from table 2.24 is that figures are not available for 1999, making comparisons difficult. According to table 2.24, most of the financial ratios of Delfood improved between 1996 and 1997 (except for debt/equity that deteriorated), and deteriorated between 1997 and 1998, except for ROA that improved. These ratios reflect management's decisions because of changes in the environment. Some conclusions can be drawn from the ratios in table 2.24.

First, the ratios for management ability, namely activity and profitability, give mixed signals as performance improved between 1996 and 1997 and declined between 1997 and 1998, except for ROA. The ratio "asset turnover" measures the use of operating assets in relation to turnover and indicates effectiveness of asset utilisation relative to level of operations. The ratio indicates that the assets were more effectively used in 1997 than in 1996 and 1998. However, the ratio was lower that that of the industry in the period under review. This means that Delfood did not use its assets as efficiently as the industry during this period (the higher these ratios the better). The profitability ratios "net profit margin", "ROA" and "ROE" indicate improved performance in the period 1997, as the ratios increased. However, these ratios deteriorated in 1998 as they decreased. Though ROA improved in 1998 as it increased. The net profit margin of Delfood was better than that of the industry in 1996 and 1997. However, it was smaller than the industry average in 1998. This means that Delfood was more profitable than the industry in 1996 and 1997, but less profitable than the industry in 1998. A possible explanation could be that Delfood's costs were higher than that of the industry, in 1998. ROA measures profit created from assets employed. Delfood's ROA increased in the period under review, but was lower than the industry average. One can conclude that assets were effectively utilised in this period, though not as effectively as the industry. ROE measures profit to ordinary equity. The ROE of Delfood increased in 1997 but decreased considerably in 1998. The management ratios reflect that management of Delfood was not effective in the period 1996 to 1999, compared to the industry. Possible explanations for the apparent ineffective management of Delfood, as reflected in the financial ratios measuring management, could be that

- Delfood embarked on restructuring programmes that were expensive in the short-term. However, it will take time for the results to become visible that may have affected the management ratios. The restructuring included the joint venture with Nabisco in 1996 (*Beeld* 24/06/96). The review of the European operations (*Business Day* 17/2/97), including the downsizing of operations in view of weak trading conditions (*Business Day* 10/6/97) and the selling of troubled Italian operations (*Business Day* 30/10/97), formed part of Delfood's restructuring efforts. It would appear from the improved ratios in table 2.24 that the restructuring programme paid off as reflected in the 1997 ratios, though Delfood was still not performing as well as the industry in all respects. In 1998 Delfood proceeded with its restructuring efforts by selling its Italian tea brands, namely Té Ati and Montania (*Business Day* 30/3/98). Delfood also bought the majority share in Siam Agro, a pineapple firm, in Thailand (*Business Day* 24/11/98), and the brand name Just Juice from RHM foods to be used in the UK and Ireland (*Citizen* 8/12/98). All of these impacted on the ratios under discussion.
- The fact that Delfood generally did not perform as well as the industry in 1996 and 1997 may be attributed to difficult trading conditions, such as the shortage of pineapple supply its core product, and restructuring difficulties (*Financial Mail* 3/4/98). The difficult trading conditions persisted in 1998. Adverse climatic conditions (*Business Day* 30/3/98) affected Delfood, which contributed to the poor performance as reflected in the management ratios.
- Apart from the restructuring efforts and the adverse climatic conditions, Delfood was further faced with a decline in the demand for canned fruit, especially in central Europe (*Financial Mail* 3/4/98) and a static demand in Europe (*Business Report* 20/11/98), which contributed to the poor performance as reflected in the financial ratios.

- Furthermore, like all other South African exporters of canned fruit, Delfood had on average a 50% cost disadvantage compared to European producers of canned fruit (*Burger* 31/12/96). The introduction of free market principles in the South African agricultural and related industries opened the South African market to foreign firms such as Dole Foods (*Business Day* 14/5/98), which burdened competition for South African firms, especially regarding canned fruit.
- Delfood was affected by Anglo's restructuring as it sold its stake in Delfood (*Business Day* 18/6/98) to an Italian firm, Cirio Spa (*Sake-Beeld* 13/8/98). Newspapers reported difficulties between Delfood and Cirio Spa's management (*Business Day* 28/10/99 and *Financial Mail* 5/11/99), which probably contributed to ineffective performance.

Secondly, conclusions can be drawn from the ratios indicating credit risk set out in table 2.24. The current ratio indicates the extent to which Delfood is in a position to pay short-term debt. Delfood's current ratio was not as good as that of the industry. Debt/equity measures the total liabilities to equity. Delfood's debt/equity ratio in 1997 and 1998 indicates a high financial risk.

Finally, conclusions can be drawn from the ratios measuring investors' value, namely price:earnings ratio as reflected in table 2.24. The price:earnings ratio improved in 1997 compared to 1996, but deteriorated significantly in 1998 compared to 1997. The price:earning ratio means that the Delfood share was a good investors' proposition in 1997 compared to 1996, however it was unattractive in 1998 compared to 1997.

It is important to note that Delfood's ratios were, generally, weaker than those of the industry average in 1996 to 1998, meaning that Delfood's performance was weaker than that of the industry in 1996 to 1998. From this it may be concluded that Delfood's

- management was generally under-performing in terms of industry averages
- risk profile was generally higher than that of the industry
- Delfood was not an attractive investor's choice.

Profile of Rainbow

(i) Rainbow's mission statement

Rainbow's mission statement was not submitted in the annual reports in question. Therefore, the mission statement could not be assessed in terms of the characteristics put forward by Wilson and Gilligan (1998:206) (see section 2.2.4 (i)), namely the need satisfied, the customer group served and how the groups will be served.

(ii) Rainbow's key internal factors

Key internal factors are said to be indicators of a firm's performance (see section 2.2.4 (ii)). This section is based on the information submitted in section 2.2.4 (ii). Table 2.25 below summarises Rainbow's financial ratios, which should assist in determining Rainbow's performance.

Table2.25 Rainbow's financial ratios in question

Ratio	1996 %	Industry average 1996	1997	Industry average 1997	1998	Industry average	1999	Industry average 1999
Asset turnover	1,26	1,65	1,36	1,59	1,59	1,40	1,68	1,35
Net profit margin	-8,50	5,76	-10,70	5,28	na	6,64	na	6,74
ROA	-5,41	13,70	-8,75	13,11	n.a	14,92	2,64	14,83
ROE	-23,65	19,20	-59,27	16,56	na	17,92	na	17,59
Current ratio	0,57	1,33	1,43	1,44	na	1,42	na	1,41
Debt/equity	1,35	1,03	1,10	0,95	na	1,04	na	1,02
Price: Earnings	-4,26	na	-1,79	na	na	na	na	na

Source: *Absa Sectoral Financial Ratios* (1989-1998); Annual reports 1996 and 1997; BFA/Mcgregors Information Services (April 2000)

The information in table 2.25 does not allow a meaningful interpretation of Rainbow's performance for the whole period under review, namely 1996 to 1999, reflecting Rainbow's management decisions in response to changes in the environment. Although it would be possible to give an interpretation of 1996 and 1997 ratios, suffice it to comment generally on Rainbow's performance in the period 1996 to 1999. It is clear from the financial ratios contained in table 2.25, that the performance of Rainbow was lower than that of the industry in the period 1996 and 1997. This trend continued in 1998 and 1999 according to newspaper reports (see chapter 1, table 1.12). The following may explain Rainbow's dire situation:

- Rainbow is an integrated poultry concern supplying some of the inputs, such as feed until the final product, such as processed poultry. The poultry industry was adversely affected by negative trading conditions in the period 1996 to 1999. Factors contributing to the negative trading conditions included oversupply of poultry, outbreaks of Newcastle disease, high feed costs, dumping of poultry from the USA, slower consumer demand and legal action instituted by contract growers.

- The El Niño phenomenon was active in the period 1996 to 1999. El Niño caused drought that affects output negatively. The price of maize is especially vulnerable to lower output, which results in higher feed costs. Higher feed cost affect the cost of meat, especially poultry, in the case of Rainbow. Poultry prices were depressed in the period under review, however, due to oversupply in world markets and dumping on the South African market (*Beeld* 15/1/96; *F&T Weekly* 26/6/98; *Business Report* 31/7/98; *Business Day* 29/3/99). Thus Rainbow, like other food manufacturers, such as Tiger Brands, absorbed the increased costs. The presence of El Niño probably contributed to the decrease in the Rainbow's net profit margin.
- Rainbow embarked on a restructuring programme to improve its performance, including the closure of plants and subsequent retrenchment of workers (*Business Report* 17/2/97). Part of the restructuring programme included focusing on cash flow (*Business Day* 23/7/98); and a change in management style to encourage participation from lower levels employees (*Sake-Rapport* 26/7/98). Despite these efforts, Rainbow employees were on strike (*Business Report* 20/8/98), which also impacted on Rainbow's performance.
- Poor management also hampered Rainbow's performance. Rainbow's management teams were replaced several times during the period under review (*Sunday Times* 2/3/97; *Financial Mail* 23/1/98 and *Business Report* 17/4/98). The change in management teams may be indicative of problems at Rainbow. Furthermore, Rainbow experienced a change of control with the unbundling of Huntcor (*Business Report* 19/9/97) in an effort to restore profitability.
- During the anti-dumping investigation, the Board on Tariffs and Trade concluded that the South African poultry industry was generally not competitive in world terms (*Business Report* 19/9/97). The "uncompetitiveness" contributed to poor performance.

Profile of Kolosus

(i) Kolosus' mission statement

Kolosus' mission statement reads: "The Kolosus Group is a portfolio of manufacturing businesses in the natural protein and related industries that meets the expectations of its shareholders by satisfying market and customer needs and is driven by:

- an ambitious vision and shared management philosophy
- a strategy of product/service differentiation coupled with low cost production
- management philosophy of strategic planning, decentralised decision making and financial discipline" (Annual Report 1997).

The mission statement of Kolosus can be assessed in terms of the characteristics put forward by Wilson and Gilligan (1998:206) (see section 2.2.4 (i)), namely the need satisfied, the customer group served and how the groups will be served. It appears from the mission statement that the needs satisfied are differentiated, low cost manufactured proteins. The customer groups served and the "how" or technology are, however, are not covered in the mission statement.

(ii) Kolosus' key internal factors

Key internal factors are said to be indicators of a firm's performance (see section 2.2.4 (ii)). This section is based on the information submitted in section 2.2.4 (ii). Table 2.26 below summarises Kolosus' financial ratios, which would assist in determining Kolosus' performance which could have an impact on its market strategy.

Table 2.26 Kolosus's financial ratios in question

Ratio	1996	Industry average 1996	1997	Industry average 1997	1998	Industry average 1998	1999	Industry average 1999
Asset turnover	2,34	1,65	3,08	1,59	1,50	1,40	2,19	1,35
Net profit margin	na	5,76	na	5,28	na	6,64	na	6,74
ROA	11,2	13,70	6,63	13,11	2,92	14,92	5,54	14,83
ROE	na	19,20	na	16,56	na	17,92	na	17,59
Current ratio	1,83	1,33	na	1,44	1,41	1,42	1,56	1,41
Debt/equity	1,62	1,03	4,40	0,95	1,39	1,04	1,03	1,02
Price: Earnings	7,65	na	na	na	na	na	na	na

Source: *Absa Sectoral Financial Ratios* (1989-1998); Annual Reports 1996 and 1997; BFA/Mcgregors Information (28 April 1999)

Table 2.26 does not allow for meaningful conclusions as the available information is incomplete. Nevertheless, a few conclusions will be drawn as the decisions of management, due to changes in the environment, are reflected in these ratios.

First, management is reflected in the activity and profitability ratios. The activity ratio "asset turnover" measures the effective use of resources. Kolosus' asset turnover increased between 1996 and 1997, declined between 1997 and 1998 and increased again between 1998 and 1999. The asset turnover reflects that Kolosus used its resources more effectively in the periods 1996, 1997 and 1999 than in 1998. Kolosus' asset turnover was better than that of the industry in the period 1996 to 1999, meaning that Kolosus used its assets more efficiently than the industry in the period under review. The profitability ratio "net profit margin" was not available and therefore no useful conclusion could be drawn in connection with net profit margin. ROA measures profit generated by using operating assets. ROA decreased between 1996 and 1997, and between 1997 and 1998, but improved between 1998 and 1999. If one looks at ROA it means that Kolosus utilised its assets more effectively in 1996 than in the other years. This may perhaps be due to excess capacity that was available which left machinery idle. Furthermore, Kolosus' ROA was poorer than that of the industry in the period under review, meaning Kolosus did not use its assets as efficiently as the industry. Information on ROE was not available thus conclusions could not be drawn on the equity turnover. The financial ratios reflecting management could perhaps be explained by the following:

- The deregulation in the agricultural industry impacted on Kolosus' activities, especially the deregulation in the red meat industry. Kolosus had to adapt to free market conditions.
- The El Niño phenomenon was active in the period 1996 to 1999. El Niño caused drought that affects output negatively. The price of maize is especially vulnerable to lower output, which resulted in higher feed costs. Higher feed costs affect the cost of meat, especially red meat, in the case of Kolosus. Red meat prices were depressed in the period under review, due to oversupply in world markets and dumping on the South African market (*Beeld* 15/1/96; *F&T Weekly* 26/6/98; *Business Report* 31/7/98; *Business Day* 29/3/99). Thus the increased feed costs were "absorbed" by Kolosus like its competitors such as Tiger Brands and Rainbow. The presence of El Niño contributed to the poor performance of Kolosus. Apart from the negative effect of El Niño, Kolosus was further affected by fears of mad cow disease (*Business Day* 28/3/96).
- Kolosus embarked on a restructuring programme that affected its performance. The acquisition of Silveroak, which influenced Kolosus' performance negatively (*Finance Week* 11/12/97), formed part of the restructuring programme. Kolosus also suffered from restructuring costs (*Business Day* 5/8/96). Several plants were closed to curb costs

(Annual Report 1997) and measures were also introduced to cut costs (*Business Report* 3/8/98).

Secondly, insufficient information was available on the current ratio, therefore no meaningful conclusions could be drawn. However, in the case of debt/equity, the ratio deteriorated slightly between 1996 and 1997, but improved between 1997 and 1998 and 1998 and 1999. Furthermore Kolosus' debt/equity ratio was worse than that of the industry in the period under review, indicating its risk was higher than that of the industry.

Finally, no conclusions could be drawn from the ratio indicating investors' value as this ratio was not available.

2.5 SUMMARY

This chapter discussed environmental analysis according to Strydom et al's (2000:40) model. Various factors in the environment impacted on the performance of the firms in question and subsequently on their market strategy. These factors may be present in the external (economic or competitor position) or internal environments (management or capabilities or limitations). In some cases, insufficient information was available to make meaningful conclusions/comparisons. However, where sufficient information was available, it appears that some of the firms were more severely affected by these factors than others. In the case of poultry, for example, Rainbow was more severely affected by these factors than Tiger Brands. The environmental analysis may be briefly summarised as follows:

- The variables in the *macro-environment* hold opportunities and pose threats to the firms in question. The most important variables are the legal environment, which may have cost raising effects for the firms in question, though at the same time the wellbeing of consumers as well as the reputations of these firms are protected. The same applies to the technological environment, which may in the long run contribute to cost savings, innovative products and extended shelf life of products via either improved preserving or packaging. The cycle of the economy will mainly determine whether the economic environment holds opportunities or poses threats to the firms in question. Climatic conditions will mainly determine whether the physical environment holds opportunities or poses threats to the firms in question. Social environment holds immense opportunities for the firms in question due to the number of young people in the population who require healthy food and to supplement certain deficiencies, such as vitamins A, B6, E and folic acids. The international environment holds opportunities and poses threats to the firms in question resulting from international trade agreements and the demand of consumers in the international markets. Technology seems to be the key success factor in the food industry and for the major group meat, fish, fruit, vegetables, oils and fats.

- The variables in the *market environment* hold opportunities and pose threats to the firms in question. The most important results of the industry and competitor analysis are:
    - The market growth rate for the food industry and the major group meat, fish, fruit, vegetables, oils and fats is adversely affected by a negative trend in the GDP.
    - The food industry is in the mature phase of the life cycle.
    - Tiger Brands may overwhelm its competitors due to its size.
    - Barriers to entry exist that may make joint ventures attractive as a means of entry.
    - Substitute products, such as GMs and soy products, may pose threats in the future.
    - Suppliers do not seem to be significant as these firms are backwards integrated.

- ◆ Buyers could be powerful in terms of turnover in relation to Tiger Brands' competitors, though it is doubtful whether they would use their leverage as few firms are active in the food industry and the major group meat, fish, fruit, vegetables, oils and fats and imports are expensive due to the unfavourable exchange rate of the Rand.
- ◆ The most important drivers of change include the market growth rate, change in consumer demand (eg, fresh products rather than canned products, HMR) and technology.
- ◆ Tiger Brands seems to be in the strongest position, followed by I&J and then the others.
- ◆ Prospects for above-average profitability seem dim, although there may be pockets of opportunities to this effect.

- The *micro-environment* analysis revealed that the firms in question focus on different customers with different products (eg, Tiger Brands wants to be a leading world-class firm that focuses on differentiated branded products, and on customers in domestic and international markets; Delfood wishes to be well established world-wide and offers branded products to its customers; and Kolosus focuses on proteins that satisfy the needs of its customers). The key internal factors of these firms differ widely. Furthermore, in most cases it was demonstrated that the management of the firms was not as good as that of the industry. This might have had a negative effect on the market strategies applied.

Chapter 3 uses the information obtained in this chapter regarding factors in the environment that impact on market strategy to perform a SWOT analysis and discusses the concept "(sustainable) competitive advantage".

CHAPTER 3

SWOT ANALYSIS AND SUSTAINABLE COMPETITIVE ADVANTAGE OF THE SELECTED FIRMS

3.1 INTRODUCTION

Chapter 2 analysed the environment in which the firms in question operate to determine the variables in the environment that may present strengths, weaknesses, opportunities and threats (hereafter referred to as SWOT) that may influence the survival and growth of the firms in question. A SWOT analysis follows an environmental scanning. A SWOT analysis is an examination of the firm's strengths and weaknesses and the opportunities and threats present in the business environment that could affect the firm's market strategy. The SWOT analysis focuses attention on what the firm can or should do to dominate a market as well as what the firm should avoid to ensure success. The SWOT analysis serves as a means to identify the (sustainable) competitive advantages (hereafter referred to as SCA) that underlie the market strategy. Hao (1999:709) and Van der Walt (1996:504) define SCA as the ability of a firm to deliver superior value to the market for a protracted period of time. The information provided in chapter 2 is used as input for chapter 3, which focuses on the SWOT analysis and the SCAs of the firms in question. This chapter does a SWOT analysis of the selected food manufacturers based on the information in chapter 2, discusses SCA thoroughly, then highlights the importance of market strategy and finally concludes with a summary.

3.2 SWOT ANALYSIS OF THE SELECTED JSE-LISTED FIRMS MANUFACTURING FOOD (MAJOR GROUP MEAT, FISH, FRUIT, VEGETABLES, OILS AND FATS), IN THE PERIOD 1996 TO 1999

A SWOT analysis is a tool that management can use to examine the firm's strengths and weaknesses and the opportunities and threats present in its business environment. The

SWOT analysis is based on the principle that an effective (market) strategy represents a good fit between the firm's resources and the external situation it faces (Thompson & Strickland 1998:105; Wilson & Gilligan 1998:51). This means that an effective market strategy maximises the strengths and opportunities while (at the same time) it minimises weaknesses and threats. The purpose of a SWOT analysis is to determine the variables that affect the firm's survival and thus the market strategy. These variables are strengths and weaknesses in the firm and the opportunities and threats in the business environment in which the firm operates (Van der Walt et al 1996:547; STRMAR6 1996:42). Javidan (1998:60) defines **strengths** as the things a firm does exceptionally well (in comparison to competitors). According to Aaker (1998:69), strengths are based on assets or competencies which are resources such as a brand name that is strong, relative to competitors. **Assets** can be seen as resources of the firm such as machinery, equipment, buildings, patents and trademarks. **Skills** can be seen as abilities, proficiencies or competencies at the firm's disposal such as competent employees, advanced technologies or efficient/effective processes. Wilson and Gilligan (1998:50) define a **weakness** as an asset or skill of the firm that is relatively weak in comparison to that of competitors. Strydom et al (2000:51) define an **opportunity** as a favourable condition in the firm's business environment that can be used to the benefit of the firm, by management's active involvement. According to Strydom et al (2000:51), a **threat** is an unfavourable condition in the firm's business environment that may cause the firm to fail if management does not take active steps to prevent the failure.

Strengths, weaknesses, opportunities and threats represent environmental variables that may impact on the firm's market strategy. At the same time, market strategy is the tool used by management to direct the firm to its ultimate destination, survival and growth, by active decisions as to what to support and what to avoid. SWOT analysis generally includes the following components:

- Scan the external environment for opportunities and threats as the environment is changing constantly (see chapter 2, especially sections 2.2.2 and 2.2.3). Society may change due to changing consumer preference; for example, at the time of the study consumer preference in Europe favoured fresh to canned foods. Government legislation that influences market strategy may also change. The deregulation of the agricultural industry and the amendment of the fishing regulations serve as examples of government legislation that have affected market strategy of the firms in question in the period under review specifically some of the firms diversified their interests (see chapter 2, section 2.2.16). In South Africa the agricultural sector was deregulated, which resulted in the abolition of the so-called controlled agricultural products. The deregulation in the agricultural sector opened the export market for previously controlled agricultural products to new players in this field (see chapter 1, table 1.5 new players in this field listed on the JSE eg, Intrading). The changing fishing regulations caused uncertainty regarding quotas allocated to well-established fishing firms such as Tiger Brands and I&J. The economic situation may also change with positive or negative consequences for the firms in question. In the period under review South Africa, and the food industry in particular, was detrimentally affected by the economic crisis in South East Asia as interest rates soared, the exchange rate weakened and personal disposable income decreased (see chapter 2, section 2.2). Competitive changes like new technologies and the entrance of new competitors (see chapter 2, section 2.2) may have impacted on the market strategy applied by the firms under investigation. Market changes also affected the market strategy applied by the firms in question. In this regard it should be pointed out that South East Asia and Africa have recently emerged as new markets, especially for food products from South Africa, such as fruit, vegetables, beef, frozen and semi-frozen foods (see chapter 2, section 2.2.2).

- Scan the internal environment for strengths and weaknesses that may change over time and thus necessitate modifications to the market strategy according to the changes in the internal environment. Changes may occur in any of the departments or functions, such as marketing, research and development, operations, finance or human resources or in management information and the management team. Understanding the key strengths and weaknesses of the firm may assist management to narrow the alternative strategy choices and help them to select the most effective market strategy, that is, the strategy that maximises the strengths and opportunities and minimises the impact of weaknesses and threats.

Information revealed in the SWOT analysis determines the direction that the firm may take as well as the limitations it may face (Van der Walt et al 1996:547). The firm's survival and growth depend on the environment (both internal and external) therefore the variables in the environment should be monitored. The monitoring of the variables in the environment enables the firm to adapt proactively and timeously to changes in the environment. Jain (1996:123) outlines the importance of environmental analysis according to Darwin's laws, namely:

- The environment is constantly changing.
- Organisms have the ability to adapt to changes in the environment.
- Organisms that cannot adapt to change cannot survive.

Adapting to changes in the environment may take various forms. The most profound change entails changing the basis of the SCA in order to survive and outperform the competition.

From the foregoing, the SWOT analysis would seem to be a relatively simple tool with powerful application. In this regard it should be noted that the SWOT analysis seems to be the core of various schools of thought regarding strategy formulation, such as the Design, Planning and Positioning Schools (see Mintzberg et al 1998). Although the SWOT analysis seems to be a simple tool, care should be taken to apply it with insight. Given the turbulent environment in which the firm operates (see chapter 2, especially section 2.1), it may perhaps be difficult, if not impossible, to predict the future. In this regard Mintzberg et al (1998:41) point out that the environment may sometimes not be understood which may have negative consequences for the (market) strategy chosen and thus for the firm's survival and growth. In order to use the SWOT analysis effectively, Piercy (in Wilson & Gilligan 1998:57-58) suggests several guidelines. The most important one is to develop a customer orientation, which forms the basis of understanding what the customers' value. The customers' point of view regarding value is of vital importance to SCA (see section 3.3).

A SWOT analysis can be done on three hierarchical levels of the firm (STRMAR6 1996:43), namely:

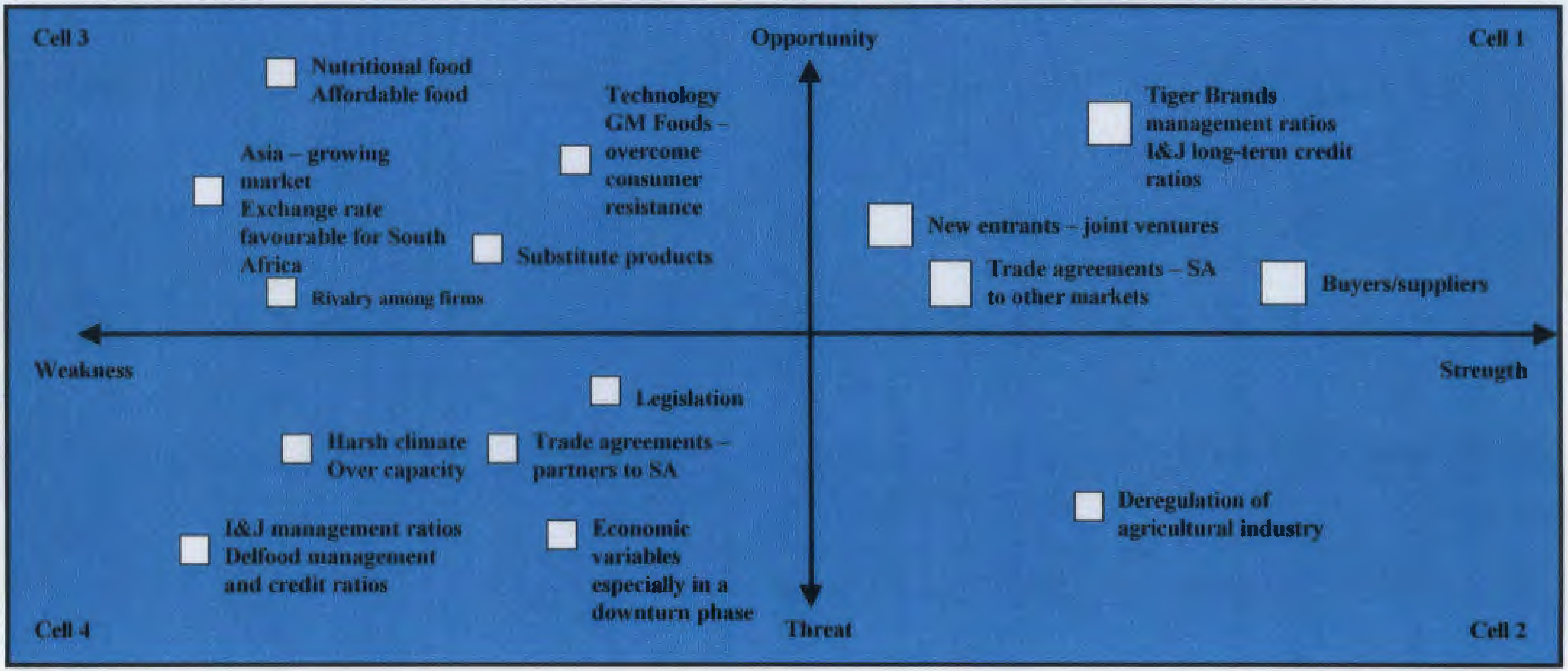
- **Corporate level**: Investigate strengths, weaknesses, opportunities and threats that may affect the firm as a whole in broad terms; for example, mergers, acquisitions, expansion to new markets or divesting from a market (see chapter 1, section 1.2.3 – this coincides with the responsibility of the corporate level of managers of a firm).
- **SBU level**: Investigate phenomena that may influence direction, such as new markets, product development, and legislation that may have a bearing on the specific SBU (see

chapter 1, section 1.2.3 – this corresponds to the responsibility of the SBU level of managers).

- **Functional level**: Investigate needs of specific consumers and collect information to enable the function to select target markets, products, prices, places and distribution.

The focus of this study is on the corporate and SBU levels of the firm while the functional level falls outside its scope. The SWOT analysis of the selected firms in question is thus done from a corporate and SBU point of view. Figure 3.1 below gives a summary of a SWOT analysis for the selected food manufacturers listed on the JSE, food sector, in the period 1996 to 1999.

Figure 3.1 A summary of a SWOT analysis for the selected food manufacturers listed on the JSE, food sector, in the period 1996 to 1999



Source: Information in chapters 1, 2 and 3

Cell 1: Opportunity and strength: This is the ideal desired or ultimate position of every firm. The "trade agreements – South Africa to other markets" is deemed to represent an opportunity as well as a strength to the South African firms. Trade agreements represent opportunities for the firms under investigation, as these agreements (eg, the EU agreement) generally guarantee a quota to be exported to the trading partners. For instance, Tiger Brands and Delfood already export products, especially to the EU which is considered a strength. However, the export of particularly canned fruit to the EU takes place under difficult conditions, such as static or even decreased demand. The location of this specific opportunity/strength (see figure 3.1) shows that it is relatively weak in comparison to the other opportunities/strengths in Cell 1. Buyers (especially retailers) as well as suppliers hold opportunities and present a strength to the firms in question. All the buyers especially Shoprite are growing in terms of turnover (see chapter 2, section 2.3.1), hence an opportunity for the firms under investigation. Furthermore, given the limited number of firms engaged in food manufacturing in South Africa, it is unlikely that the buyers will use their leverage over the food manufacturers (that are generally smaller in terms of turnover) as they may end up finding alternative sources of supply. Sources of "food supply" are limited in South Africa. The likelihood of finding international food supply at competitive prices is remote, given South Africa's economic situation in the period under review (especially the weak exchange rate of the Rand, which makes imported products expensive). Suppliers are considered an opportunity and strength for the firms in question as they are backwards integrated and therefore control their inputs to some extent. New entrants are considered to hold opportunities and present a strength for the firms in question as it would seem likely that the international competitors of the firms in question would rather enter into joint ventures (eg, SAD and HJ Heinz) than establish their own manufacturing facilities, given especially the low market growth rate and the prospect of below industry-average profitability (see chapter 2, section 2.3.1). Furthermore, South Africa's unfavourable geographic location in relation to other world markets may have cost-raising effects to possible export countries. As such, it may hold an opportunity to the South African firms in question. Joint ventures, rather than direct competition from international players, seem more likely. Joint ventures hold opportunities while they present a strength to the firms in question, as they will be able to augment their product line. The management of Tiger Brands as expressed by its management ratios is better than that of the industry, therefore it is considered a strength – Tiger Brands would be in a good position to take advantage of opportunities (eg, joint ventures) in the external environment. I&J's long-term credit ratios represent a strength as these ratios are generally better than those of the industry. Should I&J need money, creditors would be willing to lend money and I&J would be able to utilise opportunities in the external environment.

Cell 2: **Threat and strength:** This is not an ideal position for any firm to be in. However, there is a possibility that the threat can be overcome by applying appropriate market strategies. Deregulation, especially in the agricultural sector, brought several advantages, such as entry into previously deprived markets (eg, export of fresh citrus and deciduous fruit). Improved performance due to responses to deregulation is considered a strength, especially in the case of Tiger Brands. Tiger Brands' competitors, such as Delfood and Kolosus in particular, may suffer due to deregulation as their internal performance is generally not as good as Tiger Brands' (see tables 2.22 to 2.26). At the same time, free imports from major firms in foreign countries, such as Dole (fruit) and HJ Heinz (canned fruit and vegetables), through deregulation could threaten the volumes of the firms under investigation and thus constitute a threat (see chapter1, table 1.11).

Cell 3: Opportunity and weakness: Like cell 2, this is not an ideal position for any firm to be in, though if the weakness could be overcome by applying appropriate market strategies, the firm may well be on the way to winning. Cell 3 shows five points. Technology holds opportunities, such as improved preserving techniques and packaging, that lead to an extended shelf life of the products in question, which is considered an opportunity. In the long term, technology can contribute to cost savings for the firms under investigation as well as affordable food for the poor. However, acquiring the technologies may be expensive in the short term and should the firms not be able to afford it, the opportunity arising from technology may not be realised – especially in the case of Tiger Brands' competitors like Delfood and Kolosus, who generally suffer from poor performance (see chapter 2, section 2.4).

Nutritional foodstuffs at affordable prices represent a vast opportunity, especially foods enriched with vitamins A, B6, E and folic acids, given the nutritional status of South Africans (see chapter 2, section 2.2.5). However, the development of these foods may have cost-raising effects for the firms under scrutiny, which at the time of the study might have been detrimental to these firms due to their general poor financial situation (see chapter 2, section 2.4) – hence a weakness. Asia represents a growing export market to South Africa, therefore considered an opportunity. However, the current demand situation (ie, fresh produce rather than canned products) is unfavourable to the South African firms under investigation and therefore represents a weakness for these firms. Substitute products, such as GM and HMR, represent opportunities to the firms in question. GM, in particular, is expensive and consumer resistance has to be overcome, which may cost a lot of money. This is something these firms may find difficult to accomplish, given their poor financial position – hence it is viewed as a weakness. Rivalry among firms – is considered to hold opportunities as there are only a few firms in the industry. Each firm should be able to find a niche where it can outperform competition – hence this is deemed to be an opportunity. However, given the poor management abilities of some of these firms, as expressed by the management ratios (see chapter 2, section 2.4), it is doubtful whether they would be in a position to capitalise on the opportunity – hence this is considered to be a weakness.

Cell 4: Threat and weakness: This is the most undesirable position of all in which a firm can find itself. However, it can also be overcome by applying appropriate market strategies, but perhaps not as easily as in the case of cells 2 and 3. Legislation is deemed to be a threat as it may have cost-raising effects for the firms under investigation. Their financial positions are generally not strong and therefore overcoming the negative impact of legislation is considered a weakness in most of the firms under investigation. If their financial position improved, the issue of legislation could perhaps move over to cell 2 – the cost-raising effects of legislation would still be present and thus pose a threat to the firms in question. However, with an improved financial position, the firms would be in a better situation to curb the negative impact of legislation, and capitalise on the reputation that results from the legislation. South Africa's harsh climate is considered a threat to the firms in question as crops, which are their primary input, are threatened. Lower yields and poor quality of agricultural inputs may have cost-raising effects for the firms under investigation, which may not be easily neutralised due to their general poor financial position, which is considered a weakness. Economic variables, such as economic growth, consumer income, consumer expenditure, competitiveness and South Africa's risk rating, are considered to have been a threat to the firms under investigation in the period 1996 to 1999. The effects of the economic variables may have cost-raising effects for these firms. Given their general poor financial position in the period 1996 to 1999, these firms would have found it difficult to absorb the negative consequences of the economic threats – thus a weakness. The financial ratios depicting management and the credit position of the firms under investigation were generally poorer than those of the industry (see chapter 2, section 2.4). This, in itself, constitutes a weakness and would have contributed to the inability of these firms to cope with or avoid the negative consequences arising from threats in the external environment. The trade agreements – partners to South Africa – are considered a threat to South Africa as the competitors of the trading partners such as Europe and the USA are larger than the South African firms — the sheer size of their firms, as such, may pose a threat to the South African firms under investigation (see chapter 1, table 1.11). Furthermore, the EU and USA are supported by their governments (eg, subsidies) which may give them an unfair price advantage over their South African counterparts, who are not supported by the South African Government and, given the poor financial position of the majority of these firms, they would be unable to fully absorb or lessen the negative impact of the threat of these international firms.

Market strategy is the tool used by general management to overcome threats and weaknesses and to capitalise on opportunities and strengths as depicted in figure 3.1. For market strategy to succeed, it is necessary for each firm to identify a unique strength and convert or transform it into an SCA, which would form the basis of the market strategy. SCA is discussed in detail in the next section.

3.3 SUSTAINABLE COMPETITIVE ADVANTAGE (SCA)

Van der Walt et al (1996:544) define SCA as the ability *(of a firm)* to deliver superior value to the market for a protracted period. To fully grasp the concept of SCA, it is necessary to refer to the development of SCA, the bases of SCA, its characteristics, the four factors required to create SCA and the role of synergy in SCA. The next section addresses the development of SCA.

3.3.1 The development of SCA

According to Coase (1937), Selznick (1957), South (1981), Porter (1985), Prahalad and Hamel (1990), Aaker (1993), Drucker (1994), Grant (1995), Slater (1996), Van der Walt et al (1996), Thompson and Strickland (1998), Javidan (1998) and Hao (1999) (sustainable) competitive advantage seems to be an established concept, although different labels are used to identify it. To understand this concept and the labels used to identify it, it is necessary to briefly consider the viewpoints of the stated authors. Examining the nature of the firm, Coase (1937:390-395) attempts to discover why a firm exists in a specialised exchange economy. He considers that the price mechanism that directs resource allocation in a free market economy might be superseded. Coase explores various possibilities and suggests that the answer lies in the cost of using the price mechanism in addition to the cost associated with the price paid for a product. The cost of using the price mechanism includes the cost of discovering what the relevant prices are, negotiating and contracting and monitoring supplier performance. To Coase, the question was why there are any market transactions at all if one can eliminate certain costs or reduce the cost of production by organising. He suggests that a possible explanation could be that costs are associated with the internal performance of value-creating activities, including decreasing returns to the entrepreneurial function and the misallocation of resources to activities where the firm is unable to create the same value as a specialist. Coase's suggestion is similar to Selznick's (1957) and corresponds to some degree to Porter's (1985) view.

Selznick (1957) uses the term "distinctive competency" to describe the character of the firm, referring to those things in which the firm excels vis-à-vis competitors (see section 3.2, definition of strength). According to Selznick, over time the firm accumulates unique combinations of resources and abilities which allow it to acquire income on the basis of distinctive competence. The advantage for the firm flows from the assets and skills that cannot easily be imitated or substituted. As will be seen later, Selznick's notion corresponds largely to those of Van der Walt et al, Aaker, Thompson and Strickland, Grant, Slater, Drucker, Prahalad and Hamel and South.

South (1981:15) maintains that competitive advantage offers the best general opportunity for achieving business success. Competitive advantage is the philosophy of choosing only those competitive arenas where victories are clearly achievable. It does so by prescribing a concentrated investment of resources in those enclaves of competitive activity which offer the best opportunity for continuing profitability and sound investment returns, as they are sheltered from the changing business environment as well as protected from global competition. South's view corresponds to some degree with that of Drucker, Van der Walt et al, Thompson and Strickland, Aaker, Slater and Porter.

Porter (1985:xv-3, 33-38) maintains that competitive advantage is at the heart of the firm's performance in competitive markets. He is of the opinion that competitive advantage grows out of the value a firm is able to offer to its customers. Porter uses the value chain as a tool to disaggregate the discrete, though interrelated, activities that a firm performs from which value stems. All value activities employ resources and technology to perform their function, therefore the value activities constitute the building blocks for competitive advantage. Porter's notion corresponds to some degree with that of Selznick, Thompson and Strickland, South, Grant, Drucker and Prahalad and Hamel.

Prahalad and Hamel (1990:81-84) argue that the real sources of advantage are to be found in management's ability to consolidate corporate-wide technologies and production skills into competencies that would empower individual businesses to adapt quickly to changing opportunities. They are of the opinion that core competencies are collective learning in the firm, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies. Core competencies are the glue that binds existing businesses; in other words, the basis for synergy. Prahalad and Hamel argue further that core competencies should make a significant contribution to perceived customer value and, in addition, be difficult to imitate. Prahalad and Hamel's view corresponds to some degree with those of Selznick, South, Porter, Thompson and Strickland, Van der Walt et al, Grant and Aaker.

Aaker (1993:182-184) contends that (sustainable) competitive advantage is the key to successful strategy. He maintains that an effective SCA will be created when a strategy is supported by assets and skills, when it is employed in a competitive arena that values the strategy and when competitors are unable to match or neutralise the SCA. Selznick, South, Prahalad and Hamel, Porter, Van der Walt et al, Grant and Drucker concur largely with Aaker's view.

Drucker (1994:99) argues that a theory of the firm consists of three parts, namely (1) the assumptions about the business environment, (2) the assumptions about the mission of the firm, and (3) the assumptions about the core competencies needed to accomplish the firm's mission. The assumptions about the core competencies define where a firm must excel in order to maintain leadership. Selznick, South, Thompson and Strickland, Aaker, Van der Walt et al, Porter, Prahalad and Hamel, and Grant support Drucker's view.

Grant (1991) explores the resource-based theory of the firm. He argues that, given the volatility of the external environment, the firm should turn to look to internal capabilities for a sense of stable direction. The firm's resources and capabilities are the central considerations in formulating a (market) strategy. The key to a resource-based approach to strategy formulation is to understand the relationship between resources, capabilities, competitive advantage and profitability as well as the mechanism through which competitive advantage could be sustained over time. Grant's view corresponds to some degree with that of South, Selznick, Aaker, Thompson and Strickland, Van der Walt et al, Porter, Prahalad and Hamel, Javidan and Slater. Slater (1996:79-86) is of the opinion that competitive advantage is necessary for achieving superior performance. Achieving a position of advantage is only the first step in creating a sustained record for superior performance. He argues that sustainable superior value is required for competitive advantage, and it is therefore necessary to understand what the customers value. Slater goes on to describe how a firm can utilise capabilities and resources to achieve competitive advantage. Selznick, Prahalad and Hamel, Porter and Van der Walt et al support this view.

Van der Walt et al (1996:544) define competitive advantage as the ability of a firm to offer superior value to the market that can be sustained for a prolonged period. The period should be long enough for the firm to recover its initial investment in the product-market. Van der Walt et al argue further that the firm should hold the required assets and skills that cannot be imitated by competitors to offer superior value to the market. This view is supported by Selznick, South, Porter, Prahalad and Hamel, Aaker, Drucker, Grant, Slater and Thompson and Strickland.

Thompson and Strickland (1998:134) agree with South, Aaker, Drucker and Van der Walt et al, and maintain that (sustainable) competitive advantage means that a firm has an edge over its rivals in attracting customers and defending it against competitive forces. Selznick, Porter, Prahalad and Hamel and Grant concur implicitly with this view.

Javidan (1998:62-68) attempts to clarify the relationship between resources, capabilities, distinctive competency, core competency, and competitive advantage. He proposes a competency hierarchy. At the bottom of the hierarchy are resources. Resources, if effectively used, form the basis of capabilities. Capabilities form the second level of the hierarchy. Capabilities consist of a series of business processes and routines that manage the interaction among resources. The next level of the hierarchy consists of a competency. A competency represents the cross-functional integration and co-ordination of capabilities. Core competencies form the highest level of the hierarchy. Core competency results from the interaction between various SBU competencies. Javidan also relates the competency hierarchy to the various strategy levels and argues that corporate strategy deals with the issue of core competencies that the firm possesses or needs to develop. The business strategy covers the issue of competency while functional strategy deals with the issue of capabilities and resources. His view corresponds to some degree with that of the authors previously mentioned.

Looking more closely at the different views, it is clear that they correspond to some degree, although sometimes only implicitly. Moreover, although different labels are used to describe the same notion (eg, Thompson & Strickland 1998 as well as Prahalad & Hamel 1990), it is generally agreed that the firm does something better than rivals in offering value to the market. The value offering is based on a firm's resources. Furthermore, the value offering is protected from erosion through competition by means of the market strategy applied. However, it should be noted that the various views differ. In some cases it is argued that a strength (resource) is transformed to competitive advantage, while others argue that (market) strategy protects the competitive advantage. Rather, it would seem that a combination of these views offer the solution, namely resources are transformed to competitive advantage, which forms the basis of market strategy, but the successful implementation of the market strategy at the same time prevents erosion of the competitive advantage.

Hao (1999:709-718) suggests a “SELECT” framework for sustainable competitive advantage and, in so doing, integrates the foregoing views on SCA. The SELECT framework for SCA encompasses six aspects of SCA, namely substance, expression, locale, effect, cause and time span. Each of these six facets needs illumination as discussed in the ensuing paragraphs.

According to Hao (1999), substance refers to the content or nature of competitive advantage. He is of the opinion that the nature of competitive advantage could be classified into one of two categories, namely positional and kinetic or homogeneous or heterogeneous. Positional competitive advantage derives from a firm's attributes and capabilities that in themselves generate profits and from the firm's position in its environment and its relationships with other firms. Positional competitive advantage is primarily ownership based or access based and are often static. Management ability, skilled employees who are dedicated, economies of scale, and market power are examples of positional competitive advantage. Kinetic competitive advantage allows a firm to perform its activities more effectively or efficiently than its rivals. Kinetic advantage is generally knowledge or capability based. Positional and kinetic competitive advantage often influence and derive from one another. Coase, Selznick, Porter, Aaker, Grant, Slater, Van der Walt et al, South, Drucker, Prahalad and Hamel, and Thomson and Strickland's views correspond to a lesser or greater degree to Hao's view of the nature of competitive advantage.

Hao takes the nature of competitive advantage further by classifying it as homogeneous or heterogeneous. Homogeneous competitive advantage exists when firms are competing in the same way using similar strengths and skills. The advantage flows from doing the same thing better. Heterogeneous advantage arises when the firm plays the game differently or plays a different game to competitors. Selznick, South, Porter, Prahalad and Hamel, Grant, Slater, Van der Walt et al, Thompson and Strickland and Javidan seem to agree with Hao.

Expression of competitive advantage relates to how the advantage is observed; for instance, tangible versus intangible or discrete versus compound. A tangible competitive advantage can easily be observed. Intangible competitive advantage, on the other hand, cannot be easily observed as it does not present in any concrete form such as a brand name. Competitive advantage could also be discrete (stand-alone) or compound (an aggregate of different individual advantages). The former is usually positional as it derives from ownership or access based sources, such as superior location and brand name. The latter could be kinetic as they are based on knowledge or capability. It may be inferred from the authors cited earlier that competitive advantage could be observed. However, there is insufficient information to classify it according to Hao's categories.

The locale of advantage refers to the base (see section 3.3.2) of the advantage; for example, in the firm, in an individual or virtual. If the advantage is in an individual, it means that when the individual leaves the firm, the advantage is lost. Therefore individual-based advantage is not sustainable. If the advantage is firm based, it means that the advantage is based on the characteristics of the firm, such as culture, and cannot move or be imitated; for example, knowledge based (technical know-how or reputation). Virtual-bound advantage resides outside the boundaries of the firm; for example, networks to which the firm has access. Unless the firm controls these sources of advantage, it will not be sustainable over time. Thompson and Strickland, Van der Walt et al and others imply that sustainable competitive advantage is based in the firm as it is based on the firm's assets or skills.

The effect of the advantage refers to the way it is observed; for example, absolute versus relative or direct versus indirect. Absolute advantage exists when the firm seems unconquerable to rivals. The firm has only relative advantage if the advantage exists in small differentials. A direct advantage contributes directly to the value-adding activities, such as cost advantage, and is generally tangible in nature. Indirect advantage contributes indirectly to value-creating activities, such as support activities in the value chain, and is intangible. Thompson and Strickland, Van der Walt et al and others also imply that competitive advantage is observed. However, there is insufficient information to classify it into any of Hao's categories.

The cause of competitive advantage refers to the origin of the advantage, which could be spontaneous or strategic. Spontaneous advantage could arise from external factors, such as imperfect competitive markets, changes in the environment – this source of advantage could be passing. Strategic advantage arises from deliberate strategy formulation and implementation efforts. Thompson and Strickland, Van der Walt et al and others imply that the competitive advantage is strategic as management takes active steps to ensure that competitive advantage is created.

The time-span of the advantage refers to the sustainability of the advantage. The advantage could be actual or potential or temporal or sustained. Actual advantage is currently in effect while potential advantage may come into effect in the future, given the right circumstances. Temporal advantage is passing in nature while sustained advantage lasts for a time, but not forever. The term "sustainable" competitive advantage may thus be a misnomer — the sustainability of the advantage is only for a period of time after which it diminishes. Hopefully, this period of sustainability is long enough to recover the costs associated with the advantage. Hao's SELECT framework makes the application of competitive advantage more practical than that put forward by Thompson and Strickland, Van der Walt et al and others.

Figure 3.2 illustrates the SELECT framework for SCA for the firms in question, using the available information.

Figure 3.2 Select framework for SCA for the firms in question

Dimension	Firm
Substance	
• positional	Tiger Brands, I&J, Delfood (attributes and capabilities of these firms)
• kinetic	-
• homogeneous	I&J chilled and frozen foods; Delfood canned fruit
• heterogeneous	Most playing a different game (eg, Tiger Brands in chilled, processed meats and canned meats, vegetables and fruits, I&J chilled and frozen vegetables, Delfood canning of exotic fruits; Kolosus fresh and canned meats; Rainbow poultry)
Expression	
• tangible	All, especially Delfood, brands
• intangible	Tiger Brands and I&J financial performance (annual reports)
• discrete	Delfood; I&J (stand-alone)
• compound	Tiger Brands (aggregate of individual advantages)
Locale	
• in the firm	Technologies or brands eg, Tiger Brands, Delfood, I&J
• in the individual	-
• virtual	-
Effect	
• absolute	Tiger Brands (competitors may perceive the advantage as unconquerable)
• relative	-
• direct	Tiger Brands, Delfood, I&J
• indirect	Tiger Brands, Delfood, I&J
Cause	
• spontaneous	All due to oligopolistic market structure
• strategic	Tiger Brands – first to announce focus on branded consumer products Kolosus first to brand meat after deregulation
Time-span	
• actual	Tiger Brands, Delfood, I&J, Kolosus
• potential	-
• temporal	-
• sustained	Tiger Brands, Delfood, I&J, Kolosus

According to figure 3.2, not all Hao's dimensions of SCA are equally applicable, but one gets the idea of how SCA applies to the firms in question. In considering SCA, one thinks involuntarily of Ricardo's (1817) law of comparative advantage — if a country specialises in the products in which it has a comparative advantage, trade will be mutually beneficial (see Samuelson & Nordhaus 1992:265). It is contended that comparative advantage applies to the nation as a whole (macro-level), while competitive advantage applies to the firm (micro-level). To appreciate sustainable competitive advantage, it is also necessary to distinguish between competitive advantage and key success factors (Day & Wensley 1988). The Design School of Strategy Formulation also supports this notion (see Mintzberg et al 1998:26). According to Aaker (1998:27-8), key success factors are the assets and skills (resources) required to compete successfully in a given industry. In other words, key success factors should be present in each firm in the particular industry to place the rivals on an equal footing. In the case of the food industry and the firms in question, technology is considered to be a key success factor (see chapter 2, section 2.3). Competitive advantage, in contrast, can be seen as additional to key success factors, which would ensure that the firm earns higher than industry average profits. Competitive advantage assists the firm in outperforming its competitors. To illustrate this point in food manufacturing - all manufacturers of soybean powder should, and in fact do, possess the technology to transform soybeans to powder. This is considered a key success factor. However, Denél, in the period under review developed technologies that removed the "beany" taste that characterised soybean powder. At this stage Denél is the sole manufacturer of soybean powder without a "beany" taste, giving Denél an edge over its rivals. Soya bean stew with the texture and flavour of real meat is another example of competitive advantage. These examples can be considered competitive advantage. At this stage it would appear that the difference between key success factors and competitive advantage is (management's view of) the utilisation of required resources.

Strategies designed to exploit the unique character of the firm to its fullest are those that maximise competitive advantage rather than relying solely on key success factors.

Thompson and Strickland (1998) and Porter (1985) maintain that a firm that has an SCA can earn higher than industry average profits. According to the information submitted in chapter 2 (see section 2.4), none of these firms has earned higher than industry average profits throughout the period 1996 to 1999. Some of the firms occasionally earned higher than industry average profits (see chapter 2, tables 2.22 to 2.26). A firm can only earn higher than industry average profits if it has an advantage over its rivals in attracting clients and defending its position against competitive forces (Thompson & Strickland 1998:134). Value, and specifically superior value, for which they are willing to pay, generally attracts clients. Generally, value can be seen as the difference between the benefits the customer obtains from using the product/service and the cost of finding, acquiring and using it (Slater 1996:80; Porter 1985). However, value can also arise from the fact that a firm offers similar or equal products at lower prices than the competitors, or the offering of unique benefits that justify a higher price (Slater 1996:81, Porter 1985). What is important about value, however, is the concept of value in terms of the customers' point of view that plays an important part in achieving competitive advantage. Furthermore, competitive advantage requires that the value offered by the firm is superior to that offered by its competitors. The principle in sustaining competitive advantage is the firm's ability to persist in offering superior value to its customers over time. From the above, it appears that a firm positions itself to be distinguished from its rivals in terms of offering value. This positioning is the starting point of an advantageous position for the firm that may lead to improved performance that manifests in increased profits. The creation of superior value in itself is not sufficient - it should be sustained over a period. To be able to sustain competitive advantage over a period of time, SCA should be founded on certain bases. These bases are discussed in the next section.

3.3.2 Bases for creating SCA

A firm can use several ways to create and sustain superior value, for example, creating obstacles that prevent the copying of the competitive advantage, the market size, better access to resources than competitors, delivering superior customer service, achieving lower prices than rivals and providing customers with more value for money than rivals. These ways of creating superior value are also referred to as the bases for creating competitive advantage (Hao 1999, Wilson & Gilligan, 1998:334-337). These bases of sustainable competitive advantage are summarised in figure 3.3 below.

Figure 3.3 Bases for competitive advantage

BASES FOR COMPETITIVE ADVANTAGE ORIGINATING WITHIN THE FIRM

* Economies of scale
* Financial strengths
* Reputation
* Competitive position
* Speed of response
* Past performance
* Patterns of ownership
* Flexibility
* Size

BASES FOR COMPETITIVE ADVANTAGE ORIGINATING IN A SPECIFIC FUNCTION

Marketing

* Customer base
* Pricing
* Service support
* Customer knowledge
* Distribution

Research and development

* Technology
* Patents/Trademarks

Production

* Technology
* Experience
* Manufacturing flexibility
* Product quality
* Process efficiency

Human Resources

* Good labour relations
* Workforce flexibility

BASES FOR COMPETITIVE ADVANTAGE ORIGINATING FROM EXTERNAL RELATIONSHIPS

* Customer loyalty
* Preferential legislative treatment
* Beneficial tariff and non-tariff barriers
* Intra-organisational relationships
* Access to preferential and flexible financial resources
* Channel control
* Government assistance

Source: Wilson and Gilligan (1998:52)

From figure 3.2 it is evident that the ways or bases for creating sustainable competitive advantage originate from within the firm, or a specific function or from relationships with external entities (Wilson & Gilligan 1998:334). These bases for competitive advantage arise from a capability or capacity of the firm (micro-environment), such as economies of scale, patterns of ownership, financial strength or a specific function, such as marketing, human resources or production or external relationships. These bases for competitive advantage correspond to the assets/skills/resources/capabilities that form part of the concept SCA as set out in section 3.3.1. These bases of competitive advantage also relate to the SWOT analysis where variables affecting the market strategy of the firm are identified. The bases for competitive advantage arising from a capability or capacity within the firm, for the firms in question, is illustrated in the following paragraphs.

3.3.2.1 Bases for competitive advantage originating within the firm

Nabisco SA (part of Delfood) establishes its brands in other markets to obtain economies of scale; for example, the confectionery branded as "Lifesavers" is exported to new markets like the UK, Russia, Saudi Arabia and Egypt. In this move Nabisco increased capacity utilisation from 66% to 100% (*Business Report* 19/8/97). Rainbow also pursued economies of scale by closing its smaller farms and plants to concentrate on the bigger farms and plants to reap the benefits of improved capacity utilisation (*Business Day* 4/11/97) and thus use its resources more effectively. From this it is clear that economies of scale can be achieved in different ways.

Past performance and financial strength is another way of achieving sustainable competitive advantage. In the case of past performance as well as financial position, Tiger Brands is an excellent example. Tiger Brands' ROE for 1996 (22,21%), 1997 (20,25%), 1998 (12,92%) (1999 not available) was greater than the industry's ROE in 1996 and 1997, but lower in 1998 (19,20%, 16,56%, 17,92%, respectively). Furthermore, the ROE of Tiger Brands was the highest of the firms under review in 1996. The excellent financial position of Tiger Brands can also serve as an example of good management skill.

Patterns of ownership is another internal basis of competitive advantage which paid off, especially for Delfood and Nabisco as well as for Tiger Brands and ConAgra. Delfood and Tiger Brands, gained access to international markets through its respective partners, Nabisco and ConAgra.

3.3.2.2 Bases for competitive advantage originating within a specific function

In the case of marketing examples can be cited for at least pricing. The advantageous R/£ exchange rate (for exporters) resulted in favourable sunflower seed prices, which resulted in increased sunflower seed exports to the UK to augment protein supply which was adversely affected by "mad cow disease" in 1996 (*Beeld* 6/6/96). Regarding research and development, Nabisco (part of Delfood) spends 14 to 17% of annual sales on research and development (*Business Report* 19/8/96), making Nabisco a world leader in its field. In the case of production, Denél acquired and further developed technology to extract soybean milk and produce soybean powder without the characteristic "beany" taste. This powder can save up to 20% of input costs of manufacturers of ice cream, confectionery, margarine and processed meats (*Business Day* 20/5/97). In the case of trademarks, Cadbury was prohibited by court from using the Beacon Sweets (part of Tiger Brands) trademark "liquorice allsorts". In the case of brand names, Del Monte was preferred to house names of retailers (see chapter 4, section 4.2). All these examples cited show that these firms have an edge over rivals. In each case, the particular edge originated from a specific function in the firm.

Technology plays an important part in creating an SCA for the firms in question. I&J installed equipment that revolutionised the way it processes its convenience food, contributing to improved product quality (*Food Review,* November 1998:27). Technology also resulted in the manufacture of soy stews with the flavour and texture of real meat (*Food Review,* October 1999:15). Technology also contributed to canned home meal replacements (HMR) that contain new combinations of mixtures. Breakthroughs in packaging material such as "barrier" film that extends the shelf life of sausages (*Food Review,* July 1998:47) is another contribution from technology (see chapter 2, section 2.2.2). From the available information it is concluded that I&J has created an SCA in chilling and freezing fish and vegetables, while Tiger Brands has created an SCA in canning fruit, vegetables, HMR, and fish, and in chilled meats. Delfood has created an SCA in canning of exotic fruits. At this point it is not clear whether Kolosus and Rainbow have succeeded in creating any SCAs.

3.3.2.3 Bases for competitive advantage arising from the external environment

In the case of bases for competitive advantage resulting from external relationships, the market (customer loyalty and channel control) and macro-environments are relevant. Preferential legislative treatment can form the basis of competitive advantage. In this regard, producers of controlled primary agricultural products were guaranteed prices for their produce and protected from imports and export competition in terms of the provisions of the Marketing Act, 1963 (*Financial Mail* 16/2/96). Unifruco and Outspan benefited from the provisions of this Act as they were the only entities legally allowed to export controlled agricultural products, namely deciduous and citrus fruits. In this period both Unifuco and Outspan established good reputations through their trademarks, Cape and Outspan, respectively.

From the SCA examples cited above, it is clear that the opportunities as indicated in the SWOT analysis form part of the bases for SCA. New markets, effective utilisation of resources, joint ventures, health/well-being of consumers, improved processes resulting from technological advances and labour relations apply specifically.

As long as the firm acts in accordance with competition (anti-trust) legislation in creating and sustaining competitive advantage, according to the bases depicted in figure 3.3, SCAs should be a definite route to above-average industry profitability. To ensure above-average industry profitability, the SCAs should display or adhere to certain characteristics. These characteristics are discussed in the next section.

3.3.3 Characteristics of SCA

In order to connect sustainable competitive advantage effectively to market strategy, competitive advantage should have certain characteristics. These characteristics remain the same, although competitive advantage may change over time with changes in the environment (Hao 1999, Slater 1996, STRMAR6 1996:114, Porter 1985 and Schnaars 1990). It is important to take note of these characteristics, which may assist in identifying competitive advantage to build market strategy on, to ensure that higher than average profits are sustained in the long term. These characteristics include:

- Competitive advantage should be substantial to make a difference (eg, Denél's soybean powder without the "beany" taste).
- Competitive advantage must be sustainable (Delfood's brand Del Monte).

- Competitive advantage must become part of the visible business of the firm in order to influence customers (Del Monte trademark versus the house brand of retailers – see chapter 4, section 4.2.1.1 (b)).

In order to sustain competitive advantage, the firm must, furthermore, develop strengths in one or more of the following fields (Slater 1996:82-86):

- the ability to innovate (eg, soy stews with the flavour and texture of real meat)
- the ability to market high quality products/services (eg, soybean powder without "beany" taste)
- the ability to market products at a relatively low cost (eg, genetically modified products)
- skilled management (eg, Tiger Brands)
- marketing orientation by top management taking into account the needs of the consumer, eg Europeans preferred fresh to canned foods in the period under review
- a large market share (eg, Tiger Brands dominates the meat, fish, fruit, vegetable, and oils and fats market scene (see chapter 1, section 1.2.1))

According to Aaker (1998:141), four more factors are required over and above the bases for creating SCA and the characteristics of SCA to create and sustain competitive advantage. These factors are discussed in the next section.

3.3.4 Four factors required to create an SCA

According to Aaker (1998), creating SCA requires four factors, over and above the bases and characteristics of SCA, namely:

(1) the way in which the firm competes

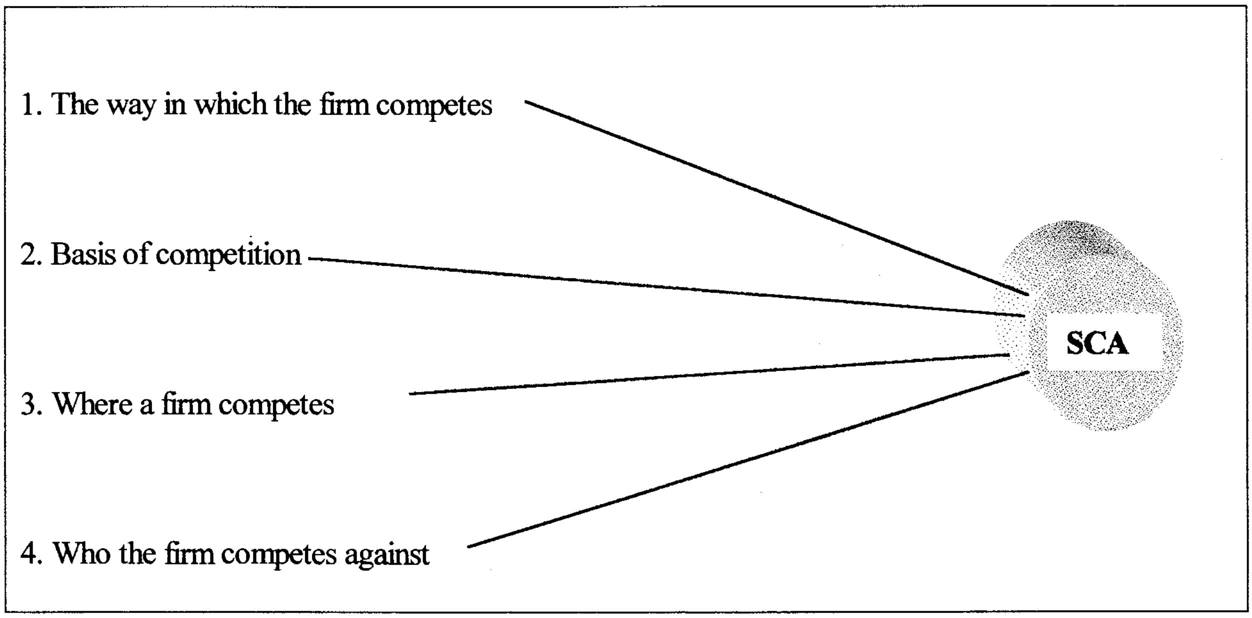
(2) the basis of competition

(3) where a firm competes

(4) who a firm competes against.

Figure 3.4 below illustrates these factors.

Figure 3.4 Factors required for creating an SCA



Source: Aaker (1998:142)

Figure 3.4 needs further explaining, that is provided in the next few paragraphs.

3.3.4.1. The way in which the firm competes

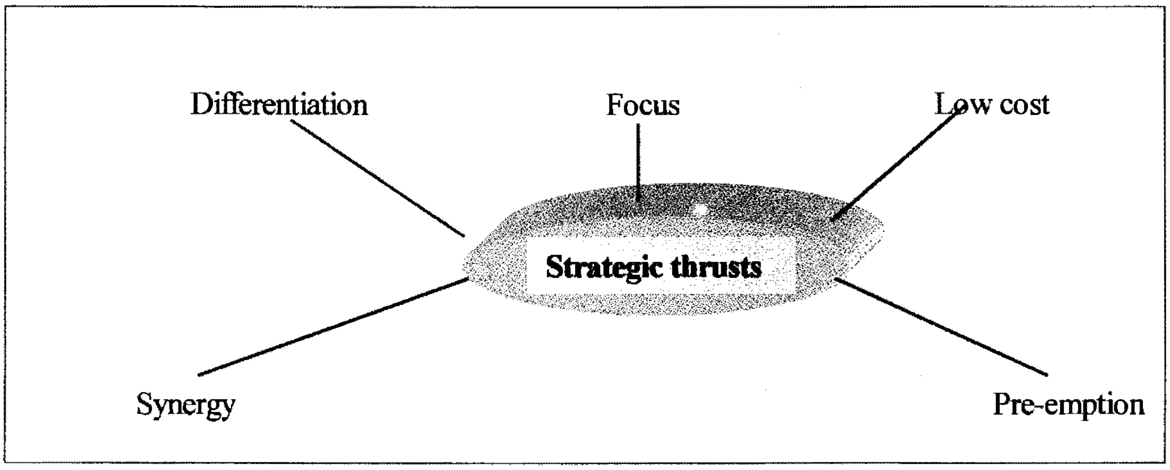
The way in which a firm competes forms part of the functional level strategy as it relates to the marketing mix. The functional level of strategy falls outside the scope of this study, therefore suffice it to say that marketing on the functional level is mainly concerned with decisions about the marketing mix. The marketing mix aims at a specific target market at a specific time. Decisions on the marketing mix (product, price, promotion, distribution) take into account the SWOT analysis on functional level, while the marketing concept (see chapter 4, section 4.1) plays a vital role in this regard.

3.3.4.2 Basis of competition

The second factor required to develop an SCA is the basis of competition. The basis of competition is the assets, skills and capabilities that underlie the market strategy. Competitive advantage can only be sustained if it is supported by the relevant assets, skills and capabilities (see sections 3.3 and 3.3.1). According to Javidan (1998:62-68), resources are the building blocks for competencies. Resources are the inputs to the firm's value chain, which can be classified into three categories: (1) physical, such as plant and equipment, (2) human, such as training and experience, and (3) firm, such as the culture of the firm. Javidan defines capability as the firm's ability to exploit its resources. Capability consists of business processes and routines that manage the interaction among resources. A process is a set of activities that transform inputs into outputs. Javidan maintains that capabilities are generally functionally based. The cross-functional integration and co-ordination of capabilities result in competencies. He maintains that in a multi-firm a competency is the set of skills and know-how housed in an SBU, resulting from the interfaces and integration among the SBUs functional capabilities. The interaction between different SBUs results in core competencies, which are the knowledge and skills shared across the boundaries of SBUs.

Market strategy relates to the firm's position in the market relative to that of competitors. It is therefore necessary that the firm's management understand competencies and capabilities and how these relate to those of competitors and how they create value for the customers. In so doing the firm ensures that its strategy takes full advantage of its assets, skills and capabilities and maximises its unique characteristics. In this regard it should be pointed out that Aaker (1993:187) refers to the basis of competition as the strategic thrusts that underlie an SCA. These strategic thrusts are illustrated in figure 3.5 below.

Figure 3.5 Strategic thrusts that underlie an SCA



Source: Aaker (1998:146)

According to Aaker (1998:146), a number of strategic thrusts underlie an SCA, for example differentiation, focus, low cost, synergy and pre-emption. An SCA may be based on one or a combination of the various strategic thrusts. The strategic thrusts illustrated in figure 3.5 correspond to the competitive strategies and decisions depicted in figure 3.1. At this stage suffice it to say that the strategic thrusts illustrated in figure 3.5 form part of market strategy, discussed fully in chapter 4.

3.3.4.3. Where a firm competes

The third factor required for creating an SCA is where a firm competes, that is the product-market (Aaker 1998:143) or arena. If the firm does not offer value to the market, the market strategy may still fail even if it is based on an assets or skills (see section 3.3.1 on the idea of value offered to the market and its contribution to above-average industry profits). The definitions of an SCA in section 3.3 refer to three points related to this factor, namely:

(1) the arena (product-market) where the firm competes (see for example South, Aaker and Drucker),

(2) value offered to the customers (see for example Coase, Aaker, Porter, Prahalad & Hamel, Slater, van der Walt et al and Thompson & Strickland) and

(3) assets, skills, resources and capabilities required to offer value to the market (see for example Selznick, South, Porter, Prahalad & Hamel, Drucker, Aaker, Grant, Slater, van der Walt et al and Javidan).

Furthermore, it should be noted that where the firm competes forms part of its investment decision, specifically growth, which in turn forms part of the market strategy alternatives, that is comprehensively discussed in chapter 4.

3.3.4.4. Who the firm competes against

Who the firm competes against is the final factor required to develop an SCA is, that is competitors. Aaker (1993:184) points out that an asset or skill will only form an SCA given the right set of competitors. The firm's goal should be to match up with competitors who lack strength in the relevant assets and skills. Aaker maintains that an asset or skill can only form the basis of an SCA if it assists in creating a cost advantage or serves as a point of differentiation from competitors. Who a firm competes against is also part of the investment decision that is discussed in the next chapter. Finally, synergy also plays a role in SCAs. The role of synergy in creating SCA is discussed in the ensuing paragraphs.

3.3.5 The role of synergy in creating an SCA

Javidan (1998), Aaker (1993 and 1998) and Prahalad and Hamel (1990) refer explicitly to the role of synergy in an SCA. Synergy means the whole is more than the sum of the subparts. According to this definition of synergy, the performance of two or more SBUs acting together will be superior to the performance of the individual SBUs. The same applies to a set of products and markets. Generally, the synergy will derive from a commonality such as distribution, image, technology, costs (Aaker 1993:188). Aaker (1993:189) points out that it may not be difficult to understand the concept synergy, but the application in practice may not be realised. Moreover, synergy may not materialise in practice owing to implementation problems. Aaker (1993:189), Prahalad and Hamel (1990) and Javidan (1998) refer to the critical role that core competence plays in the creation of synergy. They are of the opinion that core competence is the consolidation of firm-wide technologies and skills into a coherent thrust. Thus core competence spans the whole firm. Co-operation throughout the firm is thus required to achieve synergy. Synergy may improve SCAs and forms part of the competitive strategies and decisions that form part of chapter 4. The importance of SCA to market strategy is briefly referred to in the next section.

3.4 THE IMPORTANCE OF SCA TO MARKET STRATEGY

An SCA is important to market strategy, whether in connection with achieving synergy, the effective use of resources or the transformation of a unique strength into an SCA. SCAs form the basis of an effective market strategy (see chapter 4, figure 4.2) that is safeguarded from erosion by the market strategy applied. Market strategy should be designed to exploit the firm's unique characteristics. This can only be done if the SCA is correctly identified. The identification of an SCA includes a SWOT analysis. From this analysis unique strengths are identified and developed into an SCA. The market strategy is based on the SCA, which in turn is protected by the market strategy chosen. Only firms that understand the significance of an SCA and are able to implement one in practice will be able to outwit competitors.

3.5 SUMMARY

This chapter dealt with SCAs, specifically as applied by the larger firms manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats, listed on the JSE, food sector, in 1996 to 1999. SCAs are determined by the SWOT and industry and competitor analyses, in which a unique strength is identified and developed into an SCA. SCA relates to the arena (product-market) where the firm competes, the value offered to customers and the assets, skills, resources and capabilities required to offer value to the market. The identification of an SCA forms the starting point for successful market strategy. From the information provided in this chapter it would appear that it is not easy to achieve SCA. Only firms that succeed in identifying a unique strength and transforming it into an SCA that cannot easily be imitated by competitors will be able to outperform rivals. As indicated in chapter 2, in the micro-environment analysis, only some firms are in a position to outperform others. This chapter indicated that despite weaknesses in the firm (eg, low profitability) and threats in the environment (eg, cost-raising effects of legislation, small market that is opened to large international players, low activity due to economic downturn, harsh climate and changing consumer preferences), at least some of the firms in question were able to create an SCA and outperform their competitors. Tiger Brands, for example, has an SCA in fruit and vegetable canning and chilled meat manufacturing, I&J has an SCA in frozen food manufacturing. These firms appear to be the ones with better financial ratios (see chapter 2, section 2.4). These firms use SCAs to outperform their competitors. The ways in which firms outperform their competitors are called market strategy, which is discussed in the next chapter.

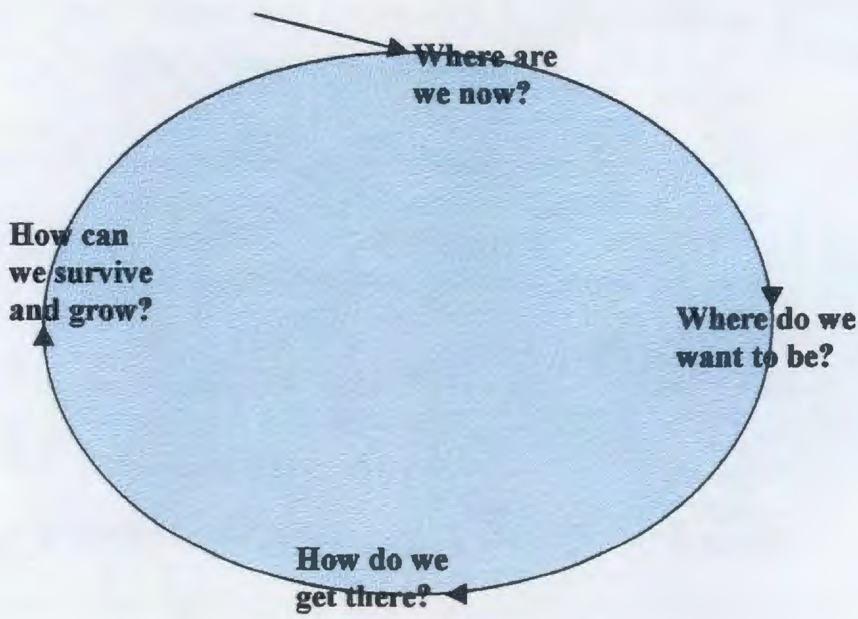
CHAPTER 4

MARKET STRATEGY

4.1 INTRODUCTION

This chapter discusses market strategy, with specific reference to the selected firms. Chapter 2 dealt with environmental analysis to determine the variables in the environment that might impact on the market strategy applied. Chapter 3 described a SWOT analysis and sustainable competitive advantage (SCA). Strengths identified in the SWOT analysis are transformed to SCAs. SCAs form the basis of market strategy and market strategy tries to extend and/or shield the SCA from erosion from competition. Chapter 4 focuses on market strategy, which is described as the firm's battle plan (see chapter 1, section 1.2.3). As pointed out in chapter 1, market strategy is marketing management's contribution to business level strategy. Through market strategy, marketing management ensures that the firm offers value to the market. To succeed in offering value to the market, it is necessary that the firm have access to the necessary resources, assets, skills and capabilities to compete successful in a particular market (see chapters 1 and 3). The inclusion of the term "market" in the phrase "market strategy" merely indicates that strategy development should be consistent with the needs of the market. This principle is consistent with the marketing concept that holds that consumers will only buy what they need and want, provided that they obtain value at the same time (Van der Walt et al 1996:20-27). This principle is also consistent with the fact that value should be offered to the market if the firm wants to survive and grow (see chapter 3, section 3.3). The term "market", furthermore, denotes that the impact of the environment is also taken into account in strategy development. Market strategy is both externally and internally orientated. Externally orientated means the firm takes into account the needs of customers and what the competition is doing (see chapters 2 and 3). If a firm is externally orientated, it means that the firm is market orientated. Internally orientated means the firm matches its resources, assets, skills and capabilities to the requirements of the particular market situation (see chapter 3, section 3.3 in this regard). Consequently, marketing management must ensure that the firm's market strategy aims at customer satisfaction, while at the same time achieving the firm's long-term objectives more profitably than the competition. In order to succeed in this, the firm has to ask itself the four related questions illustrated in figure 4.1 below (Wilson & Gilligan 1998:6; STRMAR6 1996:4).

Figure 4.1 Questions that should be answered to ensure success



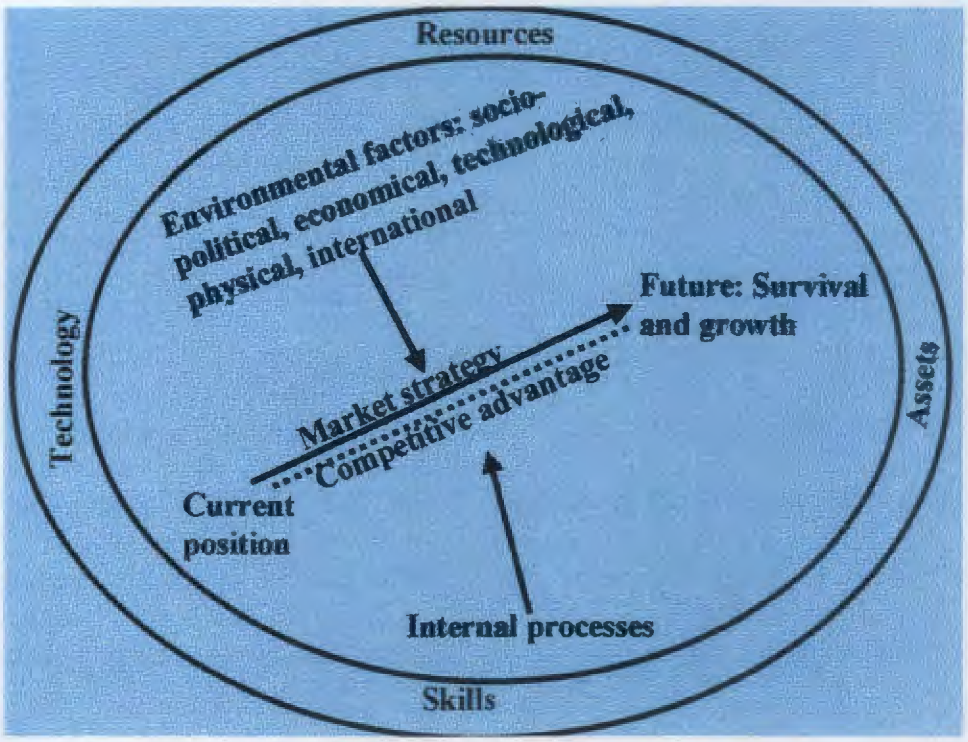
Source: Wilson and Gilligan (1998:6)

The questions "where are we now and where do we want to be" relate to the unique and valuable market position that the firm wishes to occupy relative to its competitors. The questions "how do we get there and how can we survive and grow" relate to the market strategy – the vehicle that ensures that the firm achieves the differentiated market position that is unique and valuable relative to competitors. This study, and specifically chapter 4, focuses on the questions of "how we get there" and "how we can survive and grow". The answers to these questions, in particular, indicate which market strategy/strategies the firm should apply. The purpose of market strategy is to create and sustain competitive advantage over rivals (Thompson & Strickland 1998:134; Prahalad & Hamel 1990; STRATMAR-6 1996:110; also see chapter 3, section 3.3). In this regard, the availability of resources and the effective positioning of the firm against its rivals are important. Positioning means the image that the customers have of the firm in comparison to its competitors. Market strategy is founded on the resources, assets and skills underlying competitive advantage (see chapter 3, section 3.3), while the chosen market strategy aims at defending the competitive advantage against erosion from rivals. The purpose of this chapter is to present the market strategy options that firms can employ to defend their respective SCAs, against rivals, with specific reference to the selected food firms manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats, listed on the JSE, food sector, in 1996 to 1999. The concept market strategy is addressed in the next section.

4.2 THE CONCEPT MARKET STRATEGY

Market strategy is equated to the battle plan of a firm (Van der Walt et al 1996:544 see also chapter 1, section 1.2.3). Market strategy ensures that the firms in question arrive at their ultimate destinations, namely survival and growth in an ever-changing environment. At the same time market strategy differentiates the firm from its rivals in such a way that it provides value to its customers. Based on the discussion so far (see chapters 1 to 4), figure 4.2 is a graphic illustration of market strategy.

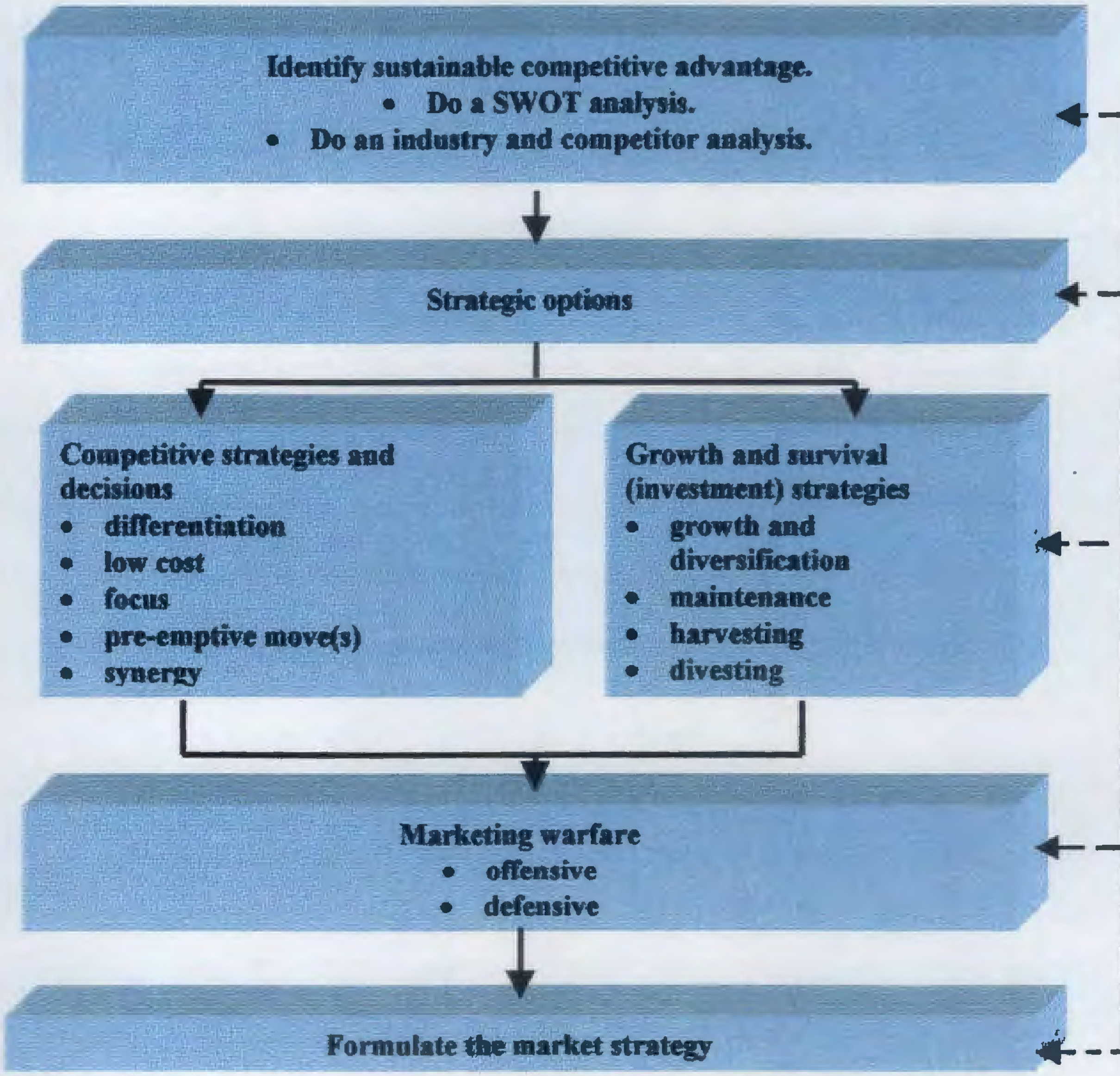
Figure 4.2 Market strategy



Source: Compiled from information submitted in chapters 1 to 4

Figure 4.2 needs brief explaining that is provided in this paragraph. Strategy is the vehicle that ensures that the firm arrives at its future destination, namely survival and growth in an ever-changing environment. Strategy is founded on competitive advantage, which distinguishes the firm from rivals and presents its unique and valuable market position. Internal processes (eg, management information systems) ensure that the strategy can be implemented and that the future destination is realised (see figure 4.3 and discussions of dotted lines). Strategy is encapsulated in the required resources, assets, skills and technology (especially in the new economy). Without the required resources, assets and skills, nothing will come of strategy and the firm will fail. To be effective market strategy should adhere to sound principles, which manifest in a model. Figure 4.3 illustrates a model of market strategy.

Figure 4.3 A model of market strategy



Source: Adapted from Van der Walt et al (1996:542)

Figure 4.3 needs some clarification as discussed in the following paragraphs. Firstly, it is necessary to comment on the facets underpinning market strategy represented by the dotted lines in the illustration. The dotted arrows indicate that the formulation[1] of market strategy is an iterative process. The process does not stop when "a document is produced" or when a strategy is implemented. The process is continuous, and in fact, never-ending. A process is an identifiable flow of information through interrelated stages directed at the accomplishment of an aim. A change in any component may effect a change in the market strategy applied – for example, if the current market strategy does not provide the expected results, the firm may reconsider its market strategy applied, including the SCA on which the strategy is based. Although an SCA is the basis for market strategy, this process is not necessarily sequential in nature as presented in the illustration. The firm does not have to wait for a change in the environment, industry or competition to evaluate or review its market strategy. An expected change in the environment may effect a change in the market strategy. Given the proactive nature of market strategy, the firm may, in anticipation of the change, adapt its market strategy(ies) applied.

According to figure 4.3, the process of market strategy formulation is externally orientated; in other words, it takes into account the environmental situation, the industry, competitor and market situation as well as customer needs. To be sensitive to the external environment and to take advantage of the information in the external environment implies that the firm should have access to a good management information systems. A good management information system gives the required

[1] Formulation implies implementation. Formulation and implementation often happen concurrently.

information effectively and efficiently, as well as having the necessary analysis, processing, synthesis and storing facilities available. Without the required information, market strategy formulation may fail, as it may result in an inappropriate market strategy to deal with the prevailing situation.

Figure 4.3 implies that the focus is on strategy formulation rather than on some or other "financial controls" – although financial controls (may) form part of internal environmental analysis. More than one of these strategy options may be applied at a time – for example, a competitive strategy (eg, differentiation) as well as a suitable life cycle strategy (eg, growth). Depending on the moves of its competition, the firm may decide to employ a warfare strategy, such as defensive strategy by broadening its product line (eg, HMR).

The business environment in which firms were operating, at the time, required the market strategy to take account of international realities, such as global markets (which, incidentally, forms part of the growth strategy option). This aspect was also highlighted in chapter 2 (section 2.2). The business environment is changing fast, that impacts negatively on the long time horizon that market strategy requires. Firms will have to increasingly focus on the longer horizon, however difficult that may be, if they wish to succeed. Furthermore, marketing issues like consumer needs, and especially the anticipated needs, will become increasingly important in market strategy.

Implementation of market strategy is at the core of success as indicated in figure 4.3. Implementation covers more than can be seen in the above illustration (eg, the fit between the firm's strategy and culture, and operating processes and is also illustrated in figure 4.2). Issues like the latter should be considered in the formulation stage to prevent a misfortune at implementation. Formulation and implementation may (and often do) happen simultaneously.

Secondly, according to figure 4.3 market strategy consists of three (clearly visible) main components, namely:

- identification of sustainable competitive advantage
- consideration of strategic options
- formulation of the market strategy[2].

Two of the three main components of market strategy consist of sub-parts, namely:

- Identify SCA that requires the input of a SWOT and industry and competitor analysis (see chapters 2 and 3)
- The strategic options that consist of competitive strategies and decisions, growth and survival strategies and marketing warfare strategies. These options are the focus of this chapter.

Thirdly, it is also important to note that figure 4.3 depicts market strategy as both process and content. Process denotes the way in which the firm arrives or decides on its strategy (ie, content) or the specific option(s) to employ. The first part of the discussion of figure 4.3 covered the process of market strategy. The remainder of this chapter covers the content, or the options.

[2] Singular may also include plural.

A final observation from figure 4.3 is the identification of SCA appears to be the foundation of market strategy, and is determined by doing a SWOT as well as an industry and competitor analysis (see chapter 3). The industry and competitor analysis forms part of chapter 2. Only relevant information regarding industry and competitor analysis is repeated here. Chapter 3 covers the SWOT analysis and SCA for the firms in question. This chapter is concerned with the remaining parts of the components of market strategy, as illustrated in figure 4.3, namely competitive strategies and decisions, investment strategies and marketing warfare. The discussion of these strategies is based on the works of Aaker (1998), Thompson and Strickland (1998) and Van der Walt et al (1996). Competitive strategies and decisions are discussed in the next section.

4.2.1 Competitive strategies and decisions

One of the categories of strategic options illustrated in figure 4.3 is competitive strategies and decisions. Competitive strategies and decisions refer to the basis or underlying principle of competition or the approach to competition. Aaker (1998:146) refers to these competitive strategies and decisions as strategic thrusts (see chapter 3, section 3.3.4.2). Strategic thrusts denote the driving force that will ensure success in the market. Competitive strategies and decisions aim at creating SCAs that would shield or protect the firm's competitive position from the competition. Chapter 3 (section 3.3) indicates that an SCA forms the foundation of the competitive strategies and decisions. The options in this category include:

- differentiation strategies
- low cost strategies

- focus strategies
- pre-emptive move
- synergy

Each of these alternatives is discussed in the ensuing paragraphs.

4.2.1.1 Differentiation strategy

According to figure 4.3, one of the options in the grouping competitive strategies and decisions is "differentiation". A differentiation strategy or differentiated product or service means that the firm adds value to the product or service by giving it a unique attribute. This unique attribute should be valued by the customers and sets the firm apart from its competitors. A differentiation strategy is often, but not necessarily, associated with a higher price as price is less important to the customers than the unique attribute(s). The soybean stew with the texture and flavour of real meat could be cited as an example of differentiation. Various methods can be used to differentiate more or less identical products in such a way that the market regards and accepts them as distinct entities. When differentiation succeeds it means that competitors cannot easily imitate it and the firm has created a sustainable (at least for a while) competitive advantage for itself.

According to Aaker (1998:163-180), there are various bases for differentiation, including

(a) quality;

(b) brand names;

(c) customer orientation;

(d) technical superiority;

(e) distribution channels; and

(f) product-line breadth.

Each of these is briefly discussed below, although these bases for differentiation may not be equally applicable to the selected firms forming the focus of this study. It should also be pointed out that these bases for differentiation are, to some extent, interwoven and should thus not be seen in isolation.

(a) Quality

Quality denotes a certain grade, degree of excellence, worth, trait, characteristic, or attribute. Figure 3.3 (see chapter 3) shows quality as a basis of competitive advantage originating in a specific function, namely production (or operations). Quality is easily associated with food because food, whether fresh or canned, is marked for example Grade 1, Grade 2, Standard, Sub-Standard, and Choice Grade. KOO (a brand name of Langeberg, which is in the stable of Tiger Brands) indicates on its canned fruit that only choice grade fruits are used in canning. The Agricultural Product Standards Act, 1990 specifies the conditions under which the terms denoting certain grades such as "choice", "standard" and "sub-standard" may be used in connection with agricultural products. According to Aaker (1993:205), the single most important factor affecting an firm's performance is how the market perceive the quality of its products and services relative to that of its rivals. It has been found that there is a direct relation between the reputation for high quality products and market share (loc. cit.). In the annual reports of the firms in question, the respective chairmen indicated that quality products are manufactured. According to Aaker (1998) and Van der Walt et al (1996), product quality generally goes hand in hand with performance, durability and reliability, that generally, cannot be judged by consumers. Therefore consumers judge quality on the dimensions of quality bases.

Gavin (1984:25-43 in Van der Walt et al 1996) indicates that quality is based on the following dimensions

i. conformance to specifications

ii. features

iii. trademark

iv. fit and finish.

v. performance

vi. durability

vii. reliability

viii. serviceability

These bases of quality are not equally applicable to foodstuffs. However, firms should identify the dimensions most relevant to the market by utilising market research. The majority of the above-mentioned quality dimensions are not difficult for consumers to evaluate. The dimensions applicable to foodstuffs include, inter alia the following:

i. *Conformance to specifications.* Foodstuffs must comply to the standards set by, inter alia, the Health Act 1977, and the Agricultural Product Standards Act 1990;

ii. *Features.* These can be seen as part of the appearance of the food or a distinguishing characteristic of the product, such as the shelf life. Features may perhaps be significant for home meal replacement (HMR) - the quick time in which nutritious and tasty meals are prepared, as well as the packaging and labelling. Packaging and labelling, however, have to conform to specifications stipulated in the Health Act 1977.

iii. *Trademark.* This can be seen as the distinctive name or symbol attached to goods that are sold - usually the trademark is legally registered and may not be used by anyone other than the registered owner (eg, Del Monte, KOO, Spekenam, Kraft, Table Top, Bull Brand and Enterprise). Liquorice Allsorts is another example of a trademark, especially as the court ruled that this name may exclusively be used by Beacon (in the stable of Tiger Brands) after the use of this name was challenged by Cadbury-Schweppes (*Business Day* 11/9/97).

iv. *Fit and finish.* This may to a degree be applicable to foodstuffs, especially to the attractive packaging and labelling of foodstuffs, the improved quality and extended shelf life of the products (also see chapter 2, section 2.2.2). Traditionally, the role of packaging was to contain, protect and inform. Nowadays packaging plays an important part in improving food quality and safety and at the same time making foodstuffs attractive to prospective buyers. All kinds of innovative devices are used to absorb oxygen, moist and carbon dioxide (CO2), the most important factors resulting in food degradation. Generally, oxygen and CO2 are combated with the same devices. Some of the devices used to absorb oxygen include absorbing labels, layers coated on the package inner such as a liner. Moisture is absorbed by placing a film incorporating propylene glycol in contact with the food (*SA Food and Beverage Manufacturing Review* 1996:17). Ready-made meals are sealed with heat-resistant cling wrap that can be used in a microwave oven. Some microwaveable dishes are wrapped in technologically advanced material that results in crisping and browning the foodstuff so prepared. Creative and innovative packaging can assist in creating entry barriers and rejuvenating static or declining markets and provides a fine consumer experience. However, it should be noted that the Health Act, 1977 prescribes certain conditions that should be adhered to in the packaging and labelling of foodstuffs that may perhaps hinder the creativity in packaging.

Firms should identify the quality bases most visible and applicable to the consumers of foodstuffs and capitalise on them. Usually consumers rely on brands to identify the quality of the product. Brands are discussed in the next paragraph.

(b) Brands

Brands are defined as a name, term, design, symbol or any other feature that identifies a product as different from those of competitors (Strydom et al, 2000:204). However, brands indicate brand names or trade names and are usually legally protected, as demonstrated by the use of the name Liquorice All Sorts (see chapter 2, section 2.2.1). Figure 3.3 indicates that trademarks are a basis for an SCA originating in a specific function, namely research and development. Trademarks are usually associated with brands. Brand names represent part of the product strategy and are designed to enable customers to identify products and services which promise specific benefits (Wilson & Gilligan 1998:397). Cadbury found that 24% of its turnover is derived from its branded products created in the past five years (*Finance Week* 10/4/97). This may perhaps explain why the firms in question move away from commodity-type products to branded products. As a basis for differentiation, brands can be categorised according to

i. brand awareness
ii. brand association
iii. brand loyalty

Each of these is discussed in the ensuing paragraphs.

i. *Brand awareness* distinguishes competitive products from one another and gives the individual products symbolic value by making them familiar to consumers (Aaker 1998:174). In so doing, an image or personality is created for the product in question. Black Cat peanut butter is an example of a name and image attached to a product - children who eat Black Cat peanut butter will have the strength to fight bad people. Branded products include Bull Brand, Table Top, Kraft, Pillsbury, Enterprise, Supreme, SAMS and Harvestime. From the available information it is difficult to judge how aware consumers are of the different brands.

ii. *Brand association* represents anything that is directly or indirectly linked in the customer's mind to a brand (Aaker 1998:175). A brand gains its strategic position in the market through the way it is associated with one of the following:

- use or application
- the product user
- a celebrity
- life-style and values
- product class
- symbol

A brand's associations are assets that can give the product value in many ways. In some product classes most consumers cannot distinguish between the various brands and brand associations play a vital role in differentiating between brands. The information available does not allow any judgements on brand associations.

iii *Brand loyalty* sees consumers as a valuable asset to any firm as they are devoted to the brands of the firm (Aaker 1998:177). For some firms, one of their primary long-term assets is the loyalty of their customer base. Competitors who imitate or offer better products are up against the loyal customers. It can be an immense task to persuade these brand-loyal customers to buy from the competition. Brand-loyal customers are usually resistant to change. Loyal customers can provide the firm with a sustainable competitive advantage for the following reasons:

- The marketing costs of keeping existing customers are considerably less than to reach new customers.
- Loyal customers present a significant entry barrier to rivals.
- A satisfied customer base provides an image of a brand as an accepted, successful product that will be around and supported by the necessary backup and improvements when needed.
- Brand loyalty affords the firm time to respond to competitive moves.

The importance of brand loyalty as a basis of differentiation can be illustrated with the example of supermarkets that changed the brand name of "Del Monte" to the "house brand" of the supermarket only to find that the latter did not sell as well as the brand name "Del Monte" (*Financial Mail* 23/3/96). From this example one may conclude that the customers of "Del Monte" were not prepared to replace it with the "house brands" of the supermarkets. The supermarkets were forced to change the brand back to that of "Del Monte". This seems to support Wilson and Gilligan's (1998:294) view that branded products can be seen as premium products rather than commodities. It is therefore contended that some of the firms listed on the JSE food sector in the period 1996 to 1999 (eg, Tiger Brands) realised the importance of brands and began moving away from commodity type products to branded products. Tiger Brands specifically endeavours to build a strong portfolio of brands that is strengthened by the HJ Heinz alliance (*Financial Mail* 9/1/98). The importance of brands may further be illustrated by Oceana's (in the stable of Tiger Brands) acquisition of Federal Marine, which included the acquisition of brand names such as Lucky Star, Prize Pet and Happy Pet (*Finance Week* 26/3/98), which were considered to be brand leaders in the field. Brand leaders, generally, are founded on the loyalty of customers, and generally, give the firm time to respond to competitor moves.

(c) Consumer orientation

Some manufacturers try to project an image of being consumer-orientated, and in so doing, serve the marketing concept (see section 4.1). Firms determined to meet their customers' needs, demands and preferences have already laid the basis for a strong sustainable competitive advantage. This statement is confirmed in figure 3.3 that shows that customer knowledge could be a basis for SCA originating in a specific function, namely marketing. Home meal replacement (HMR) may be seen as a basis to differentiate according to consumer orientation taking into account the need of convenience of the changing demographic profile of consumers. In South Africa, prepared foods represented 28,7% of the R755 million frozen food market in 1996 (*Food Review* February 1997:41). Demand for fish products appeared to be the fastest growing sector of the South African prepared foods market. South Africa's situation compares well with that of the UK, part of its major trading partner. In the UK, 25% of foods sold constitute readymade foods – this equals 145 900 ton of frozen and chilled food per annum. In the USA, the HMR market is relatively small as it consists of $2 billion of the $410 billion food market (*Food Review* September 1997:19). Customer orientation appears to provide value to customers. Another basis for differentiation is product features as discussed in the next section.

(d) Product features

Product features mean special characteristics or properties. Product differentiation by means of features is not limited to the features the customers expect to find. The product may be augmented in ways that the customers do not expect. The "neutraceuticals" or high levels of vitamins C and E in Pro-Nutro and the soybean powder without a "beany" taste and soy stews with the flavour and texture of real meat are examples of product features that serve as a basis for product differentiation. This could become a basis for differentiation provided that customers perceive and value the augmentation. Packaging, such as the barrier film used in sausages (see chapter 2, section 2.2.2), that extends the shelf life of the product is also an example of a product feature. Clearly product features as basis for differentiation seems interwoven with that of quality that is discussed in section 4.2.1.1(a)(i). Another basis of differentiation is technical superiority, which is discussed next.

(e) Technical superiority

Technical superiority refers to the techniques and methods used to arrive at a dominant position. Technical superiority is especially important to enable the firm to sustain this superiority in a rapidly changing technological environment. Production, preserving and packaging methods aimed at extending the shelf life of products or improving the flavour and texture of foods can be seen as technical superiority (see chapter 2, section 2.2.2). Technical superiority could in future become increasingly important in HMR, especially the packaging. Technical superiority will in future play an increasingly important role in preservation and the extension of shelf life. The "barrier" film used as sausage casing that extends the shelf life of the sausages is another example of the importance of technical superiority. Technical superiority relates to technological innovation that is comprehensively discussed in chapter 2 (section 2.2.2). Tiger Brands and HJ Heinz Pet food joint venture give technical superiority to grow in both South African and overseas markets. Another basis for differentiation is distribution channels that are discussed next.

(f) Distribution channels

Distribution channels refer to the process of making food products available to customers at the time and place where it is needed. Access to, or control of, distribution channels can be a principal asset. Dominant shelf-space coverage (part of category management) may also result in a sustainable competitive advantage. The distribution channels include the major intermediaries, such as Pick 'n Pay, Shoprite Checkers and Spar used by the firms in question operate in an oligopolistic market. There are not many distribution channels and all the firms in question, particularly, have to use them to a lesser or greater extent. Another basis for differentiation is the breadth of the product line that as discussed next.

(g) Breadth of product line

A product line refers to a group of products that are closely related as they are similar, sold to similar customer groups, sold through the same distribution channels (outlets) or have similar prices. In the case of the firms in question, a product line could be canned foods. The breadth of product line means the number of different items in a product line; for example canned fruit, canned vegetables, canned meats and canned meals. A broad product line can provide a sustainable competitive advantage to a firm if it results in entry barriers, saves costs and attracts a broad customer base. Tiger Brands is considered to have a broad product line as products include chilled meats, canned meats, fish, canned fruits and vegetables, poultry and edible oils, such as Kraft, Nuvo and Blossom margarine. Tiger Brands' competitors considered for this study do not appear to have as broad product lines as Tiger Brands. Rainbow specialises in poultry, Delfood in fresh and canned fruits, fruit juices and bakery products, Kolosus in fresh meat, processed meats and leather and I&J in chilled and frozen fish and vegetables. A product line can be broadened to assist in defensive strategies employed by firms. Sea Harvest broadened its product line to include iron and zinc enriched fish fingers and cakes (see chapter 2, section 2.2.5). This move could possibly be to meet a need in the market, while at the same time defend its position against rivals.

Most of the seven bases for product differentiation pertain to the four P's of the marketing mix and, as such, form part of the marketing strategy at functional level, which falls outside the scope of this study. The next option under the competitive strategy and decisions is low cost, which is discussed next.

4.2.1.2 Low cost strategy

According to figure 4.3, another option under the competitive strategies and decisions is "low cost strategy". From the literature, low cost strategy or overall cost leadership would seem to mean that the firm supplies the product or service more cost effectively than its rivals based on value offered to the market. A low cost strategy can increase the profits of a firm or allow the firm to charge lower prices than rivals or to promote the business and, in so doing, obtain a larger market share. A low cost structure could be an invaluable competitive advantage as the product may be offered at lower prices or higher profits may be obtained from the product. Cost savings can also result from experience and learning. The experience curve concept holds that as a firm accumulates experience, the cost curve in real Rand will decline at a predictable rate. It is thus possible that a firm that accumulates experience faster than competitors could gain a sustainable advantage over its rivals. The experience curve describes the pattern of declining costs while the learning curve includes only direct labour costs. According to Prahalad and Hamel (1990), the effects of the experience and learning curve are part of an SCA as was set out in chapter 3 (section 3.3). Costs decline for reasons such as

- economies of scale
- increase in efficiency across the board
- technological advances

At some time all the firms in question introduced steps to contain costs, for example:

Kolosus

- restructured its operations (*Business Report* 11/6/96) to reduce costs and improve profitability
- took steps to reduce costs (*Business Report* 28/10/98), however no details were released other than that these steps were aimed at improving the performance

- took steps to restructure operations in order to use assets better and save costs (*Sake-Beeld* 21/12/98) to improve performance
- closed down or sold unprofitable operations and moved the Head Office from Sandton to Pretoria (*Finance Week* 12/2/99) where rent was cheaper in order to save costs
- introduced measures to reduce working capital and improve cash management, and cost controls (*Business Report* 25/8/99) to improve performance

Rainbow

- introduced best practices in farming operations to achieve efficiencies (*Business Report* 15/7/97), to reduce costs and improve performance
- implemented a turnaround strategy, which included the closing of smaller and loss making farms and operations (*Business Report* 14/11/97), to reduce costs and improve performance
- retrenched 1000 workers as part of its restructuring effort to save costs (*Business Day* 24/11/98) and improve dire performance
- focused on cash management (*Business Report* 16/11/98) to improve its performance
- introduced steps to improve efficiency at hatcheries, thereby reducing waste, lowering cost of breeding, and processing more chickens (*F & T Weekly* 31/7/98) to improve performance
- flattened management structure by introducing smaller teams of workers headed by a team member who fulfils the task of the manager (*Finance Week* 30/7/98) to control costs

- closed loss-making operations in KwaZulu-Natal, Krugersdorp and Bellville and introduced measures to contain flock theft (*Business Report* 11/3/98) to reduce costs and improve performance
- outsourced transportation of chickens between farms and processing plants (*Citizen* 3/6/99) to reduce costs and improve performance

I&J

- undertook a re-engineering effort amounting to R12 million (*Engineering News* 5/9/97), resulting in enhanced efficiency such as:
  - Freezer facilities for wet fish were moved to Paarden Eiland.
  - Wet fish is transported to fish processing plant where the fish is transformed into 100 different value added products such as fillets, steaks and fingers.
  - Offal is transported to milling plant where fishmeal is produced.

  This re-engineering effort reduced transport time and reduced the number of vehicles required to undertake the activities. In so doing, costs were cut.
- rationalised operations by closing down regional sales and distribution offices (*Business Report* 27/9/99) to reduce cost and improve performance

Delfood

- implemented a turnaround strategy including downsizing operations (*Business Report* 10/6/97), to reduce costs and improve performance
- targeted countries with low costs (such as labour costs) and weak currencies, for example Kenya and Philippines (*F & T Weekly* 25/7/97), to ensure low cost production

- restructured (*Finance Week* 2/4/98) to improve performance - no details about the restructuring were given

Tiger Brands

- restructured (*Business Day* 20/11/96) to lower costs and improve financial performance
- as low cost producer took steps to minimise the effects of El Niño (*Business Day* 12/11/97) and to keep costs low
- rationalised canning plants at Ashton and Paarl (*Financial Mail* 14/11/97) to reduce costs and improve performance
- Langeberg moved its asparagus plant to Lesotho to reap the benefits of the Lomé Convention and gain access to the EU market (until February 2000) reserved for African States other than South Africa (*Financial Mail* 16/1/98), which resulted in lower costs for Langeberg
- announced that in future only one advertising agency, namely TBWA Hunt Lascaris, will be used (*Saturday Star* 7/8/99) in order to save costs

The above examples may be seen as moves aimed at reducing costs by obtaining economies of scale, or at least better use of available capacity and/or increased efficiency, or may be technological advances. All of these efforts introduced by the various firms could and in some instances did lead to lower costs. Even where these steps did not necessarily lead to immediate overall cost leadership, they did lay the foundation for achieving overall cost leadership in the longer term. The bases of SCA that underlie the low cost strategies cited in the aforementioned paragraphs included economies of scale, pricing, distribution, production, technology and preferential legislative treatment (eg, Lomé) which correspond to those that are referred to in figure 3.3. Another competitive option includes a focus strategy that is discussed next.

4.2.1.3 Focus strategy

Another option under the competitive strategies and decisions in figure 4.3 is "focus". A focus strategy means that the firm concentrates on a special product or market niche(s) that it can monopolise, or even concentrates on a weak competitor rather than going for the total market (Aaker 1998:190). Focus strategies are a form of concentrated marketing generally followed for two possible reasons. Either the firm lacks the necessary resources to compete effectively in the total market or the narrowing of the product line or market could help to strengthen the fit between the firm's strategy and the market chosen. In so doing, a sustainable competitive advantage is created. Both these reasons are conceivable in the case of the firms in question, given the oligopolistic nature of the South African food manufacturing market.

It should be borne in mind, however, that the advantages of using a focus strategy may be countered by the fact that a focus strategy tends to limit the potential business and the firm following a focus strategy is often competing against larger competitors. This point was demonstrated when the South African broiler producers were plagued by dumped poultry from the USA, which resulted in losses to the South African poultry industry. The need to create a sustainable competitive advantage is therefore crucial in the focus strategy. There are a number of ways of achieving sustainable competitive advantage through the application of a focus strategy, including:

(a) *Focusing on a product line.* This way is illustrated by the following firms in question:

Kolosus – meats (fresh and processed);

Rainbow – poultry (from broilers to processed food) including branded consumer foods (*Financial Mail* 3/10/97)

I&J – chilled and frozen fish and vegetables (the focus is rather on freezing technology than the products)

Langeberg (part of Tiger Brands) - canned and dehydrated fruits and vegetables

(b) *Targeting a specific segment.* The following firms illustrate this:

Rainbow supplies niche markets such as fast food outlets, for example Nandos, Kentucky Fried Chicken, McDonalds and Pick 'n Pay Food Halls (*F&T Weekly* 31/7/98)

Tiger Brands supplies branded consumer food in Africa, Asia and Latin America where consumers needs are similar

Kolosus targets specific segments (Switzerland) with specific products (tender meat) (*Business Day* 1/12/99)

(c) *Choosing a limited geographic area.* I&J does this by supplying cultivated abalone to Asia.

(d) *Targeting low-share competition.* The following firms do this:

Tiger Brands – edible oils (apart from Tiger Brands Unifoods (part of Unilever) was the only significant player in this field in South Africa) at the time of the study;

I&J – frozen vegetables which constitute four per cent (4%) of the South African vegetable market (*Business Report* 27/2/98).

It should be noted that a focus strategy can only succeed if a profitable target market is selected, the consumers are totally satisfied with the offering, and management is committed to succeeding. In the case of Rainbow and Kolosus, a focus strategy proved to have been difficult at times; however, with commitment from management the performance of these firms improved (see chapter 1, table 1.11 and chapter 2, section 2.4.1), as reflected in their respective annual reports. In the case of a focus strategy, as applied by the firms in question, the bases for SCA appear to be customer base, distribution and technology, as illustrated in this section. These bases for SCA are consistent with those depicted in figure 3.3. Another strategic option under competitive strategies and decision is "pre-emptive move" that is discussed in the next section.

4.2.1.4 Pre-emptive move

According to figure 4.3, another option in the category competitive strategies and decisions is "pre-emptive move". The pre-emptive move is a competitive decision rather than a competitive strategy (Van der Walt et al 1996:560). Pre-emptive move means that the firm is the first to make a particular move, and in doing so, gains a competitive advantage. The pre-emptive move is usually used by the market leader when the firm is the first to enter a new field. This requires skills or assets that successors would find difficult to copy or counter. A pre-emptive move need not necessarily involve innovation, as such. Access to a prime location may be considered a pre-emptive move. An example of a prime location was Langeberg's (part of Tiger Brands) moving its asparagus plant to Lesotho as it gained access to the European market in terms of the Lomé Convention.

A number of sources can provide an opportunity for a pre-emptive move:

(a) *Supply systems.* These include access to raw materials, production equipment and dominant supply logistics. The firms in question that are vertically integrated (for example Tiger Brands, Delfood, Rainbow, I&J and Kolosus) and control their own sources of supply are examples of supply systems.

(b) *Product.* The firm must establish a position in the market, develop a dominant design, and secure superior product development personnel. Soybean powder without a beany taste and the brand name "Del Monte" (see section 4.2.1.1 (b)) are examples in this regard.

(c) *Production and manufacturing systems.* These systems develop superior production and operational processes (see chapter 2, section 2.2.2), expand capacity, and vertically integrate.

(d) *Customers.* The firm needs to train customers in usage skills, convince customers to make long-term commitments, and gain specialised knowledge about a customer set. HMR is an example of customers providing the basis for pre-emptive move (see section 4.2.1.1 (c) and chapter 2, section 2.2.5).

(e) *Distribution systems.* The firm must occupy prime locations and dominate key distribution channels. Various important factors should be considered in contemplating a pre-emptive move, such as:

- being first with innovation (eg, Denél with soybean powder without a "beany" taste)
- substantial commitment of resources is required, which may be risky
- whether competitors will find it difficult or impossible to imitate the pre-emptive move

The areas mentioned above that can provide a source of pre-emptive move correspond to the bases for creating SCA as illustrated in figure 3.3 (see chapter 3, section 3.3.2). The final option under the competitive strategies and decisions is "synergism" that is discussed in the next section.

4.2.1.5 Synergism

According to figure 4.3, the final option under the category competitive strategies and decisions is "synergism". Synergism is also considered a competitive decision rather than a competitive strategy (Van der Walt et al 1996:561). The principle of synergism is that the whole is greater than the sum of the parts. Different SBUs sharing corporate personnel, and research, development and financial resources may create synergy. Synergism could be a meaningful force in achieving competitive advantage. The advantages of synergy include

- increased customer value resulting in increased sales
- decreased operational costs through economies of scale
- reduced investment levels and higher productivity levels.

Synergy may be risky when a firm is unable to react speedily to changes because of shared equipment, key personnel or scare resources.

Tiger Brands, Kolosus, Rainbow, Delfood and I&J are examples of firms applying synergy as their respective interests are related. Tiger Brands acquired stakes in international firms, such as van Kamps (seafood) and ConAgra, who are involved in similar operations to gain access to international markets. Tiger Brands also acquired the remaining stake in its subsidiary ICS, a manufacturer of poultry and fishing products. With these acquisitions, Tiger Brands ensured synergy as the firms are involved in similar or related products. The ways in which the firms in question achieved synergy, as quoted in this paragraph, correspond to the bases for SCA, as illustrated in figure 3.3. The next category of strategic options is "investment strategies" that are discussed in the next section.

4.2.2 Growth and survival strategies (investment strategies)

According to figure 4.3, another category of strategic options is "investment strategies". According to figure 4.3, investment strategies represent options for growth and survival. Investment strategies represent top management decisions regarding the strategic options that should be applied in accordance with the life cycle of the industry, and/or the firm and/or the product and/or the market. Industries, firms, products and markets show a life cycle that consists of four stages namely introduction when the product is introduced for the first time to the market, growth when sales of the product/ service increase, maturity when sales stabilises and decline when sales decline (Van der Walt et al 1996:309 & 515-516). Survival and growth are two of the firm's objectives (see chapter 2, section 2.1). According to the information in chapter 1 (see section 1.2), the firm's decisions on investment strategies are the responsibility of the SBU and corporate level managers. Most firms can attain the objective of growth by applying one or more investment strategies. The investment strategies discussed here aim at growth and the development of sustainable competitive advantage. The growth and diversification options are discussed in the next section.

4.2.2.1 Growth and diversification strategies

The growth option is only one alternative to grow. Other options to grow, especially in declining markets, include maintaining the current position, harvesting a product for cash or withdrawing from a market altogether, with the view of making the capital available for investing in other profitable ventures. Growth is an important objective of the firm and can occur in several forms, such as an increase in market share, an increase in profit, and an increase in sales and/or personnel. In marketing, growth is generally expressed in terms of an increase in sales and an expansion of the market share, or maintaining its position in a rapidly expanding market (Strydom et al 2000:243). Various growth strategies are available to the firm, depending on its situation. Growth can occur in current products and markets or through the introduction of new products and the creation of new markets. The alternatives available include market penetration, product or market development and diversification. These options are briefly explained below.

(a) *Market penetration strategies.*

These strategies focus on current products and current markets. The firm endeavours to increase its sales through a more aggressive marketing strategy, for example by increasing its advertising expenditure and/or by reducing prices. This may involve offering discounts to customers and/or the use of improved marketing techniques to stimulate demand or encouraging customers to be brand loyal and to purchase more and to buy more regularly. The idea of market penetration is to increase the firm's market share. However, it may be difficult to maintain the share gained by special methods of encouraging consumers to buy, such as offering discounts. Other methods of increasing growth in existing markets include finding new applications for current products and increasing the volume consumed. All these methods rely on research to assist management in determining opportunities for growth. Market penetration strategies may be considered part of the functional level strategies and fall outside the scope of this study.

(b) *Product development strategies.*

These strategies focus on developing new products for current markets, such as the soy stew with the texture and flavour of real meat and HMR. To succeed, the firm should understand the needs of its target market(s) and wants to satisfy these needs fully. Product development strategies aim at increasing the firm's market share. However, it may be difficult to maintain the share gained. All these methods rely on research to assist management in determining opportunities for growth. Growth through product development can be achieved by innovation. The current product mix modified and extended and new products can be offered to current customers. The adoption of an innovation strategy may assist the firm to be first with a new development or a new product or with an unusual promotion campaign. The innovation strategy is linked to the pre-emptive move discussed earlier. Innovation is expensive and thus only firms who are financially sound will be in a position to use this option. New technologies may render existing products obsolete and generate sales from the firm's new products. The market leader should be aware of new technological developments in its field, if it is to maintain its position. Another method of achieving growth through product development is to add compatible products that provide the firm with synergism. This could be via distribution channels, marketing, brand name recognition, or image benefits. Product development strategies may be considered to be part of the functional level strategies and therefore fall outside the scope of this study.

(c) *Market development strategies.*

Market development strategies focus on the need to enter new markets with current products. As pointed out in chapter 1 (see section 1.2.3), it is the responsibility of the SBU level managers to take care of new markets. Market development can be accomplished either by identifying new customer groups or by geographic expansion, which may include global marketing. Market development can also be achieved through geographic expansion, although this may place a burden on the firm's resources and expertise. In the case of the firms in question, the following are examples of geographic expansion:

- Delfood bought a 50% stake in Siam Agro-Industry Pineapples and Others (*Citizen* 19/3/99), the leading pineapple exporter in Thailand (*Business Report* 24/11/98) to gain access to the EU market via the Lomé Convention (market development)
- I&J acquired Pillsbury frozen vegetable brands (*Business Report* 27/2/98) to gain access to the EU market (market development)
- I&J signed an export deal with Export Co-op Italia, a retail group, to export convenience seafood to this retail group (*Business Report* 18/8/98) (market development)
- I&J acquired stakes in Simplot of Australia (*Business Report* 21/8/98) (market development)

- I&J exported its first batch of cultured cocktail abalone to Japan (*Engineering News* 6/8/99) (market development)
- Kolosus was awarded an export contract for its tender meat to Switzerland and Austria (B*usiness Day* 1/12/99) (market development)
- Tiger Brands expanded to the Asian markets especially in edible oils in India and branded products in the Philippines, and it bought a 20% stake in the Chilean food company, Empress Carozzi (*Citizen* 27/11/98) to gain access to the Latin American food market (market development)
- Tiger Brands sought export opportunities to Africa, Asia and Latin America (*Business Day* 11/1/99) (market development)

According to the literature, a prerequisite for geographic expansion is that the current product should be acceptable in the new market. Considering an expansion programme necessitates and requires decisions on new products, distribution, marketing communication and pricing to suit the needs of the new market. Geographic expansion also entails the planning and implementation of competitive market strategies in the new market. The firms in question appear to meet all these requirements.

Another way of developing the market is by expanding into different market segments. Segmentation variables can be used to determine whether there is any segment with growth potential. This may involve considering variables such as usage, age, distribution channels as in the case of Spaza shops and product attributes required by the customers of these shops. Some of the requirements that need to be established before a firm decides to expand into new market segments include

- ensuring that the brand is already doing well in its original market
- the appraisal of a wide variety of segmentation variables before the final decision is made
- identifying segments that are not being served well
- targeting market segments where the product could have use and application
- ensuring that the products are adapted according to the requirements of the new market environment

(d) *Diversification strategies.*

Diversification strategies focus on ways of developing or acquiring new businesses and in so doing acquire or obtain access to new products and new markets (Aaker 1998:222). Growth through diversification can take two forms: related or unrelated diversification. Related diversification takes place when the firm diversifies into a new business that shares commonalties, which can lead to economies of scale or synergism. Related diversification includes

i. *Forward integration*: A manufacturer acquires its own distribution channels (eg, Tiger Brands owns "Spar" retail outlets ["Kwikspar" is a franchise, *Business Report* 2/2/99]).

ii. *Backward integration*: The manufacturer acquires its own sources of supply, (eg, Kolosus owns its own feedlots; Rainbow owns its own hatcheries that supply the processing plants; I&J catches it own fishes that are processed in its processing plants; Delfood owns its own plantations especially pineapple plantations).

iii. *Horizontal integration*: The firm acquires a rival to reinforce its position (eg, Tiger Brands acquired Epic Foods from Premier; the joint ventures between I&J and the Australian fishing firm Simplot, and Delfood and Nabisco).

Forward and backward integration are forms of vertical integration, which offer a number of advantages, including:

- economies of scale (eg, Rainbow that are involved from feed production to the distribution of processed poultry)
- access to outlets (Tiger Brands owns "Spar" retailers)
- secure supply (all of the firms in question to a greater or lesser degree supply their own raw materials)
- entering new business areas (I&J bought a pastry concern)

Vertical integration also has certain disadvantages, including:

- increased costs which may outweigh the advantage of integration
- lack of essential management skills
- less flexibility in terms of suppliers and outlets
- easing of cost pressures resulting in uncompetitiveness

All these advantages could constitute a basis for competitive advantage that can be maintained.

A requirement for successful related diversification is that one of the businesses must have transferable skills or resources. These skills or resources may be a brand name, a marketing skill, a unit's distribution or production capacity, an innovative product or a unit's research and development capability. In most of the examples cited, distribution systems (ie, access to especially the European market) appeared to be the major attraction for the integration. The requirements for successful integration correspond to the bases for competitive advantage (see section 3.3.4).

Unrelated diversification means expansion into an unconnected field (Aaker 1998:229). Unrelated diversification is the most risky method of expansion because the firm finds itself in an unfamiliar field. However, successful unrelated diversification offers big profit potential.

Related and unrelated diversification generally take place through acquisition. The advantages of an acquisition (take-over) include

- It takes less time than internal development and thus the advantage over competitors is achieved more quickly or more immediately.
- The take-over firm acquires access to the take-over candidate's resources and skills that can assist in sustaining an advantage over rivals.
- Financing in the form of a share transfer is relatively easy to effect and less costly than other financing costs, such as a bank loan.

However, the take-over firm must be prepared to accept certain weaknesses in the take-over candidate, for example inadequate distribution structure, inadequate production facilities or poor management. An acquisition may have the following disadvantages:

- incurring high costs (eg, by borrowing money to finance the transaction)

- financial burden (resulting from borrowed funds)
- integrating the two firms (especially culture, management style) may be difficult (this was demonstrated by Delfood who was taken over by CiroSpa)

The disadvantages may off-set the advantages of the take-over, which may result in the anticipated competitive advantage not realising.

Examples of acquisitions for the firms under investigation include

- Delfood acquired a stake in Pacific Resources (*Business Day* 1/7/96)
- Delfood and Nabisco acquired Confruit in Italy and increased shares in Delmonte Pacific from 35% to 50% (*F&T Weekly* 25/7/97)
- Oceana acquired Federal Marine (*Business Day* 7/2/97)
- I&J acquired the Pillsbury Brands (*Business Report* 5/12/97)
- Tiger Brands bought a 50% stake in ConAgra (*Rapport* 5/5/96)
- Tiger Brands acquired a stake in van Kamps, the US market leader in branded frozen seafood (*Business Day* 11/12/96)
- Tiger Brands and ConAgra acquired the majority stake in ITC Agro-Tech (*Business Day* 23/10/98), a manufacturer of edible oils, to gain access to the Indian market
- Tiger Brands acquired the remaining stake in ICS (*Business Day* 12/6/98)
- Tiger Brands increased its holding in Langeberg from 65% to 81% (*Citizen* 26/11/98)

All the acquisitions in the international arena are aimed at achieving growth as the South African market is limited, while the domestic acquisitions probably aim at economies of scale.

Apart from growing by expanding the business, growth can be achieved in declining markets by employing survival strategies. In addition to take-overs by competitors, product or market development, the firm can implement a maintenance, a holding strategy, a harvest strategy and a withdrawal strategy, take steps to revitalise the industry, or be the profitable survivor. The maintenance option is discussed in the next section.

4.2.2.2 Holding or maintaining strategy

One of the survival options available to a firm is the holding or maintaining strategy (see figure 4.3). Survival strategies aim at ensuring the firm's existence in the face of possible demise. A holding or maintaining strategy entails spending sufficient funds to retain production facilities and ensure product quality and consumer loyalty in the face of a declining market (Van der Walt et al 1996:556). The firm's image should be protected until new growth possibilities arise. A hold strategy is appropriate when the industry is declining in an orderly fashion, there are pockets of consistent demand, there is no onerous pressure on price and the business is still contributing to the performance of other business units in the firm. The risk of a holding strategy is that the firm can continue to maintain the status quo for too long and thus miss other opportunities. The holding strategy may thus be considered an interim strategy, until new opportunities are clear or when further decline in the market is inevitable, when other alternatives should then be pursued. The firms under review employed the following holding or maintaining strategies between 1996 and 1999 in an effort to save costs and maintain their position in the market (in view of difficulties)

- Delfood employed a maintenance strategy which entailed the downsizing of its canning operations in order to increase efficiencies (*Business Day* 30/3/98) and to recover the market share it was losing through a lower demand for canned fruit
- I&J shifted its focus from fishing to the manufacture of value-added products (*Financial Mail* 11/10/96) to improve performance
- I&J invested R45 million in new plant and equipment (*Cape Argus* 1/10/98) to improve performance
- I&J bought a Spanish trawler capable of making a seven-day trip (*E P Herald* 26/7/99), to reduce costs and improve efficiencies
- Tiger Brands rationalised its fruit plants in Paarl and Ashton and its staples operations (*Business Report* 10/9/97). This move was made due to the lower demand for canned fruit, especially in Europe, Tiger Brands had to act to save its position in view of declining demand (see chapter 2, section 2.2.6)
- Tiger Brands reduced its shareholding in Oceana from 70% to 50% (*Enterprise* 2000) in view of the uncertainties of the fishing quotas
- Kolosus sold its interest in Meatcor Pietersburg (*Sake-Beeld* 7/7/99) to improve performance

The above examples are deemed examples of maintenance strategies as the industry is considered to decline in an orderly fashion and pockets of consistent demand are still available and the business was still contributing to the performance of other business units in the firm.

The maintaining strategy may also manifest in a "turnaround" strategy. The turnaround option, as such, is not discussed in the textbooks consulted. However, after studying several newspaper reports it became clear that this option is available to firms, especially those who perform undesirably in view of a lucrative market, such as, poultry firms. A turnaround strategy aims at reversing a negative trend, especially declining profit and market share. The reversal of the negative trend is achieved either by "re-engineering" or "restructure"[3]. Re-engineering and/or restructuring may include unbundling (selling of noncore activities). It would appear that the terms "re-engineering" and "restructuring" are used to describe similar concepts. Re-engineering or restructuring entails designing a process anew to take advantage of opportunities. As such, it coincides with "business process re-engineering" which Hammer (in Mullin 1996:11) defines as the redesign of business processes for dramatic improvement. Business re-engineering is generally discussed under management tools and techniques, but for the purposes of this study, it is deemed to be a strategy as it aims at achieving growth.

Generally, the re-engineering of processes includes the redesign of work, which ensures that more authority is put into the hands of the employee performing the work. Thus decision making is devolved to the point where the work is performed. This principle is in accordance with the principles of the new economy. The important thing about change in a process is that one should know the process to improve it and to control and maintain the improvement. By maintaining the improvement, the firm is able to take advantage of opportunities. Rainbow is an example of this. Rainbow's results were dismal for a few years despite the fact that since 1997 the poultry industry was the largest in terms of value

[3] Restructuring may include unbundling as described in chapter 1, section 1.2.3.

of production. Rainbow's results improved as a result of its re-engineering effort (also see chapter 1, table 1.12). Table 4.1 below depicts Rainbow's turnover and the size of the South African poultry industry, in terms of value of production.

Table 4.1 Rainbow's turnover and the size of the South African poultry industry, in terms of value of production

Indicator/Year	1996	1997	% growth	1998	% growth	1999	% growth
Value (R'000) of poultry production	R5 439 846	R6 088 437	12	R6 087 400	(2)	R6 112 103	4
Rainbow: Turnover (R'000)	R2 150 300	R2 082 300	(3)	R2 143 000	3	R2 150 300	3

Source: *Abstract of Agricultural Statistics 2000 published by the* NDA and chapter 1 section 1.2.1.5

Table 4.1 indicates that Rainbow's re-engineering efforts paid off as its turnover in 1999 was restored to the same levels as 1996. Furthermore, Rainbow's turnover increased 3 % between 1997 and 1998, while the value of production decreased by 2 %. Rainbow's turnover increased by 3 % between 1998 and 199 while the value of production increased by 4 %. Examples of Rainbow's re-engineering efforts include

- Rainbow introduced a turnaround strategy by unbundling its businesses (*Financial Mail* 3/10/97)
- Huntcor was liquidated in an effort to save Rainbow (*Finance Week* 20/11/97) and to protect HLH, a move merely to reshuffle shareholding to enable Rembrandt to control Rainbow directly
- Rainbow restructured its operations into four regional SBUs (*Business Day* 23/7/96) to be more effective

- Rainbow closed loss-making processing facilities in Hammersdale and Ladysmith (*Business Report* 17/2/97) to improve its beleaguered performance
- Rainbow introduced best practices in farming operations (*Business Report* 15/7/97) to achieve efficiencies
- Rainbow employed a turnaround strategy entailing the closing of smaller farms and processing plants (*Business Day* 14/11/97)
- Rainbow introduced a flatter management structure by introducing work teams that are headed by a team member rather than a manager (*Finance Week* 30/7/98)
- Rainbow focused on cash management (*Business Report* 16/11/98)
- Rainbow introduced customer-focused businesses and a performance measurement system consisting of 12 variables to be monitored daily and 74 variables to be monitored weekly (*Financial Mail* 20/11/98)
- Turnaround strategy involves outsourcing, delayering of management hierarchies, empowering employees and rationalising operations (*Financial Mail* 21/5/99)

According to Rainbow's financial results (*Business Day* 12/5/99), these steps paid off as Rainbow's profit situation improved.

Rainbow is not the only firm that employed a turnaround strategy in the period under review. Tiger Brands, especially in its poultry division, also employed a turnaround strategy; for example restructured its poultry operations (*Business Day* 20/11/96).

Kolosus also employed turnaround strategies to improve its performance in view of a growing red meat industry. The production value of red meat in South Africa amounted to R4 548,3 million, R4 196,8 million, R4 895,2 million and R5 335,6 million in 1996, 1997, 1998 and 1999, respectively (*Abstract of Agricultural Statistics*, 1998 and *Agricultural Digest of South Africa 2000/2001*). Kolosus's restructuring efforts included:

- Kolosus embarked on a restructuring effort that would cost R28,2 million (*Business Day* 5/8/96); however, no details were disclosed about the restructure effort
- Kolosus suffered a loss of R29,2 million due to the closing of plants (*F&T Weekly* 9/8/96)
- Kolosus closed its Vanderbijl Park plant (*Finance Week* 3/7/97) in order to increase efficiencies in view of the deregulation of the agricultural sector and increased competition in specifically the red meat industry
- Kolosus abattoirs merged with agricultural co-operatives abattoirs in De Aar (*Business Day* 2/6/97)
- Kolosus took steps to reduce costs, such as divesting from businesses unable to render the required returns (*Business Report* 28/10/98), to improve performance
- Kolosus introduced measures to improve performance, such as the reduction of working capital, cash management, cost controls, the repositioning of its meat interests and withdrawing from markets where margins are low (*Business Report* 25/8/99)
- Kolosus closed facilities with little or no profit prospects (*Finance Week* 12/2/99)
- Kolosus regrouped its fresh meat interests as SAMS (*Business Report* 9/1/99)

These restructuring efforts of the firms in question were continuous and not only once-off efforts and thus deemed a strategy rather than a management tool or technique applied. If the turnaround strategy is compared to other strategies (eg, divesting), it is clear that there is a measure of correspondence between the various options. In the cases of maintenance strategies discussed in this section, the bases for SCA appear to be economies of scale, among others. As such the bases for SCA correspond to that illustrated in figure 3.3. Another way of achieving growth in declining markets is to employ a harvesting strategy as discussed in the next section.

4.2.2.3 Harvesting strategy

According to figure 4.3, another survival strategy open to a firm is harvesting, which is the next strategy that can be followed after a maintaining one. The aim of a harvesting strategy is also to enable the firm to survive by bringing in cash as quickly as possible. All additional or further investment in the product is terminated. The cash generated by the product is invested elsewhere and the product is allowed to die a slow death. The consequences of a harvesting strategy include dampening management's confidence, morale and enthusiasm, while competition possibly intensify, thereby forcing the firm to withdraw the product. Harvesting is suitable for a firm with a relatively strong position in a market and a measure of customer loyalty that is likely to continue even after marketing support is reduced. The strategy can also be employed when the market declines at a relatively slow and consistent pace, and in markets that are not too competitive. Efficient competitors will still be able to enjoy reasonable profit margins. The following were among the harvesting strategies employed by the firms under investigation:

- Langeberg closed its Mossel Bay plant to improve competitiveness (*Business Day* 11/11/96). This move was due to lower consumer demand for canned fruit. Langeberg was eventually delisted from the JSE therefore the closing of its canning plants was part of its effort to survive in a tough market, especially the EU market that no longer supports canned fruit but rather fresh counterparts.

- I&J sold a 20% stake to three Black empowerment groups (*Business Report* 4/9/98) because of uncertain fishing quotas (especially hake, its major product).
- Tiger Brands sold part of Sea Harvest to Brimstone, an empowerment group (*Business Report* 2/6/98), because of uncertain fishing quotas.

The bases for harvesting as described in this section, such as patterns of ownership and customer base, correspond to those illustrated in figure 3.3. Some of the harvesting strategies described above were the forerunners to withdrawal strategies eventually applied by the firms in question. Withdrawal strategies are discussed in the next section.

4.2.2.4 Withdrawal (divestment) strategy

According to figure 4.3, the final investment strategy available to a firm is divestment or withdrawal from a market. If a harvesting strategy does not help the firm to survive in the face of declining demand, the final step is to withdraw or divest. A withdrawal strategy should be followed when cash flow dries up and the firm starts showing losses, especially when a dominant competitor forces prices down and only a few consumers remain loyal to the firm's brand. There are several difficulties in a withdrawal decision, such as

- Production facilities and equipment may be so specialised that they cannot be used for something else.
- The firm may be committed to long-term contracts that are difficult to break.
- Withdrawal may harm the reputation of the firm.
- Withdrawal may affect management pride and the firms' image detrimentally.

Reasons for withdrawal include

- There is no longer a strategic connection between the core business and the part to be withdrawn.
- The firm experiences a permanent decline resulting in overcapacity for which no profitable alternative can be identified.
- There may be inadequate capital to support the natural growth and development of the firm.
- Some legal requirement may stipulate the withdrawal of the business.
- Selling a part of the business may release funds that can be used in other parts of the business.
- Withdrawal can improve the return on investment and growth rate by relieving the firm of units that are growing more slowly than others. In pursuing a withdrawal strategy cash becomes available to be invested in faster growing higher return operations. These reasons are clearly demonstrated in the examples cited below.

The firms under investigation employed the following withdrawal strategies:

- Tiger Brands withdrew from its international venture with Dahlgren sunflower seed processing operations (*Financial Mail* 9/1/98) as this venture was not profitable.
- Tiger Brands sold its 50% stake in Bull Brand to Kolosus (*Beeld* 6/5/99).
- Tiger Brands sold its ICS red meat business (*Business Times* 13/6/99) - withdrawing from fresh meat.
- Tiger Brands sold its stake in Fedics, a catering business (Business Report 1/4/99).
- Tiger Brands sold its stake in Aurora recently acquired (*Business Report* 19/8/99).

- Tiger Brands sold Island View Shipping (*Business Report* 19/10/99).
- Tiger Brands divested from non-core[4] activities, such as Logos-Agvet, fresh meat and its stake in continental oil (*Business Day* 11/11/99).
- Langeberg (part of Tiger Brands) closed deciduous fruit processing plants in Paarl and focused on Asian rather than European markets (*Financial Mail* 16/1/98) due to the changing consumer demand in Europe.
- Kolosus closed several leather processing plants (*F&T Weekly* 9/8/96) to focus on proteins and improve performance.
- Kolosus divested its share in County Bird (*Financial Mail* 10/4/98) as it was no longer considered part of its core business.
- Delfood sold its Té Ati and Montana interests to Unilever (*Business Day* 30/10/97) as it no longer fitted with its core business.
- Delfood sold non-core businesses at £25 million (*Business Report* 30/3/99).
- Rainbow outsourced its transport business (*Citizen* 3/6/99) as it was no longer considered part of Rainbow's core business.

In most of the above cases the withdrawal was effected because there was no longer a strategic connection between the core business and the part to be withdrawn. The selling of non-core parts of the business released funds that could be used in other parts of the businesses in question.

Choosing a strategy to follow in a declining market depends on a number of factors, which should be carefully considered, including

[4] The selling of non-core activities may also form part of unbundling as described in chapter 1.

- an analysis of market prospects – for example, changing demand that significantly affected the canned fruit producers/exporters
- level of competition – for example, Kolosus closed its Vanderbijl Park plant (*Finance Week* 3/7/97) in order to increase efficiencies in view of the deregulation of the agricultural sector and increased competition in specifically the red meat industry (see for example table 2.1 the WTO obligations of South Africa)
- business position – especially profit (see tables 2.22 to 2.26 for the financial ratios of these firms compared to the industry)
- relation of the business to other parts of the firm
- exit barriers – the relative ease with which a firm can leave the industry (see chapter 2, section 2.3.1)

Revitalising a declining industry is one of the alternatives available to a firm instead of withdrawing. If a firm follows this alternative, it means that all the existing market participants have not fully exploited the market's potential. Various methods are available to revitalise the industry, including

- moving into new market areas that have a growth potential, eg Asia and UAE (see chapter 2, section 2.2.6)
- creating a new product which renders all existing products obsolete and speeds up the replacement cycle, eg sausage with barrier film (see chapter 2, section 2.2.2)
- finding a new application for the product
- employing a new marketing approach that appeals to the market in a new way

- government actions, such as the promulgation of new legislation.

Being a profitable survivor in a declining market could be another alternative to consider rather than withdrawing. A market leader with a sustainable competitive advantage active in a declining industry can invest in such a way that it establishes itself as an industry leader for the remainder of the market's life cycle. This position can be achieved at relatively low cost as other rivals may very well be harvesting their business or preparing to withdraw. The key to success is to encourage competitors to leave the industry. This can be achieved by one of the following actions:

- the firm being visibly committed to becoming the leading survivor
- raising competitor costs through price reductions or increased promotions
- introducing line extensions aimed at remaining pockets of demand to make it difficult for rivals to find a profitable market niche, eg the iron and zinc enriched fish fingers and cakes
- reducing exit barriers by assuming long-term contracts or supplying competition with the product
- creating a dominant national brand in a declining, fragmented industry
- buying a competitor's operation or market share, eg Tiger Brands that bought Epic Oil from Premier.

Investment strategies can also be combined with marketing warfare strategies that are discussed in the next section.

4.2.3 Marketing warfare

Marketing warfare can be seen as "war" between firms in the provision of a product or service in order to win considerable advantage. According to figure 4.3, the final category of options available to the firm is marketing warfare strategies. Marketing warfare strategies can be classified as offensive (attacking) or defensive (protecting). Competitive advantage is usually obtained by implementing an offensive strategy that cannot easily be countered by competitors. The offensive strategy consist of three phases, namely

(1) build-up

(2) benefit

(3) erosion.

Competitive advantage is built in the build-up phase. This should be as quick as possible to prevent competitors noticing and responding to the firm's move. The benefit of competitive advantage is realised in the benefit period. The length of the benefit period depends on how long it takes the competition to launch counteractions. The erosion period begins when the rivals launch counter-attacks. There are six basic ways to mount offensive strategies:

- attacks on competitor strengths
- attacks on competitors weaknesses
- simultaneous attacks on many fronts
- end-run offensives
- guerrilla offensives
- pre-emptive strikes.

Attacks on competitor strengths hold that a competitor's strengths can only successfully be attacked if the aggressor has either a cost advantage or greater financial strength. There are two reasons to go head-on against competitors:

- to gain market share by overpowering rivals, especially challenging weaker rivals where they are strongest and, in so doing, obtain an edge over them
- to whittle away at a strong competitor's competitive advantage and thus narrow the gap.

Attacks on competitors' weaknesses means the rivals are challenged where they are most vulnerable, and thus the attacker is likely to succeed rather than by challenging competitors' strengths, especially if the aggressor has advantages in the areas where the rivals are weak. Several weaknesses can prove productive to challenge, for instance:

- geographic areas where a rival has a weak market share
- segments that a rival is neglecting or is weakly equipped to serve
- rivals that lack quality, features or product performance
- rivals that lack servicing customers properly
- weak advertising and brand loyalty.

Simultaneous attacks on many fronts mean that the firm challenges a rival on many fronts; for example, price-cutting, introducing new features that appeal to a rival's customers, new models that match those of rivals' to throw them off balance and, in so doing, distract their attention and force them into channelling their resources to protect all sides simultaneously. The simultaneous attack on many fronts can only succeed when the challenger has superior resources and thus overpowers the rival by outspending the rival across the board long enough to buy its own way into a position of leadership and competitive advantage.

End-run offensives mean that the firm evades head-on confrontations and rather concentrates on innovative product attributes, technological advances (see chapter 2, section 2.2.2) and early entry into less contested geographic areas.

Guerrilla offensives use the principle of "hit-and-run", selectively attacking when and where a situation can temporarily be exploited to the firm's advantage. Guerrilla offensives are particularly well suited for small challengers who have neither the resources nor the market visibility to mount a full-fledged attack on rivals. There are several ways to carry on a guerrilla attack, including

- attack a narrow, well-defined segment that is weakly defended by the rival
- attack areas where the rivals are overextended and have spread their resources thinly
- make small, scattered, random attacks on leaders with such tactics as occasional price slashing and intense promotional activity.

Pre-emptive strikes correspond to the pre-emptive move discussed in section 4.2.1.4.

Defensive strategies are used mostly to protect competitive advantage and strengthen the firm's position in the market. The purpose of defensive strategies is to lower the risk of being attacked by rivals, weaken the impact of rival attacks and influence challengers to aim their efforts at other rivals. There are a number of basic ways for a firm to protect its competitive position, including

- broadening the product line
- introducing models or brands that match the characteristics of challengers
- keep prices low on models that closely match those of competitors
- reducing delivery times
- patenting technologies
- avoiding suppliers that also serve rivals.

Defensive strategies not only strengthen the firm's position, but also provide the challenger with a moving target. A good defensive strategy entails adjusting quickly to changing circumstances and occasionally being a first mover to block pre-emptive moves from rivals. Another way of contemplating a defensive strategy is to indicate to challengers that any aggressive attack will be met with strong retaliatory counter-measures. In so doing, challengers are discouraged from attacking or diverted to options less threatening to the defender.

As far as could be established from newspaper, magazine and annual reports, the firms under investigation only employed the pre-emptive move as warfare as a market strategy in the period 1996 to 1999.

4.3 MATCHING THE STRATEGY TO THE FIRM'S SITUATION

According to Thompson and Strickland (1998:174-209) and others, the firm must also choose the strategy that fits its situation in terms of:

- the nature of the industry and competitive circumstances and
- the firm's assets/resources, skills/capabilities and opportunities.

The market strategy selected hinges on the industry's "configuration"; for example whether the industry is emerging, growing, mature, or declining, fragmented or concentrated, and whether the firm is a leader, a challenger or an also run firm. Thompson and Strickland (1998:174-209) discuss these configurations at length. In summary, it is evident from the discussion that low cost or differentiation strategies can be employed in the case of emerging industries. Low cost, market penetration, innovation and take-overs are used in the case of maturing industries. Focus or differentiation strategies are applied in the case of mature and declining industries and low cost, differentiation or focus in the case of fragmented and international markets. Marketing warfare can be used in the case of industry leaders, runner-up firms and weak or crisis-ridden firms.

For the purposes of this study, the mature industry is further highlighted, as this configuration is deemed relevant to this study. According to Thompson and Strickland firms in a mature industry can initiate a variety of moves to reinforce their position, such as

- process re-engineering (see section 4.2.2.2) to improve costs, quality and delivery times
- focusing stronger on cost reductions (see section 4.2.1.2)
- expanding internationally (see section 4.2.2.1) to grow.

However, Thompson and Strickland also point out that strategic pitfalls should be avoided. They maintain that firms in a mature industry commonly make the mistake of employing a focus, low cost, and differentiation strategy simultaneously. It was shown in the preceding paragraphs that some of the firms under investigation employ a combination of these strategies. These compromising strategies often result in the firm getting "stuck in the middle" (Thompson & Strickland 1998:181), meaning that their performance is mediocre rather than exemplary. Thompson and Strickland further continue to point out other pitfalls, inter alia

- being slow to modify existing competencies and capabilities to changing customer expectations,
- getting caught with too much capacity as growth slows (see chapter 2, section 2.2.4),
- failing to pursue sufficient cost reductions and
- concentrating on short-term profitability rather than long-term competitive position.

Thus the industry configuration restricts the strategic options that the firms can or should employ to be successful in the marketplace. These strategic options correspond to those depicted in figure 4.3. Each firm, and those under investigation in particular, should thus consider the industry configuration in the application of their market strategies.

4.4 SUMMARY

This chapter described various strategic options to achieve and maintain competitive advantage. These strategies contribute to the way in which the firm competes and should be suitable for the specific phase of the life cycle of the industry/firm/product/market. The discussion shows that these strategies are used in combination; for example, Langeberg's moving of its asparagus plant to Lesotho constitutes both a competitive and an investment strategy. This strategy could be considered a low cost and pre-emptive move (competitive strategies and decisions) as well as a survival strategy (investment strategy). It would appear to be easier to spot a growth strategy and a survival strategy, than to correctly classify a survival strategy especially such as a maintenance or harvesting strategy. It is also clear from the discussion that these strategies could also be applied to match different situations, such as emerging industries, transition to maturity, mature or declining industries, fragmented industries, international markets, industry leaders, runner-up firms, weak and crisis-ridden firms. Specific attention was given to the mature industry, which is deemed relevant to this study. Of particular note is that most of the firms in question appear to have applied compromising strategies, specifically differentiation and low cost, that might have contributed to mediocre performance (see tables 2.22 to 2.26 – none of them achieved above industry average profits throughout the period under review).

All the market strategies discussed in this chapter require the support of the functional departments in the firm. Marketing alone cannot plan and implement the strategies. It is interesting to note from the discussion that the firms in question employed all the strategic options extensively, except marketing warfare (only pre-emptive move seemed to be used). Furthermore, the firms employed a combination of the strategies and the strategies seem to be interwoven. The different strategies applied by the firms achieved different degrees of success over the period (some paid off more quickly than others). The strategies applied by the firms in question generally seem to have paid off (if one looks at the results of the firms in question as set out in chapter 1, table 1.12); especially the turnaround strategies applied by Rainbow and Kolosus and the survival strategies applied by all the firms in question. Chapter 5 covers the research process, while chapter 6 covers the results where it establishes whether the strategies applied were, in fact, what they appear to be, as described in this chapter, ie, focus, low cost, differentiation, synergy, first move, growth, maintenance, harvesting and divesting.

CHAPTER 5

THE RESEARCH PROCESS

5.1 INTRODUCTION

This chapter discusses the research process followed in an endeavour to find answers to the problem statement in chapter 1. The concept "research" refers to the process in which scientific methods are used to expand (scientific) knowledge in a particular field of study (Welman & Kruger 1999:2-5). According to Welman and Kruger, scientific knowledge has three core features:

- It is obtained in a systematic manner, that is, methodically rather than selectively or haphazardly.
- It is obtained in a controlled manner, which means all other possible explanations are invalidated or refuted.
- It is replicable. In other words, comparable results should be obtained if the study is employed by another researcher using other participants in other circumstances, compatible with the same theoretical background.

Mouton (1996:7) defines research in the social sciences as a collaborative human activity in which a social reality (phenomenon/event/behaviour) is studied objectively with the aim of gaining a valid understanding thereof. According to Mouton (1996:7/8), this definition covers five dimensions of research, namely:

- *Sociological*: Scientific research is a joint or collaborative activity involving human activity.
- *Ontological*: Scientific research is directed at an aspect of social reality; in other words, an object or domain is studied.

- *Teleological*: Scientific research is intentional or goal directed with the primary aim of understanding.
- *Epistemological*: Scientific research provides a valid and reliable understanding.
- *Methodological*: The ways in which scientific research are conducted are regarded as objective by virtue of being critical, balanced, unbiased, systematic and controllable.

The definitions of research (generic research) and research in the social sciences embody the same notion, namely scientific research aims at gaining knowledge that meets the criteria of being scientific, with a view to gain a valid understanding of the phenomenon studied. The scientific nature of the knowledge, in turn, is determined by the validity and credibility (reliability) of the research results (Mouton 1996:4). Validity refers to the soundness of the study while credibility (or reliability) refers to the trustworthiness of the study. In this study, the above five dimensions of research in the social sciences were used as a guide to ensure its scientific nature. In each of these dimensions there are generally factors present that may threaten the reliability and validity of the research findings. However, if these factors are checked the reliability and validity are enhanced. In this study, the factors in the dimensions that could have threatened its reliability and validity were taken into consideration throughout to enhance the reliability and validity.

Validity and reliability of research results can be improved by the methodology employed to gain scientific knowledge (Mouton 1996:16). Sellitz et al (in Mouton & Marais 1994:32) define methodology as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Methodology distinguishes between two approaches, namely quantitative and qualitative (Welman & Kruger 1999, Malhotra, 1996, Mouton & Marais, 1994, and Zikmund 1994), as summarised in table 5.1.

Table 5.1 Approaches to research

Dimension	Qualitative research	Quantitative research
Objective	Gain a qualitative understanding of the phenomenon studied	Quantify data to generalise
Sample	Small number, non-representative	Large number, representative of population
Data collection	Unstructured	Structured
Data analysis	Non-statistical	Statistical
Outcome	Develop an initial understanding	Recommend a final course of action

Source: Malhotra (1996:164)

According to table 5.1, the two approaches to research differ significantly. The prominent indication from table 5.1 is that qualitative research findings cannot be generalised to the population, which means that the external validity (see section 5.3) of the research findings is at threat. The approach to research impacts on the research design and specifically the sample, the method of data collection and the analysis of the data, which, in turn, impacts on the validity and reliability of research findings.

The approach and the stages in the research process are interwoven and cannot be viewed in isolation. The nature of the problem and specifically the problem formulation specifies which approach is suitable for the problem at hand. Methodology uses a specific plan to check and balance validity by means of the research design. The aim of the research design is to plan and structure a given research project so as to maximise the eventual validity of the research findings (Mouton & Marais 1994:35). The research design requires decisions during the different stages of the research process, namely the problem formulation, the research design, conceptualisation and operationalisation, data analysis and interpretation. This chapter focuses on the approaches to the research process as well as the first three stages of research process in the context of this study. Chapter 6 covers the final stage of the research process, namely data analysis and interpretation. The next section focuses on the stages in the research process.

5.2 THE STAGES IN THE RESEARCH PROCESS

The research process consists of various stages, namely problem formulation, research design, conceptualisation (see chapters 1 to 4) and operationalisation and finally the analysis and interpretation of the data collected. Each of these stages impacts on the validity and reliability (credibility) of the research findings. This section describes the following stages of the research process:

(1) problem formulation

(2) research design

(3) operationalisation.

Each of these stages is discussed in this section in relation to this study, while analysis and interpretation are covered in chapter 6.

5.2.1 Problem formulation

According to Welman and Kruger (1999:12), the research problem refers to some difficulty which the researcher experiences in the context of either a theoretical or a practical situation to which (s)he wants to obtain a solution. The problem formulation stage of the research project is the most critical of all the stages in the research process as it "sets the scene" for the research project. The problem formulation specifies the scope of the research project as well as the approach most suitable to deal with the problem. The problem formulation, as such, impacts on the validity and reliability of the research findings. In formulating the research problem, a number of factors that impact on the validity and reliability of the findings should be taken into account, including

- the motivation for the study
- the unit of analysis and the time of the study
- the goal of the research
- the strategy of the study.

Each of these factors is briefly examined in the ensuing paragraphs in the context of this study.

5.2.1.1 Motivation for the study

Research problems originate from different sources, notably, practical problems, previous research and/or theories, which generally serve as motivation for a study. In the case of this study the primary motivation for the study arose from a theory, specifically about market strategy. According to Kerlinger (in Mouton & Marais 1994:142), a theory is a set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of phenomena by specifying relationships between variables, for the purpose of explaining and predicting the phenomena. A construct (concept) is the most elementary symbolic construction by means of which people classify or categorise reality (phenomenon/events/behaviour) (Mouton & Marais 1994:126-131). Mouton and Marais also maintain that definitions are statements which specify the meaning of concepts. They go on to define statements as sentences that make a specific knowledge claim concerning an aspect of reality (phenomenon/event/behaviour). In the case of this study, the researcher observed that the selected firms seem to apply market strategy, but the degree of success they achieved varied (see chapter 1, table 1.12). The question that arose in this case was whether or not the market strategy applied by the firms in question corresponds to the principles of a sound market strategy as put forward by leading authors in the field, such as Aaker (1998), Thompson and Strickland (1998) and Van der Walt et al (1996). This question led to the formulation of the problem, namely:

> To what extent do the market strategies applied by the selected (larger) JSE-listed South African companies manufacturing food (major group meat, fish, fruit, vegetables, oils and fats) in 1996 to 1999 comply with the principles of a sound market strategy as put forward by leading authors such as Aaker (1998), Thompson and Strickland (1998) and Van der Walt (1996) (See chapter 1, section 1.3.).

The problem formulation, as such, indicates the unit of analysis, the goals of the study and the strategy employed in the study.

5.2.1.2 Unit of analysis and time

According to the problem formulation, the unit of analysis is the (selected) larger companies listed on the JSE food sector in the period 1996 to 1999 manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats. Market strategy, theoretically, forms part of "business policy" and the senior managers in the respective firms were therefore the primary source of information. The data collected is historical as it relates to market strategy applied in the period 1996 to 1999. However, the data was only collected from October 2000 to June 2001. The unit of analysis poses threats to validity and, specifically, the "ecological fallacy" and "reductionistic tendencies". Ecological fallacy refers to arriving at conclusions about groups when the subjects of the study were individuals and vice versa. Reductionistic tendencies refer to the situation where the researcher tends to consider and present only those explanations and interpretations, which are embedded in discipline-specific variables (Mouton & Marais 1994:42).

5.2.1.3 Research goal of this study

Research goals provide a broad indication of what researchers wish to achieve; for example, describe, explain, predict, explore or evaluate. *Describe* means to give an outline of the nature of the phenomenon studied. *Explain* means to show why the phenomenon studied is the way it is and indicate the cause and effect relationships. *Predict* means to forecast an outcome of a phenomenon studied. *Explore* means to search or examine whether a phenomenon exists to become familiar with the phenomenon. *Evaluate* means to judge or assess the phenomenon studied.

The research goal of this study, according to the problem formulation, was first to establish whether or not the phenomenon "market strategy" existed in the selected firms studied and secondly, if it did exist, whether or not it complied with the principles of a sound market strategy as put forward in the literature, especially Aaker (1995 and 1998), Thompson and Strickland (1998) and Van der Walt (1996). Thus the goal of this study was mainly exploratory as it examined and, to some extent, descriptive as it described the market strategies applied by the selected firms. This study can thus be seen as exploratory-descriptive. The goal of this study necessitated a qualitative approach to the problem studied.

5.2.1.4 Research strategy

The research strategy employed refers to the emphasis on either general interest or contextual interest. General interest refers to broad strategies by means of which it would be possible to search for generally valid laws of science, which form the basis of actions or behaviour (of the population studied). Contextual interest refers to strategies that pay specific attention to the single unique event or phenomenon studied (Mouton & Marais 1994:49) (that cannot be generalised to the population studied). Research in which general interest is emphasised would meet the criteria of internal and external validity. Research in which contextual interest is emphasised would only be internally valid. This means contextual interest studies cannot be generalised to the population which is studied and, as such, are only valid for the specific project. Findings of general interest studies can be projected to the population and, as such, have greater validity than the mere project. This study therefore emphasised a contextual interest.

Internal and external validity of research findings should be considered during the various stages in the research project as each stage present factors that may impact thereon. The stages in the research process and the considerations of validity are summarised in table 5.2 below.

Table 5.2 Stages in the research process and considerations of validity

Stage in research process	Consideration of validity
Internal validity	
Conceptualisation	Theoretical validity
Operationalisation	Measurement validity
Data collection	Reliability
Data analysis	Inferential validity
External validity	
Are the research findings of the project generalisable to the defined population?	

Source: Mouton and Marais (1994:51)

The problem formulation stage of research deals with the ontological and teleological dimensions (see section 5.1) of research. The solution to the factors that may threaten the validity of the research findings present in these dimensions is to be aware of the unit of analysis and critical limitations of the scope of the research project.

The problem formulation dictates a qualitative approach that is exploratory in nature.

The problem formulation is of paramount importance as it culminates in the question of what the criteria of validity are. In order to maxismise validity of the findings, a specific research design was employed. The research design is discussed in the next section.

5.2.2 Research design

Both the approach to the research project and the problem formulation have a direct impact on the research design. Sellitz et al (in Mouton & Marais 1994:32) define research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The research design thus attempts to adjust the research goal with the practical considerations and limitations of the project to prevent inaccuracies and increase the validity and reliability of the study in view of the approach to the study. The research design specifies the framework details for conducting the research, including the information required, the measurement procedures, questionnaire and data collection, sample and analysis of the data, each of which is discussed in this section.

5.2.2.1 Categories or types of research designs

Research designs are generally classified into one or more of three categories, namely (1) exploratory, (2) descriptive and (3) explanatory or conclusive. These research designs are briefly summarised in table 5.3 below.

Table 5.3 Summary of research designs

Dimension	Exploratory	Descriptive	Conclusive
Objective	To provide insight and understanding.	Describe characteristics.	To test a specific hypothesis and examine relationships.
Characteristics	Information needed is defined only loosely. The research process is flexible and unstructured. The sample is small and non-representative. Analysis of primary data is qualitative.	Characterised by prior formulation of a specific hypothesis. Information needed is clearly defined. Pre-planned and structured design. The sample is large and representative. Data analysis is qualitative.	Information needed is clearly defined. Research process is formal and structured. Manipulation of one or more independent variables. Control of other mediating variables. Sample is large and representative. Data analysis is quantitative.
Methods	Expert surveys Pilot studies Focus groups Depth interviews Projective techniques Secondary data Case studies	Secondary data Surveys Observational and other data	Experiments
Findings/Results	Tentative	Tentative	Conclusive
Outcome	Generally followed by further exploratory or conclusive research.	Could be followed by conclusive research.	Findings are used as input for decision-making.

Source: Adapted from Malhotra (1996:87 and 89)

Table 5.3 shows that the objectives, characteristics, results and outcomes of the research designs differ. Each of the research designs is briefly highlighted in the ensuing sections.

5.2.2.1.1 Exploratory research

Exploratory research is generally described as initial research or a preliminary step that ensures that a more rigorous and conclusive future study begins with an adequate understanding of the problem/phenomenon at hand. The purpose of exploratory research is to explore a problem/phenomenon in order to provide an insight into and understanding of the particular problem/phenomenon. Exploratory research attempts to clarify and define a problem/phenomenon more precisely and to identify relevant courses of action. It is appropriate to use this design when a limited amount of experience or knowledge is available about a problem/phenomenon, for example:

- *Diagnose a situation.* Analyse a situation to clarify the nature of a problem, including diagnose the dimensions of problems so that successive research will be on target and set priorities for the research.
- *Screening alternatives.* Several opportunities may exist, though only the best alternative(s) should be pursued. Screening is done to establish the best alternative(s). Screening includes obtaining evaluative information to make decisions regarding the best alternative(s).
- *Discover new ideas.* This may include generating new concepts.

The primary data collected for exploratory studies is qualitative in nature. This was also the case in this particular study. The sample used to collect the primary data is small and non-representative and selected in such a way that maximum insight is generated. The findings of the exploratory research may be verified in conclusive studies. Care should be taken in using the findings of exploratory studies, however, due to the qualitative nature. It is important to note that the purpose of a study rather than the technique used to obtain the data determines whether it is exploratory or not. The advantages and disadvantages of exploratory research correspond to a degree to the advantages and disadvantages of the method used to obtain the primary data. Various methods can be used to obtain the primary data. Exploratory research generally benefits from the survey of experts, pilot surveys, and analysis of secondary data. These methods are highlighted in section 5.2.2.2. Since the goal of this study was exploratory-descriptive, the research design employed was a combination of exploratory and descriptive research designs.

5.2.2.1.2 Descriptive research

Descriptive research aims to describe characteristics of a population or phenomenon. In descriptive research, it is assumed that more knowledge is available about a problem/phenomenon than in the case of exploratory research. This prior knowledge is used in formulating the hypothesis to be tested. Typical situations in which descriptive research is used include to

- describe the characteristics of relevant groups
- estimate the percentage of units in a specified population exhibiting certain characteristics
- determine perceptions of product/phenomenon characteristics
- determine the degree to which variables are associated
- make specific predictions.

Since a hypothesis is tested in descriptive research, the information needed is clearly defined. There is thus clarity on the "what, who, where, when, how, why". The descriptive study is also pre-planned and structured. Generally, descriptive research is qualitative in nature. A variety of methods are available to collect primary data. However, descriptive research benefits from secondary data, surveys, panels and observational and other data. These methods are explained in section 5.2.2.2. The advantages and disadvantages of descriptive research are greatly influenced by the method used to collect the primary data.

5.2.2.1.3 Explanatory or conclusive research

Explanatory or conclusive research is also known as causal research. Causal research is used to obtain evidence of cause-and-effect relationships among variables where the research problem has been narrowly defined. Causal research is suitable for:

- understanding which variables are the cause and which are the effects of a phenomenon
- determining the nature of the relationship between the causal variables and the effect to be predicted.

Generally, the causal or independent variable is manipulated in an environment in which other variables that may effect the outcome are controlled. The effect of the manipulation is measured to infer causality. Causal research requires a planned and structured design. The presence or absence of alternative plausible explanations or causal factors should also be recognised. The advantages and disadvantages of explanatory research are influenced by the method used to obtain the primary data. The primary data are obtained by way of experiments and are quantitative in nature, which enables the researcher to arrive at conclusive findings. Experiments fell outside the scope of this study as this study is qualitative in nature.

The distinction between exploratory, descriptive and explanatory research is that exploratory and descriptive studies emphasise the contextual interest while explanatory studies emphasise general interest. Only explanatory research findings can be generalised to the research population, making the findings applicable to more than just the research project. In practice, the types of research generally overlap and a hybrid format is usually applied. In the case of this study, the hybrid format can be described as exploratory–descriptive.

Regardless of the research design employed, the researcher must attempt to minimise the potential sources of error to enhance reliability and validity. A step to prevent inaccuracies is to choose an appropriate method of data collection. The methods that can be used to collect primary data are highlighted in the next section.

5.2.2.2 Methods to collect primary data

Various methods or techniques to collect data are used for different types of research. Various factors influence the choice of a data collection method, including

- the *objectives* of the study
- the available *data sources*
- the *urgency* of the decision
- the *cost* of obtaining the information. The methods to collect primary data include (a) surveys, (b) secondary data analysis, (c) pilot studies, (d) interviews, (e) observation, (f) expert surveys, (g) case studies and (h) experiments. Only those qualitative methods pertinent to this study are highlighted in the ensuing paragraphs, in view of the qualitative nature of the study. Therefore, experiments were not included (see section 5.2.2.1.3).

(a) Surveys

A survey is a research method or technique for collecting information by means of questioning respondents to obtain the needed data. The survey is the most common method used to gather data. This study also used a survey to obtain the required data, namely information on the application of market strategy from executives of the selected larger firms manufacturing food of the major group meat, fish, fruit, vegetables and oils and fats, listed on the JSE, food sector, in the period 1996 to 1999. In particular, surveys attempt to describe what is happening or to uncover reasons for a specific event. Surveys are therefore generally descriptive in nature. Information gathered by means of a survey may be quantitative or qualitative in nature. In this instance, the information was qualitative.

The survey or questioning of respondents may be verbal (by telephone or personal interviews) or written. Generally, a questionnaire is used to ask the questions. The questionnaire used is usually structured and formal. The questions are usually direct (versus disguised) and asked in a pre-arranged order (versus flexible) while the responses to the questions are in most cases standardised (limited responses). The advantages of surveys include that they can be done quickly, and efficiently, are inexpensive, and give accurate information. Surveys have disadvantages as well, which are generally related to

- *The method of data collection* (interviews and telephone interviews). The objective of the study impacts on the method used. The different methods have different strengths and weakness (see table 5.3 for details) that should be borne in mind in selecting a method.

- *Sampling error.* Wrong units were selected or units that should have been selected were left out due to an imperfect design.
- *Respondent error.* This can take many forms, such as non-response or refusal to participate; response bias when a respondent agrees with all the questions; or non-response bias if a person other than the intended respondent answers the questionnaire.
- *Administration error.* This could result from improper execution of the research project, usually inadvertently caused by human error (eg, marking the wrong option chosen by respondent).
- *Data processing error.* This refers to inaccuracies in appraising the data, which may lead to incorrect findings.

To minimise the errors associated with the method used, it should be carefully evaluated in terms of the research objective and the evaluation criteria. The evaluation criteria used to judge which method is most suitable for a particular research project are illustrated in table 5.4 below.

Table 5.4 Evaluation of survey methods

Criteria	Telephone	Personal	Mail
Flexibility of data collected	Moderate	High	Low
Diversity of questions	Low	High	Moderate
Use of physical stimuli	Low	High	Moderate
Geographic dispersion	High	Low	High
Misunderstandings	Moderate	Low	High
Complete	Moderate	High	Low
Sample control	Moderate	Potentially high	Low
Control of data-collection environment	Moderate	Moderate to high	Low
Control of field force	Moderate	Moderate	High
Quality of data	Low	Moderate to high	Moderate
Response rate	Moderate	High	Low
Perceived anonymity of respondents	Moderate	Low	High
Social desirability	Moderate	High	Low
Obtaining sensitive information	High	Low	High
Potential for interviewer bias	Moderate	High	None
Speed	High	Moderate	Low
Cost	Moderate	High	Low

Source: Adapted from Malhotra (1996:206)

Table 5.4 shows that the different methods of administering the questionnaire provide different results. Each method has unique strengths and weaknesses that make it desirable in certain situations. Sometimes the telephone interview is deemed more suitable than personal or mail questionnaires and vice versa. The researcher must decide, in view of the prevailing conditions, which method will render information that will lead to the most valid and reliable findings. Furthermore, sufficient controls should be built into the research design to ensure that these errors are controlled. The questionnaire design, as such, is discussed in section 5.2.3.1. Another method to obtain information for purposes of qualitative research is secondary data, as described in the next few paragraphs.

(b) Secondary data

Secondary data are data that are already available, though previously collected for a different purpose. Secondary data are useful in several ways. For example, they may help to identify or to better define a problem; to develop an approach to a problem and to formulate an appropriate research design, to provide answers to some research questions and to interpret primary data. The advantages of secondary data include that they build on past research, are relatively inexpensive to obtain and can readily be obtained. The disadvantages of secondary data include that they were not specifically designed for the project at hand and may not be pertinent to the study at hand. The time period of the secondary data may not be consistent with the project at hand or may not be consistent with the current problem. Furthermore, secondary data may be inadequate for the purposes of the project at hand. In some cases, data conversion may be required and finally the researcher has no control over the accuracy of the secondary data. Secondary data should therefore be carefully evaluated to determine their suitability for the research project. Criteria to evaluate the suitability of secondary data include

- Specification of the *methodology used* to collect the data –for example, size and nature of sample, response rate and quality, questionnaire design and administration, procedures used for field work, data analysis and reporting procedures, to check for possible bias
- *Accuracy of the data* – especially the approach adopted, research design, sampling, data-collection method, data analysis and reporting, to check for deviation
- *Currency of data* – the time lag between collection and publication of the information, to check for obsolescence
- *Objective of the research* – to check appropriateness or relevance

- *Nature of the content of the data* – the definition of key variables, unit of measurement may be inconsistent with the project at hand, to check for inconsistency
- *Dependability of data* – the expertise, credibility, reputation and trustworthiness of the source to check the usefulness of the secondary data.

Secondary data are categorised as either external or internal to the firm. Data created, recorded and/or generated by firm for example annual reports are an example of internal and proprietary data. External sources of secondary data include periodicals, books, government sources such as statistical releases and abstracts of agricultural statistics, media such as newspapers and commercial sources such as McGregors/BFA and the internet.

This study also used secondary data as can be seen in chapters 1 to 4. Pilot studies are another method that may be used to obtain data. Pilot studies are dealt with in the next paragraph.

(c) Pilot studies

Pilot studies are any small-scale exploratory research techniques that use sampling, but do not apply rigorous standards. Generally, pilot studies are a prelude to conclusive research, using the same sample as the ultimate research project. Pilot studies used for exploratory research are informal and the findings lack accuracy owing to the relaxing of rigorous standards. Focus groups are deemed a more elaborate form of pilot study (Zikmund 1994:41). Focus groups form part of the interview methods discussed in the next section.

(d) Interviews

Interviews may be seen as a meeting where an interviewer asks an interviewee a series of questions to obtain specific information. Interviews are classified into two broad categories, depending on whether the purpose of the project is known or not. If the purpose of the interview is known, focus group interviews or in-depth interviews are used. If the purpose of the interview is not known, projective techniques are used. A focus group is an interview conducted by a moderator in an unstructured way in a natural manner among a small group of respondents. Depth interviews are unstructured, direct, personal interviews in which a single respondent is probed by a skilled researcher to uncover underlying motivations, beliefs, attitudes and feelings regarding a specific topic. Projective techniques are an unstructured and indirect form of questioning that encourages the respondents to project their underlying motives, beliefs, attitudes or feelings regarding a specific topic. Projective techniques are classified into different categories:

- *Association techniques.* Respondents are presented with a stimulus and asked to respond with the first thing that comes to mind. Examples of association techniques include word association (respondents are presented with a list of words, one at a time, after which they must give the first word that comes to mind) and completion techniques (respondents are presented with an incomplete situation and are required to complete it, for example sentence, story).
- *Expressive techniques.* Respondents are presented with visual or verbal situations and required to relate the feelings and attitudes of other people regarding the situation. Expressive techniques include cartoon tests (cartoon characters are shown in similar situations and respondents are required to indicate what a character may say in response to comments by another character); role playing (respondents are

required to play the role of someone else and, in so doing, project their own feelings about the behaviour of the role assumed); third-person technique (respondents are presented with a verbal or visual situation and required to relate the beliefs and attitudes of a third person to the situation).

The different interview techniques are summarised in table 5.5 below.

Table 5.5 Summary of the interview techniques

Criteria	Focus group	Depth interview	Projective technique
Degree of structure	Relatively high	Relatively medium	Relatively low
Probing of individual respondents	Low	High	Medium
Moderator bias	Relatively medium	Relatively high	Low to high
Interpretation bias	Relatively low	Relatively medium	Relatively high
Uncovering subconscious information	Low	Medium to high	High
Discovering innovative information	High	Medium	Low
Obtaining sensitive information	Low	Medium	High
Involve unusual behaviour or questioning	No	To a limited extent	Yes
Overall usefulness	Highly useful	Useful	Somewhat useful

Source: Adapted from Malhotra (1994:184)

Table 5.5 shows that the different interview techniques are rated differently according to the various criteria. In some cases, one of the methods would be more suitable than the others. Therefore the researcher must take care in selecting an appropriate interview technique to ensure that the findings are reliable and valid. In the case of this study, a focus group interview was deemed out of the question as the different competitors would not discuss a sensitive topic, such as market strategy, in the presence of other competitors. A depth interview could be used in conjunction with an expert survey.

However, none of the respondents was prepared to grant interviews. The projective technique was deemed unsuitable for the purposes of this study as the respondents might have guessed what the topic of the investigation was about. Another method of data collection is observation, as discussed in the next section.

(e) Observation

Observation is a systematic process of recording people's behavioural patterns, objects and occurrences without communicating or questioning them to obtain information about an object or phenomenon of interest. Observation means witnessing and recording events as they occur or compiling evidence from records of past events used in various settings. Observation may take different forms; for example, it may be structured or unstructured; visible observation and hidden. Structured observation means that the researcher specifies in detail what is to be observed and how it should be measured. Unstructured observation involves the observation of all aspects of the phenomenon that seem to be relevant to the phenomenon observed. Visible observation is a situation where the subject knows the observer's presence and the reason for observation. Hidden observation takes place when the subject is unaware of the observation. The observation method is also classified according to the mode of administration, such as personal observation; mechanical observation; audit; content analysis and trace analysis. These observation methods are summarised in table 5.6 below.

Table 5.6 Summary of observation methods

Criteria	Personal	Mechanical	Audit	Content analysis	Trace analysis
Degree of structure	Low	Low to high	High	High	Medium
Degree of disguise	Medium	Low to high	Low	High	High
Ability to observe in natural setting	High	Low to high	High	Medium	Low
Observation bias	High	Low	Low	Medium	Medium
Analysis bias	High	Low to medium	Low	Low	Medium
General remarks	Most flexible	Can be distracting	Expensive	Limited to communication	Method of last resort

Source: Malhotra (1996:219)

Table 5.6 illustrates that the different observation methods differ according to the various criteria. These criteria may be used to select an appropriate method of observation to collect the needed information. In the case of this study, observation was not employed as a means of data collection as it was deemed unsuitable in view of the fact that interpretations of theoretical constructs cannot be observed.

(f) Expert surveys

Expert surveys mean that a researcher approaches a small number of people deemed to have experience of a phenomenon to obtain data from them. These experts may be top executives or knowledgeable managers in or outside the firm. However, these experts are carefully selected. The experts are selected on the basis of their knowledge rather than representativeness. Generally, the phenomenon is discussed with these experts in an informal way. The aim of the discussion is to obtain information regarding the phenomenon studied that could lead to a solution. The findings of these expert discussions are not conclusive. This study ideally lent itself to expert surveys and experts were identified to obtain the required information, although not by means of personal interviews. Another method to obtain the required data is a case study. Case studies are highlighted in the next section.

(g) Case studies

Case studies is ideal when a holistic in-depth investigation is needed. Case studies are used to develop critical thought. Though it should be carefully and rigorously designed, like any other scientific research. Information is usually gathered by means of interviews, though surveys can also be used to gather the information if the questions were developed in advance (Tellis, 1997). The primary advantage of a case study is that a firm may be studied in its totality and attention can be given to detail. In so doing, the researcher can establish the order of events or relationships. Case studies require the co-operation of the entity studied. Case studies generally require no formal procedure and are flexible. If insights are gained, the study may be steered in the new direction.

The results of case studies are tentative and cannot be generalised, making them contextual in nature. This constitutes the major criticism against it. Another disapproval of this method is the size or number of cases studied. However, according to Tellis (1997) accepting a case study should rather be judged in terms of whether it met the goal than the number of cases studied. In this regard, Eisenhardt (1989:545) suggests that there is not an ideal number of cases. However, (s)he argues that a number of between four (4) and ten (10) cases normally provides good information. Less than four cases may not address the complexity while more than 10 cases may make it difficult to cope with the complexity, and volume of data. (S)he further points out that cases should be carefully selected. In this regard the population is critical as it defines the entities that could be selected (Eisenhardt 1989:537). (S)he further suggests that given the limited number of cases studied, they should be selected in such a way to present opposites – good to poor performers should be included. Thus, the cases cannot be randomly selected.

A requirement for case studies to be successful, especially in the case of exploratory research, is that respondents should be able and willing to participate. The primary disadvantage of case studies is that they may require information from competitors that may not be available due to its sensitive nature.

In concluding the section on methods of data collection, it is worth noting that these methods are seldom applied individually or on their own. They are usually applied in combination. After the appropriate data-collection procedure(s) is (are) determined, attention should be given to the population and sample frame from which the information must be obtained. The population and sample frame are discussed in the next section.

5.2.2.3 Population and sample frame

A population is a complete group of entities sharing some common characteristic (Welman & Kruger 1999:18; 49); for example, the firms manufacturing food listed on the JSE, food sector, in the period 1996 to 1999. The target population, on the other hand, is a complete group relevant to the study. In this case, the firms manufacturing food of the major group meat fish, fruit, vegetables, oils and fats, listed on the JSE, food sector, in the period 1996 to 1999 constituted the target population. The target population is also known as the sample frame – the list of elements from which the sample was drawn. In this instance, the sample frame consisted of the firms listed in table 5.7 below.

Table 5.7 The sample frame

The sample frame				
AVI	C G Smith	HLH	Ocfish	Namsea
Namfish	C G Smith Foods	I&J	Tiger Brands	Rainbow
Delcorp	Delhold	Delfood	Langeberg	Seaharvest
Kolosus	Sovood	Natxhix		

Source: Compiled from information submitted by the JSE on 10 April 2000 (see table 1.5)

After determining the sample frame, the actual sample is drawn. In the case of qualitative research, the sample is rather selected than drawn. A sample is a part of a (target) population that can be used to obtain the required data (Welman & Kruger 1999:46). There are a variety of methods to draw a sample. However, a number of factors influence the sampling method; for example, the objective of the study, sample frame, research design and method of data collection. Attention should also be given to the size of the sample. According to the literature it would appear that the size of the sample is mathematically determined for probability samples as a variety of formulas are stated that can be applied to get to a number of items to be selected. In the case of non-probability samples, it would appear that the researcher must use his/her judgement rather than mathematics to determine the size of the sample.

If the procedure for sampling results in a representative sample, the sample should have the same characteristics as the population and therefore it is not necessary to use every item in the population to obtain information. Thus the research findings can be generalised to the population as a whole. Sampling is used to estimate an unknown population value. The benefit of sampling is that it saves time and cost. Furthermore, a sample, if correctly drawn, could give accurate and reliable results.

Sampling methods are classified into two categories, namely probability and non-probability sampling. Probability sampling means that every element (the unit about which information is needed) has a known and non-zero probability to be selected. Probability samples are representative of the universe. There are various types of probability sampling; for example, simple random sampling, systematic sampling, stratified sampling and multi-stage sampling, all of which result in a representative sample. *Simple random sampling* means that each element in the population has a known and equal chance of being included in the sample. *Systematic sampling* means that a sample element is drawn in an orderly fashion – meaning that the representative sample size is determined, after which the population is divided by the sample size. The number obtained from this calculation (eg, 12) and every following number (12th item) is drawn. *Stratified sampling* means a procedure in which sub-samples are drawn from samples within different strata that are more or less equal in some characteristics. Probability sampling is associated with conclusive research that falls outside the scope of this study, and is therefore not discussed.

Non-probability sampling is associated with qualitative research and, as such, is relevant to this study. Non-probability sampling lends itself excellently to qualitative studies. In the case of non-probability sampling, there is no way of estimating the probability that an element will be included in the sample, and thus no way of ensuring that the sample is representative. Therefore the findings of the study cannot be generalised to the population in question – hence the primary disadvantage of qualitative research. Non-probability samples rely on the judgement of the researcher. Although the non-probability sample may yield a good estimate of the characteristics of the population, there is no way to determine whether the sample is, in fact, adequate. Non-probability samples are only as representative as the researcher's skill and luck allow. The chance of an element being included in the non-probability samples is unknown therefore it is not possible to find out whether the sample is representative of the population.

Various types of non-probability sampling are used, namely convenience sampling, quota sampling and judgment sampling. In *convenience sampling* the researcher selects the elements on the basis of convenience (or haphazardly). It is used when a large number of completed questionnaires are needed quickly and economically. Convenience sampling may be used when the study will be followed by additional research using a probability sample. Convenience sampling is especially useful in exploratory research, where ideas and/or insights are more important than objectivity. In this study, the opinions of experts were sought, therefore convenience sampling was deemed inappropriate. *Quota sampling* means that the researcher takes specific actions to ensure that the quota is exactly similar to the population in terms of certain pre-defined characteristics. *Judgment* sampling means that the researcher attempts to select a representative sample of the population by using a judgement selection procedure – the sample elements are "hand picked" because they are deemed to serve the purpose of the research. In the case of judgment samples in particular, the required information is deemed more important than the representativeness of the sample. Sometimes it may be more appropriate to use a judgment sample than a random sample to ensure that the sample is representative as in this study. The representativeness of the sample is influenced by the experience of the researcher. Usually when smaller samples are involved, one may get a better result by using a judgment rather than random sampling - for example, Tiger Brands, the most significant role player in the case of this study, may be excluded in a random sampling method. However, as the sample size increases, judgment sampling may become less reliable than random sampling. When researchers are interested in specific insights they may go to persons who are deemed able to offer perspective on the particular question/phenomenon. A judgment sample may also be employed to conduct a small-scale pilot study or to pre-test questionnaires.

Judgment sampling was deemed appropriate for the purposes of this study in view of the fact that

- Expert opinions were sought.
- Significant players could be included in the sample.
- The sample consisted of a small number of items/firms due, inter alia, to the oligopolistic nature of the market (see chapter 1, section 1.2.2). Only a small number of firms were listed on the JSE food sector and few of them were involved in the manufacturing of food of the major group meat, fish, fruit, vegetables, oils and fats.

The judgment sample, in this case, was deemed more reliable than other non-probability samples as it ensured that the larger firms were, in fact, included in the sample thus making the study more reliable. Larger firms were selected as they were deemed the successful firms[1], given that growth was/is an objective of the firm and, as such, measured in terms of turnover, market share and number of employees. Table 5.8 below lists the firms (items) included in this study.

Table 5.8 The firms included in the study

The firms included in the study				
Tiger Brands	I&J	Delfood	Kolosus	Rainbow

These firms were included because

- Tiger Brands was the largest of the firms in the sample frame in terms of turnover, namely R20 837,4 million in 1999 (see table 1.6) and measure of diversification (Tiger Brands was involved in the manufacture of food of all four the major groups).
- Tiger was related to a number of the other firms/items in the population, for instance Seaharvest, Namfish, Namsea, Ocfish and Langeberg via shareholding (chapter 1, section 1.2.1.1) or joint ventures in the case of OTK (Early Bird).
- At least one significant competitor of Tiger Brands in the major group meat, fish, fruit, vegetables and oils and fats was selected for comparison purposes therefore I&J, Delfood, Kolosus and Rainbow were selected. I&J was selected as a competitor in the arena of fish, while Delfood was selected in the arena of canned fruits. Kolosus was selected in the arena of meat and Rainbow was selected for poultry. In the case of edible oils and fats, no listed competition existed at the time of the study (see chapter 1, section 1.2.2). These competitor firms were considered to be the larger firms (in terms of turnover) with similar activities as Tiger Brands of the major group meat, fish, fruit, vegetables, oils and fats (see chapter 1, section

[1] Although the selected firms were considered successful, their performance varied from good to mediocre (see chapter 1, table 1.12).

1.2.1). The oligopolistic nature of the market restricted the selection of relevant competitors (see chapter 1, section 1.2.2). Top management of these firms were furthermore deemed experts in the field of market strategy who could provide the required information to gain insight into and an understanding of the application of market strategy by these firms.

- I&J is related to AVI, which unbundled, leaving I&J as the sole food-related interest of the group (I&J was delisted in January 2001 as a consequence of AVI's unbundling).
- Delfood is associated with Delhold and Delcorp – Delfood was viewed as the operating level ("where the action is"), while Delhold and Delcorp were considered the holding or controlling companies.
- Kolosus was the only significant meat processor.
- Rainbow was the major poultry producer/processor.
- These firms, to some extent, represented the operating levels of the large firms rather than holding or controlling companies.
- These firms represented the corporate and SBU levels, which were relevant in the application market strategies (see chapter 1, section 1.2.3).

The sampling method described is judgment sampling that is categorised as a non-probability sampling method. In non-probability sampling methods, the researcher's judgement is used to ensure that the sample is representative of the population. It was believed that judgment sampling is appropriate to use in this case, as insight into both theory and practice relating to market strategy was tested among firms that could offer insight into the research question. The instrument used to obtain the information for the study was a questionnaire. The questionnaire design formed part of operationalisation that is discussed in the next section.

5.2.3 Operationalisation

Operationalisation means that the research problem is connected to the phenomenon studied. This connection happens by developing a measuring instrument, such as a questionnaire, by means of which reliable data are collected about the phenomenon studied. In this study a questionnaire was used to obtain (reliable) data on the application of market strategy by the selected larger firms manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats listed on the JSE, food sector in the period 1996 to 1999. The aim of the study was to determine whether or not these market strategies corresponded to the principles of a sound market strategy as described by leading authors in this field, such as Aaker (1998), Thompson and Strickland (1998) and Van der Walt et al (1996). A number of factors impact on the questionnaire, for example, the aim of the study, the approach to the research (qualitative or quantitative), the research design as well as the conceptualisation of the relevant concepts. The following section attends to the development of the questionnaire used to obtain the data as well as the data collection.

5.2.3.1 Development of the questionnaire

This study employed a self-administered questionnaire, as respondents were not prepared to grant interviews. A self administered questionnaire means that a questionnaire is mailed (either by land mail, facsimile or electronically) to the respondents, who fill it out in their own time and return it to the researcher. The questionnaire used in this study is attached in Annexure A and discussed in this section. The questionnaire was the tool used to obtain the data. The purpose of the questionnaire was to determine whether the market strategies applied by the firms in question adhered to the principles of a sound market strategy. The objective of the study was to collect information about the application of market strategies by the selected firms. The questions contained in the questionnaire thus reflected the various components of market strategy (as discussed in the theoretical chapters of this study, that is chapters 1 to 4). The questionnaire aimed at maximising the relevance and accuracy of the data obtained to maximise participation and facilitate the data collection and analysis. To achieve these aims it was necessary to attend to the following elements of questionnaire design:

(a) content and phrasing of questions
(b) sequence of the questions
(c) response format
(d) physical characteristics
(e) pre-testing of the questionnaire.

Each of these elements is addressed in the ensuing paragraphs.

(a) Content and phrasing of questions

Questions should be phrased as succinctly as possible, giving the crux of the question without any doubt. Each question should require only one answer to prevent ambiguity. Where an explicit answer is required, the question must be phrased explicitly. Leading questions were avoided as they might influence the answer. The respondents should be familiar with the language used, bearing in mind that different terms may have different meanings to different persons. So the language was kept as simple as possible. The questionnaire should be kept as brief as possible to ensure interest and completion of the questionnaire. The questioning should preferably not require additional work – the respondent must be able to answer off the top of his/her head. Where possible, provision was made for all possible answers from "specify" to "not applicable" to "uncertain" or "do not know". Loaded questions should be avoided. The questionnaire, attached in Annexure A, complied with most of these criteria, with the major disadvantage being its length. However, given the complex nature of the phenomenon studied, it was necessary to cover a number of characteristics and components of market strategy – hence the length of the questionnaire. This is evident when comparing the questionnaire with the components of market strategy as illustrated in figure 4. 3.

(b) Sequence of the questions

The sequence of the questions is important as it may win and keep the interest of the respondent. Therefore a questionnaire should start with either a simple question or an interesting question. In this study it started with demographic information, such as position held, qualifications, period involved in the food sector and the firm, period involved with formulation of market strategy in general and specifically in the company, the products manufactured by the firm, and which one of the products represents the major turnover, turnover category. This would help the respondents to feel at ease and encourage them to proceed to the next question. At the same time most of these questions served as controls on reliability. A logical sequence of questions was necessary as a disturbance in the flow of questioning might make it difficult for the respondent to answer. Therefore the questionnaire proceeded to the following subsections, namely, elements of the SWOT analysis, the competitive advantages of the firms and closed with questions about the generic strategies employed by the firms.

(c) Response format

Generally, questions can have structured or unstructured responses. Structured response means a specific or limited response choice, while unstructured means there may be an unlimited response options. Both structured and unstructured response formats were used and are summarised in table 5.9 below.

Table 5.9 The response format

Response format	Example of questions
Structured responses	
Dichotomous questions: a fixed alternative question in which only two alternatives are listed; for example yes/ no	3, 4, 8, 9, 11(a), 14, 15, 16, 17, 18, 19, 20, 22, 23, 24, 25, 26, 38 (a), (b), (c), (d), (e), (f), (g), (h), (i), (j), (k) and 39
Multiple choice with single answer: a fixed alternative question where more than two alternatives are listed; however, the respondent should choose only one alternative	1, 2, 5, 6, 7, 12 and 35
Multiple choice with multiple replies: a fixed alternative question and the respondent may choose more than one reply	5 and 39
Scaled questions: the respondent is required to mark a certain point on a scale; for example, strongly agree, agree, disagree, strongly disagree	10, 13, 21, 27, 28, 29, 30, 31, 33 and 34
Check lists: a list of qualities/elements that have to be rated in accordance with importance or applicability	This kind of questioning was not employed by the questionnaire
Ranking: respondents are required to rank items according to some criteria	This kind of questioning was not employed by the questionnaire
Grids: a "table" where a respondent can mark applicable items	This kind of questioning was not employed by the questionnaire
Unstructured responses	
Straight questions: a direct question	14 (a) and (b), 15 (a) and (b), 16 (a) and (b), 17 (a) and (b), 18 (a) and (b), 19 (a) and (b) 20 (a) and (b), 22 (a) and (b), 23 (a) and (b), 24 (a) and (b), 25 (a) and (b), 27 (a) and (b), 27 (a), 28 (a), 29 (a), 30 (a), 32, 33 (a), 34 (a), 36, and 37 are examples of straight questions, but at the same time the (a) options in questions 14 to 26 are examples of sequence of mention as these questions require three factors taken into account in formulating market strategy
Straight questions with probing	were not used
Word association questions	were not used
Sentence completion	were not used

(d) Physical characteristics

The physical characteristics of the questionnaire refer to the appearance and layout of the questionnaire. The questionnaire should not appear to be overly long, and there should be sufficient space for recording answers. Furthermore, respondents should have no doubt as to which question should be completed next. Finally, the questionnaire should present a neat appearance. The questionnaire used for this study is long, but appears neat, and was e-mailed to the identified respondents.

(e) Pre-testing of the questionnaire

Pre-testing a questionnaire means trying out (checking) a new questionnaire among respondents who correspond to those among whom the survey is to be conducted, in terms of intellectual ability, training, knowledge, of the subject and attitude. Furthermore, the test procedure must be the same as the actual survey method – that is, personal interview, mail or telephone interview. The results of the pre-test could indicate possible problem areas in processing the questionnaire.

Every effort was taken to test the questionnaire for this study among respondents who would be similar to the respondents in the sample. The pre-test panel consisted of both practitioners and researchers. Table 5.10 gives details of the persons/institutions approached to assist in the pre-testing.

Table 5.10 Details of persons/institutions approached to assist in pre-testing

Institution/Firm	Person
The Poultry Association of South Africa	Mr Zach Coetzee
Capespan	Mr Bokkie Strauss
Agricultural Co-operative Chamber	Dr Johan van Rooyen
Milk Producers' Organisation of SA	Mr Bertus de Jongh
Clover SA	Mr De Wet Jonker
Progress Mills	Mr Eric Platt
Tiger Milling	Mr William Helm
NPI	Dr Johan Smuts
Absa Group Strategy	Dr Hendri van der Watt
Bureau of Market Research	Prof J H Martins

These respondents were either in a similar business environment to the actual respondents or were deemed to be knowledgeable about market strategy. Each of the individuals was phoned during the last week of August 2000 and the first week of September 2000 during which the procedure was explained. All the respondents requested a copy of the questionnaire and undertook to contact the researcher on receipt of the questionnaire to indicate whether they would discuss it personally or complete it in their own time. The questionnaire was e-mailed or faxed to the pre-test panel, with a note explaining the purpose of the pre-test. The e-mail explaining the purpose of the situation is attached in Annexure B. Feedback was required on 4 September 2000. The majority of pre-test panel members indicated that a deadline of 11 September 2000 rather was a reasonable time to respond. Those who had not responded were followed-up telephonically on 11 September 2000. All the completed questionnaires were returned and received on 14 September 2000.

Five (5) of the ten (10) institutions approached responded to the request to complete and comment on the questionnaire. Two persons granted a personal interview while the remainder completed the questionnaire in their own time and returned it to the researcher. The general reaction was:

- It took between 30 minutes and an hour to complete the questionnaire.
- Questions 13 and 33 were not well formulated.
- Question 38 (the crux of the study) required sensitive information, which might perhaps not be obtained in the study.

The persons who requested the questionnaire via e-mail suggested that every effort be taken to ensure that the questionnaire could be completed electronically. Subsequently, questions 13 and 33 were adapted slightly and the electronic format received attention.

5.2.3.1.2. Procedure followed

The annual reports of the selected firms were consulted to determine who in the different firms should be contacted to complete the questionnaire. The contact details (especially e-mail addresses) of these persons were obtained telephonically from their secretaries in the first week of September 2000. At the same time, the researcher attempted to set up interviews with the respondents. The respondents' secretaries indicated that they were busy and could not devote time to answer the questionnaire. Therefore the Bureau of Market Research (BMR) was approached to assist in administering the questionnaire.

The situation was explained to the Director of the BMR, Professor JH Martins, telephonically on 12 September 2000. (Information on which the meeting was based, is attached in Annexure C.) A meeting was scheduled for 15 September 2000 when the proposed involvement of the BMR was discussed. During the discussion it was pointed out that the food major group meat, fish, fruit, vegetables oils and fats was considered the most important in terms of sales (see chapter 1, table 1.3) and consumer expenditure (see chapter 1, table 1.4) and, as such, the most important to the food division. The food division, in turn, was the most important contributor to manufacturing that was the major contributor to GDP in the period under review (see tables 1.2 and 1.1). The firms selected for the study were Tiger Brands, being the major player in this field, and a few significant competitors engaged in the manufacture of products of the different groups and sub-groups. The competitors chosen were Rainbow, Kolosus, I&J and Delfood.

The BMR was requested to assist in administering the questionnaire to the firms in question, as it appeared if these firms were reluctant to co-operate in the study. The rationale for the BMR's assistance was:

- It is a reputable organisation and co-operation would perhaps be easier.
- It has more experience in administering questionnaires and could possibly get better co-operation from these firms as some are members of the Bureau.

A complete list of names of firms and senior management, as identified in the annual reports or telephonically from the company secretary, and contact details were handed to the BMR on 15 September 2000. Delfood was the only firm whose contact details could not be obtained. The BMR was requested to ascertain who would be the suitable contact person to contact at Delfood and to ensure that the contact person at Rainbow was the correct person. It was agreed that the BMR would contact the respondents and seek their participation. The respondents could choose between an interview in the week of 6 to 10 November 2000 or completing the questionnaire in their own time and returning it by the end of November 2000.

The BMR was supplied with the questionnaire, a covering letter and background information for purposes of the fieldworkers to be used in the survey (see Annexure D).

The BMR was supplied with the questionnaire, a covering letter and background information for purposes of the fieldworkers to be used in the survey (see Annexure D). The covering letter was deemed a special effort to increase the response rate by explaining the purpose of the study and the importance of responding to the questionnaire. Other special efforts made to ensure a high response rate included

- a telephone call to the respondents prior to and after mailing the questionnaire to reiterate the importance of the study (done by researcher and fieldworkers of the BMR)
- pre-testing (done by the researcher) the questionnaire with research professionals and prospective respondents to ensure that it was possible to fill it out and that respondents would be willing to fill it out (see section 5.2.3.1 (e)).

The BMR indicated that they could not use the covering letter and questionnaire as they were and that minor amendments were required to comply with their image/philosophy. The questionnaire and covering letter used by the BMR are enclosed in Annexure A.

According to the BMR, fieldwork commenced on 18 September 2001 to 8 December 2000, when it was interrupted owing to the closing of factories for the December holidays. Initially, the respondents were requested to indicate whether they would prefer a personal interview or to complete the questionnaire in their own time. They all indicated that they preferred completing the questionnaire in their own time. According to the BMR, the fieldworker phoned the respondents at least 10 times during this period without receiving any completed questionnaires.

On 4 December 2000 the BMR was contacted to enquire about progress in this regard. Only 3, of a possible 5, respondents had responded by then. A follow-up letter was drafted (see Annexure E) and used by the BMR. The BMR informed the researcher on 8 December 2000 that the respondents indicated that they would respond in January 2001 as they were closing for December. According to the BMR, the fieldwork resumed at the end of January 2001 and was completed in June 2001. During January and early February 2001 the BMR was again followed-up. The long time it took to complete the questionnaires may impact on the reliability of the data obtained, as time could influence the respondents' responses even if unintentionally. The reluctance of the respondents to respond emphasises the sensitive nature of the subject studied.

5.3 THE SCIENTIFIC NATURE OF THIS STUDY

The scientific nature of a research project is judged by the reliability and validity of the research findings. Reliability requires that the application of a valid measuring instrument to different groups under different circumstances should generate the same findings. Validity means that the findings of the research should approximate the reality (event/behaviour/phenomenon) studied as closely as possible. Reliability relates primarily to the data collection and is influenced by at least the researcher/fieldworker, the respondent, and the context. The characteristics, such as gender, age and educational level, and orientations, such as attitude, motivation and values of the researcher/fieldworker and respondent may impact negatively on the reliability of the research findings. The context in which the data was collected refers to the time when the data was collected. The data was collected from September 2000 to June 2001. This is a long time after the period in question, namely 1996 to 1999, which might impact negatively on the research findings due to the rapidly changing environment and memory failure, among other things.

Reliability is a prerequisite for validity as validity builds on reliability. Validity relates primarily to the measuring instrument used and is classified into two categories namely "internal validity" and "external validity". *Internal validity* means that the study generated accurate and valid findings of the specific phenomenon studied. *External validity* refers to the ability to generalise the research findings to the population. Since this study was qualitative, it was (and still is) not possible to generalise to the population as a whole. This is the major disadvantage of qualitative research, in general, and this study in particular.

Internal validity is influenced by a number of factors, namely conceptualisation, operationalisation, data collection and data analysis. In the conceptualisation stage of the research concepts were defined and these definitions or elements thereof generally used as input to the measuring instrument, in this instance the questionnaire. If concepts are not properly defined, it may result in an invalid measurement and thus invalid findings. The measuring instrument, as such, also impacts on the validity of the findings, known as measurement validity. *Measurement validity* means that the measuring instrument measures what it claims to measure. Mouton and Marais (1994:126) distinguish different types of measurement validity:

- *Criterion validity* is relevant when the purpose is to use an instrument to estimate some important form of behaviour that is external to the measuring instrument itself, the latter being the criterion (Mouton and Marais 1994:127). Criterion validity differentiates between concurrent validity and predictive validity. This means that it is based on empirical evidence that the measurement relates with other criteria. Criterion validity differentiates between two forms, namely concurrent and predictive validity.

- *Concurrent validity* refers to the degree to which one question can be used to determine the response to another question. Question 13 is an example of a response that may be used to determine the responses to questions 14 to 26.
- *Predictive validity* refers to the extent to which a current response of a respondent can be used to predict future responses. Predictive validity was not used in this study, as it did not aim to predict.

- *Construct validity* deals with the issue of whether the measurement really measures what is intended to be measured. This is difficult to determine even in this study as there are a number of highly theoretical concepts and each person may have his/her own interpretation that does not necessarily correspond to that of the measuring instrument. However, it was assumed that the respondents viewed the theoretical constructs as intended in the questionnaire. In plain language, construct validity refers to the degree to which the measuring instrument measures the phenomenon studied – do the questions in the questionnaire cover all aspects of the study/investigation? According to the literature studied, all the constructs were included in the questionnaire, hence its length. Construct validity in the case of this study related to the degree to which the findings could be aligned with the objectives of the study. Steps taken to ensure that this was the case included the pre-testing of the questionnaire.

5.3.1 Limitations of this study

The following are the specific limitations of this study, or factors threatening the reliability and validity of this study:

- The qualitative nature of this study prevented generalisations to the research population. Thus the research findings will only be valid to this study.
- The measuring instrument required sensitive information. Furthermore, it was long and involved, due to the nature of the phenomenon studied, which may have delayed the responses. Moreover, the respondents may not necessarily have interpreted the concepts as intended by the study.
- The data collection was long after the event (1996 to 1999), which could negatively impact on the respondents' memory. It also took a long time to receive responses (September 2000 to June 2001) which could be affected by the dramatic changes in this environment. Examples of changes in the environment that could have impacted on this study include the change of management (internal environment) in some cases, devaluation of the Rand, and foot and mouth disease (external environmental changes from the economic and physical environments, respectively). Furthermore, sensitive information was requested (especially question 38). The advantage of a personal interview was sacrificed for a mail questionnaire to get participation. The respondents could not be identified. Regarding the mail questionnaire, the general disadvantages, such as high chance of misunderstanding and low response rate (see table 5.3), applied in this study.

5.3.2 Contributions of the study

Despite its limitations, the contributions of this study are deemed to be:

- the testing of a particular theoretical model with practitioners for the first time in the food sector in South Africa (according to available information)
- the number of firms forming part of this exploratory study are within the theoretical parameters to obtain sufficient information and to deal with complexity
- establishing whether market strategy is applied by the firms in question
- establishing to what extent market strategies applied by the selected firms correspond to the sound principles of market strategy as put forward in the literature by leading researchers in the field
- establishing what problems are encountered by the management of these firms in applying market strategy
- determining the marketing orientation of the management of these firms
- exploring plausible reasons why some of the firms in question consistently perform better than others
- contributing to the body of knowledge on market strategy
- indicating new areas of research.

5.4 SUMMARY

This chapter covered the research process. Research is the process of obtaining scientific knowledge in a particular field. The scientific nature of research is determined by the reliability and validity of the research findings. The reliability and validity of the research findings are influenced by a number of factors, such as the research approach (qualitative or quantitative), the problem formulation and the research design. This study was qualitative in nature and, as such, poses certain difficulties. Specifically, it used an exploratory-descriptive research design. The major disadvantage of this method was that the research findings could not be generalised to the research population as a whole. Other disadvantages included the time of data collection. Despite the difficulties posed by this form of research, and the project in particular, it was demonstrated that every effort was made to check the factors that threatened reliability and validity to research findings wherever possible. Despite the limitations of the project, the primary advantages are deemed that a theoretical model was tested in practice, with relevant role players fitting the norm of between four (4) and ten (10) cases, and the extent to which the practical application adhered to the theoretical principles was established. Furthermore, management problems were determined and a contribution has been made to the phenomenon studied. The data collected and processing are comprehensively dealt with in chapter 6.

CHAPTER 6

RESEARCH FINDINGS

6.1 INTRODUCTION

This chapter covers the findings of the study. Chapter 5 covered the research process, while chapters 1 to 4 covered the theory underlying market strategy. This study was qualitative in nature as the objective was to gain a qualitative understanding of the application of market strategies by the selected larger companies listed on the JSE, food sector, manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats in the period 1996 to 1999. Thus the sample was small and non-representative, the data analysis was non-statistical and the outcome was to develop an initial comprehension as discussed in chapter 5 (section 5.2). This study was deemed to be in the sphere of exploratory-descriptive research since it formed part of initial research to provide insight and understanding that would ensure (encourage) a more rigorous and conclusive future studies that begin with an adequate understanding of the market strategy as applied by South African firms. This means that the research findings of this study were tentative and have to be confirmed in subsequent quantitative studies by persons and/or institutions. A combination of methods, (ie, expert survey and case study approach) was applied in gathering the data. This research design was employed mainly because insufficient knowledge was available on this subject to warrant a quantitative research design. One of the objectives of this study was to contribute to the field of knowledge and, specifically, to identify areas for further research. This principle is in accordance with the theoretical grounding of research designs.

Given the qualitative nature of this study, the data was processed qualitatively, since no appropriate statistical method exists at present to process and interpret qualitative data, specifically obtained from the combination of an expert survey and case study method. Qualitative data may be interpreted in various ways. However, every effort was made to ensure the most pragmatic interpretations. Furthermore, a number of variables could be cross-examined. However, the cross-examination was restricted to those variables indicated in the theory that may have a significant impact on the successful application of market strategy such as SCA and the strategic option applied (see chapter 4, figure 4.3 for the different components of market strategy).

The data processing and interpretation was done against the background of the study, bearing in mind its qualitative nature and its purpose, namely:

> **the extent or degree to which the market strategy applied by the selected (larger) JSE-listed SA companies manufacturing food (major group meat, fish, fruit, vegetables, oils and fats) in 1996 to 1999 comply with the principles of a sound market strategy put forward by leading authorities in this field, such as Aaker (1998), Thompson and Strickland (1998) and Van der Walt et al (1996).**

The questionnaire used to obtain the data was divided into definite sections covering the various principles of a suggested sound market strategy. A section of the questionnaire also covered demographics, such as period in the industry, period involved in the formulation of the market strategy of the firm and products manufactured. The questions covering the demographics were also used to establish the reliability of the data gathered, which in turn might affect the validity of the research findings. Questions one (1) to nine (9) and 39 related to demographic information, used mainly to determine the reliability of the data collected. Questions 10 to 12 tested definitions of market strategy at the different hierarchical levels of the firm. Questions 13 to 32 tested the different components of SWOT, while questions 33 to 37 related to SCA. Question 38 covered the market strategy options. Questions 10 to 38 tested the specific theoretical constructs of market strategy put forward in the literature, and illustrated in figure 4.3 (see chapter 4, section 4.2). The specific results of this study are covered in the ensuing paragraphs.

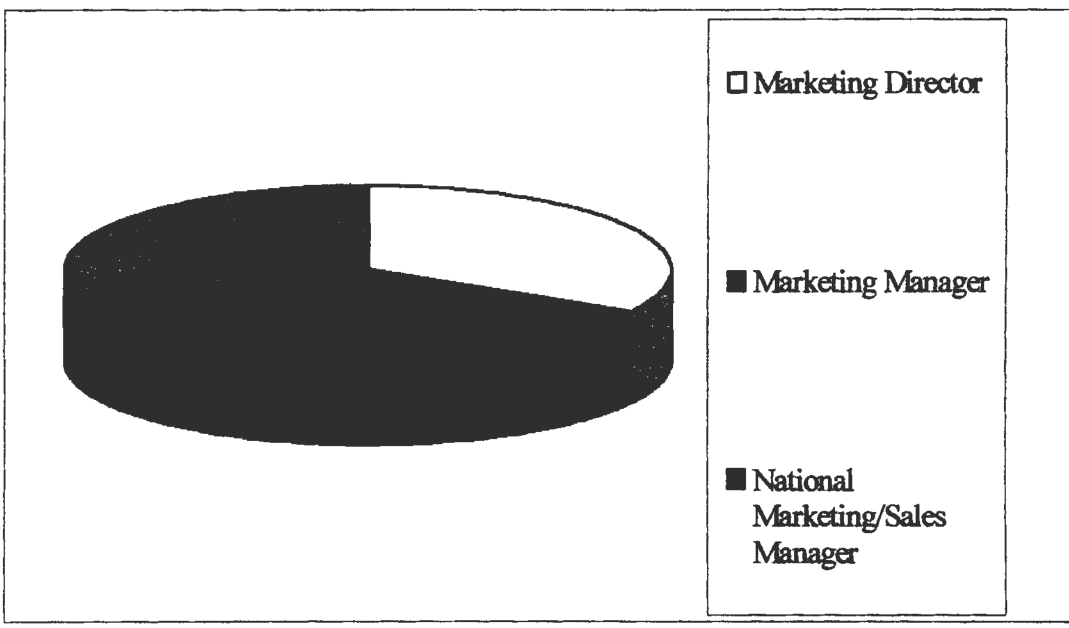
6.2 RESPONSES

This study used a qualitative and specifically exploratory-descriptive method, which required the views of experts. Five firms formed the focus of the study, being the larger JSE-listed South African food manufacturing companies manufacturing food (major group meat, fish, fruit, vegetables, oils and fats). These firms were Tiger Brands, Delfood, Kolosus, I&J and Rainbow. The aggregate (food) turnover of these firms amounted to R29 231,70, representing more than 50% of total South African food sales (see chapter 1, section 1.2.2 and chapter 5, section 5.2.2.3). Seven questionnaires were returned by the five firms forming the focus of this study. It would appear that more than one affected SBU from these firms might have answered the questionnaire, given the number of questionnaires returned. However, one of the returned questionnaires had to be rejected because it was incomplete and completed by a respondent not involved in the manufacture of food of the major group meat, fish, fruit, vegetables, oils and fats (some of these firms are also involved in the manufacture of products of the remaining three food major group as indicated in chapter 1, section 1.2, table 1.5). The responses to the six useable questionnaires are discussed in this chapter.

6.2.1 Demographics and reliability of the data

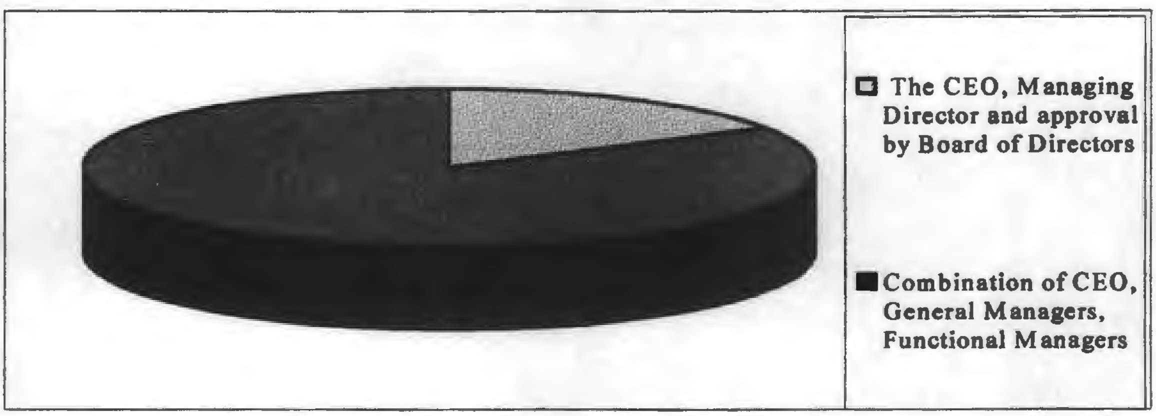
The questionnaire started with demographics to gain and retain the interest of the respondents as suggested by the literature and discussed in chapter 5 (see section 5.2.3.1). At the same time these questions served as tests to ensure the reliability of the data collected. Question 1 related to the position held by the respondent. Figure 6.1 below summarises the positions held by the respondents.

Figure 6.1 Positions held by respondents



According to figure 6.1, none of the respondents was a CEO, Managing Director or Financial Director, while only two (33%) of the respondents were marketing directors and 4 (66%) held "other positions". Of the "other" positions, two (50%) were marketing managers and two (50%) were national marketing/sales managers. This could mean that the "marketing managers" could represent the functional level of management as it can be inferred that marketing managers are the heads of functional activities as set out in chapter 1 (see figure 1.6, section 1.2.3). The national marketing and sales managers could represent the SBU level of management, as "national manager" may indicate the business level, if the rationale of figure 1.6 (see chapter 1, section 1.2.3) is applied. The marketing directors could represent the corporate level of management as "directors" could be deemed part of the corporate level of management following the rationale of figure 1.6 (see chapter 1, section 1.2.3). In this study, the focus was on the firm's corporate and SBU levels of management, rather than the functional level of management. Potentially, the position held by the respondents could indicate whether the information was reliable or not. On the face of it, the responses from the marketing managers should be rejected, as the functional level of management fell outside the scope of this study. However, question 1 cannot be viewed in isolation. It should be considered in conjunction with question 39, namely the market strategy responsibility in the firm. Figure 6.2 summarises the responses to question 39.

Figure 6.2 The primary strategy responsibility



According to figure 6.2, the majority (5 or 83%) of respondents indicated that the market strategy responsibility is a joint responsibility between

- the CEO, Managing Director and approval of Board of Directors,
- the General Manager in charge of the business and
- the functional managers.

Only one respondent (17%) indicated that the market strategy responsibility rests with the CEO and Managing Director with the approval of the Board of Directors.

The significant responses that market strategy was a joint responsibility between all three hierarchical levels of the firm meant that the responses from the functional level of management (ie, marketing managers) could be accepted as reliable. The reason was that these managers were involved in the market strategy application of the firms studied. In the instance where the strategy responsibility rested with the CEO and General Manager with the approval of the Board of Directors, the respondent was the Marketing Director. The Marketing Director was deemed part of the firm's executive board and, as such, involved in the firm's market strategy application. This response was thus accepted as it was assumed that (s)he was an executive member of the Board of Directors of the firm in question, and thus involved in the market strategy application of the firm concerned. All the respondents were considered involved in the market strategy application of the firms in question. As such, the information provided in the questionnaires was deemed reliable. However, it was noted that these respondents formed part of a team engaged in the market strategy application of the firms studied. Hence it was acknowledged that it was not clear to what extent the individual respondents' views were representative of the views of the group involved in market strategy.

The reliability of the data collected was checked and tested with a number of questions relating to the respondents' involvement in the food industry, the firm in particular and market strategy formulation in both the industry and the firm in particular. These checks were embodied in questions 3, 4, 8 and 9. Question 3 dealt with the period the respondents had been involved in the food industry while question 4 related to the period that the respondents had been involved with the firm in question. According to the responses to question 3, all the respondents indicated that they had been involved in the food industry for longer than five years. According to the responses to question 4, four (66%) respondents indicated that they had been involved with the firm in question for a period longer than five years, while two (2) (33%) indicated that they had been involved with the firm for a period shorter than five years. This meant that the respondents were involved in the food industry in the period 1996 to 1999, forming the focus of this study. However, the two respondents who had been involved with the firms in question for a period of less than five years, were only involved with the firms for part of the period under review. The latter may impact on the reliability of the data collected. However, as pointed out in chapter 1 (see table 1.12), some of the firms in question experienced management problems and as a consequence replaced some of their managers. As indicated in chapter 1 (see table 1.12), the performance of these firms improved after the new managers were appointed. In view of the improved performance after the appointment of new managers, the responses from the respondents who were not involved with the firms in questions for the entire period under review were accepted for purposes of this study.

Questions 8 and 9 investigated questions 3 and 4 further, by establishing the respondents' involvement in market strategy formulation and implementation in the industry and the firms in particular. According to the responses to question 8, all the respondents were involved in market strategy formulation in the food industry in the period investigated that is 1996 to 1999. However, only 3 (50%) were involved in market strategy formulation of the firms in question for the entire period 1996 to 1999, while 3 (50%) were only involved for part of the period investigated. Although half the respondents were not involved with the strategy application of the firms in question for the entire period under review, their responses were accepted for purposes of this study. The reason is that these responses are deemed to confirm the management problems, such as low profitability and low productivity, experienced by the firms in question in the period under review and expressed by financial ratios such as activity and profitability ratios (see chapter 2, section 2.4). The appointment of new managers by some of the firms in question were deemed to indicate that the firms tried to improve their performance. As indicated in chapter 1 (table 1.12), it would appear that the firms' performance improved after the new managers were appointed. Thus the responses from the respondents who were not involved with the strategy responsibility of the firm in question for the entire period under review were accepted for purposes of this study.

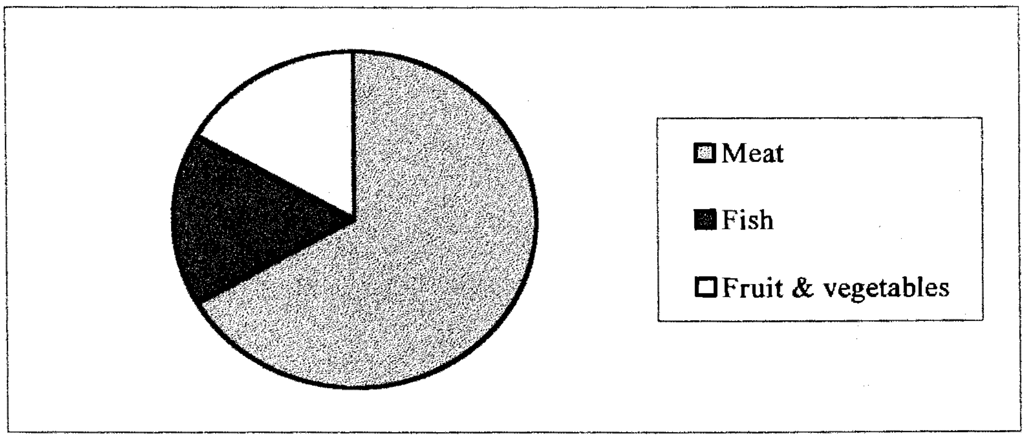
Question 5, about the products manufactured by the firms in question, was a further test of the reliability of data collected. The responses to question 5 are summarised in figure 6.3 below.

Figure 6.3 Products manufactured by the firms in question

According to figure 6.3, the responding firms were involved, to a greater or lesser degree, in the manufacture of all the products of the major group meat, fish, fruit, vegetables, oils and fats, which formed the focus of this study. According to figure 6.3, most (66%) of the firms manufactured meat (products). In addition, the firms were, generally, involved in more than one product, indicating the diversified nature of the firms as discussed in chapter 1 (see section 1.2). Meat appeared to be the most important of the products, which was consistent with the sales value (see chapter 1, table 1.3) of the different products, the consumer expenditure on the different products (see chapter 1, table 1.6 and chapter 2, table 2.7) and the statistics of products manufactured (see Annexure F). Meat seemed to be the most important product category in the major group meat, fish, fruit, vegetables, oils and fats manufactured by the firms in question.

Question 6 related to the product representing the major turnover of the firms investigated, which is summarised in figure 6.4 below.

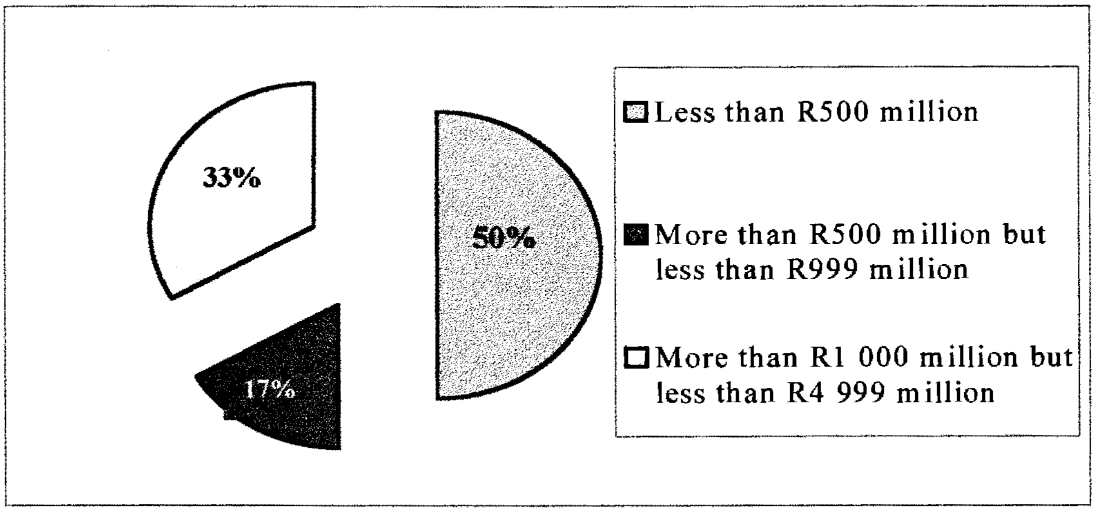
Figure 6.4 The one product representing the firm's major turnover



According to figure 6.4, meat (including poultry) represented the major turnover of 4 (66%) of the responding firms, and in one (1) (17%) case each, fish and fruit and vegetables were indicated as the product representing the major turnover of the responding firms. Oils and fats were not indicated as a major turnover category, which was consistent with sales value of food (see chapter 1, table 1.3) and consumer expenditure on food (see chapter 2, table 2.7).

Question 7 established the size of the firms in terms of turnover, which is reflected in figure 6.5 below.

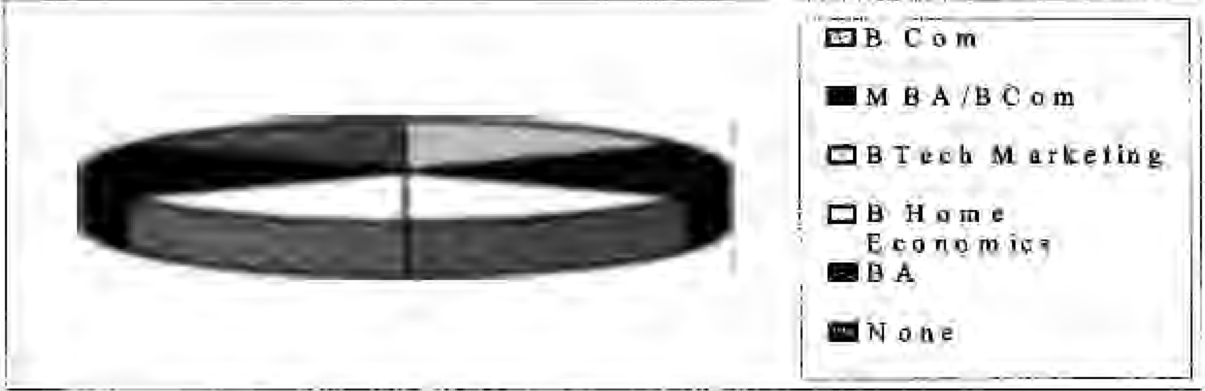
Figure 6.5 Turnover of all the food products manufactured (as indicated in question 5)



According to figure 6.5, the turnover of three (3) (50%) of the responding firms was less than R500 million, one (1) (17%) was more than R500 million but less than R999 million and two (2) (33%) were more than R1 000 but less than R4 999 million. On further examination it appeared that the three firms with a turnover of less than R500 million were involved in the manufacture of meat (two firms) and fish. The firm with a turnover of more than R500 million but less than R1 000 million was involved in the manufacture of fruit, vegetables and oils. The firms with a turnover of more than R1 000 but less than R4 999 million were involved in the manufacture of meat products. The turnovers in figure 6.5 did not seem to match those provided in chapter 1, especially tables 1.6 to 1.9. However, it should be borne in mind that the responding firms were required (in question 7) to disclose their turnovers for food of the major group meat, fish, fruit, vegetables, oils and fats. The turnovers in chapter 1, however, were generally for all the food manufactured, despite the major groups into which the products can be classified, as submitted in their annual reports. Therefore, a direct comparison could not be made between the turnovers in figure 6.5 and those in chapter 1. Nevertheless, these turnovers were considered significant. These turnovers were used in checking the responses of market leaders versus the non-market leaders (eg. in questions 12 – frequency of market strategy formulation and 23(b) – reasons why actions of competitors were not considered).

Question 2 related to the respondents' qualifications. Figure 6.6 summarises the response to question 2.

Figure 6.6 Qualifications of respondents



According to figure 6.6, the respondents' qualifications differed vastly, from none to a BCom/MBA.

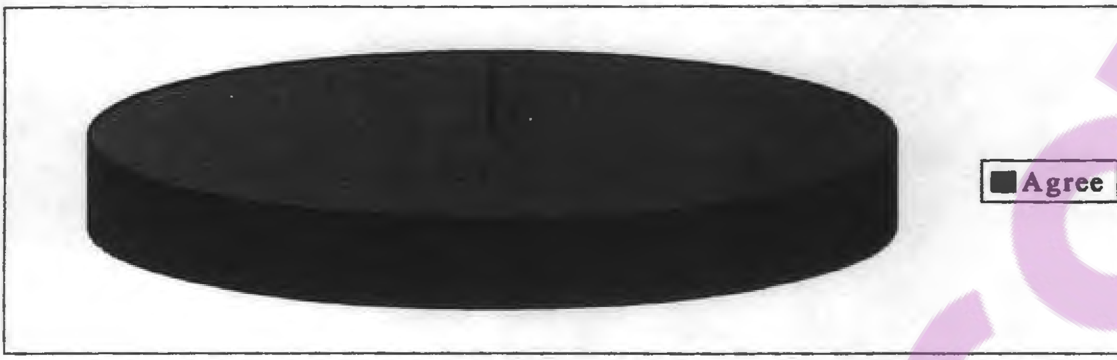
The next section addresses the questions that pertain to opinions about market strategy, as embodied in questions 10 to 12.

6.2.2 Opinions about market strategy

Market strategy ensures that the firm arrives at its ultimate destination, namely survival and growth in an ever-changing environment. In a free market system the objective of firms is to make a profit. Profit is expressed in different forms such as return on investment. Profit is deemed to be a function of survival and growth. Survival alone is insufficient to sustain profit in the long term. Therefore the firm must grow to sustain profit in the long term. The respondents' views on market strategy (as vehicle that ensures survival and growth) were established in questions 10 to 12. Question 10 (a) to (c) tested the respondents' opinions about definitions of strategy on the different hierarchical levels of the firm (see chapter 1 figure 1.6), while question 11 tested their opinions on the definition of market strategy as such. Question 12 established how frequently market strategy was formulated. Each of these questions is addressed in this section.

Question 10 (a) tested the general definition that strategy consists of the actions and approaches employed to achieve the targeted organisational performance. The responses are summarised in figure 6.7 below.

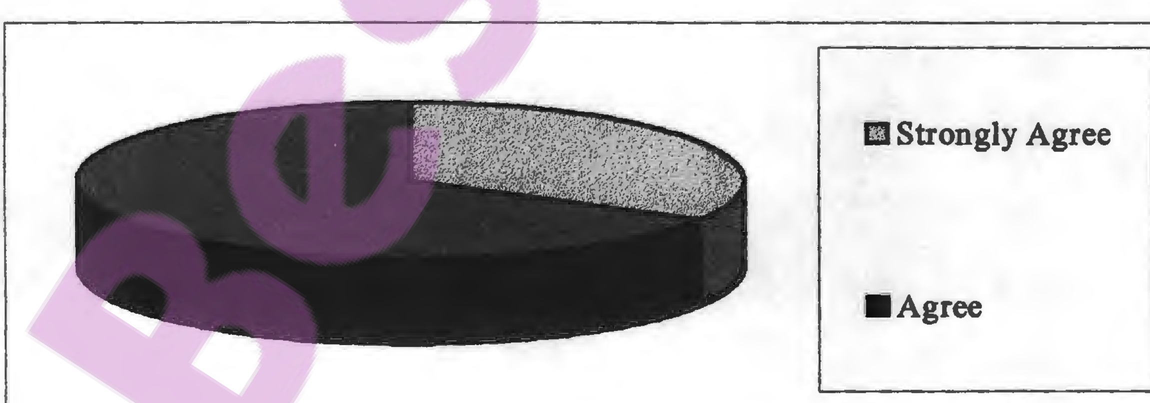
Figure 6.7 Strategy as the actions and approaches employed to achieve the targeted organisational performance



According to the figure 6.7, all the respondents agreed with the general definition of strategy. This definition could be seen as similar to corporate level strategy or strategy in a single business firm and these responses seemed to be consistent with the theory as set out in chapter 1 (see section 1.2.3).

Question 10 (b) tested the general definition of corporate level strategy of a diversified firm, namely that strategy is how a diversified firm intends to establish business positions in different industries and the actions and approaches employed by management to improve the group's performance in businesses into which diversified. Figure 6.8 summarises the responses to question 10 (b).

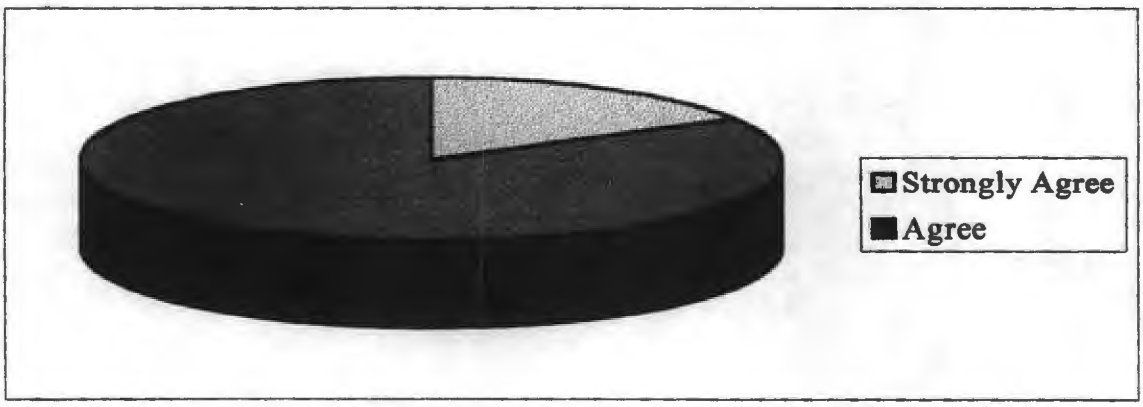
Figure 6.8 The definition of strategy in a diversified firm



According to figure 6.8, all the respondents agreed with this definition, of whom two (2) (33%) strongly agreed. On closer scrutiny it transpired that the respondents who strongly agreed with this definition represented the SBU and corporate levels of management, respectively. These responses seemed congruent with the theory as set out in chapter 1 (see section 1.2.3).

Question 10 (c) tested a definition of SBU level strategy, namely strategy as management's managerial game plan for the single business to build a strong long-term competitive position. Figure 6.9 summarises the responses to this question.

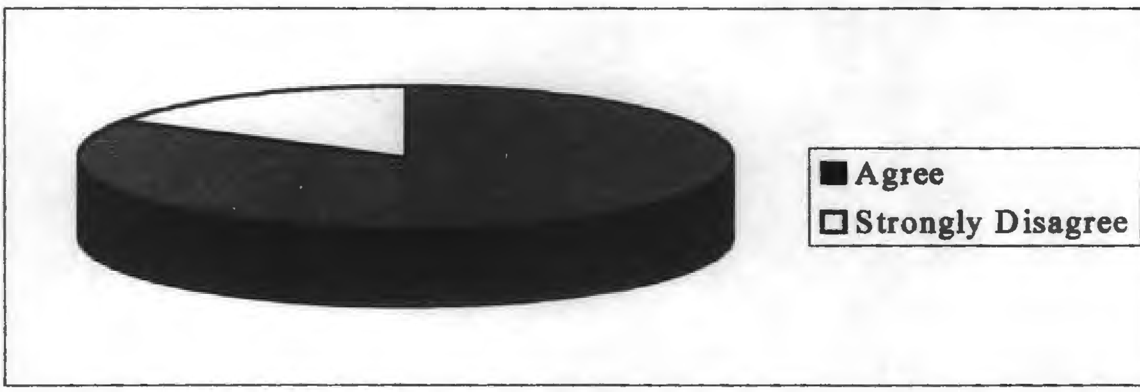
Figure 6.9 Strategy as management's managerial game plan for the single business to build a strong long-term competitive position



According to figure 6.9, all the respondents agreed and one (1) strongly agreed with the definition of SBU strategy. On closer scrutiny it appeared that the respondent who strongly agreed represented the functional level of management and held a marketing qualification. These responses seemed consistent with the theory as discussed in chapter 1 (see section 1.2.3).

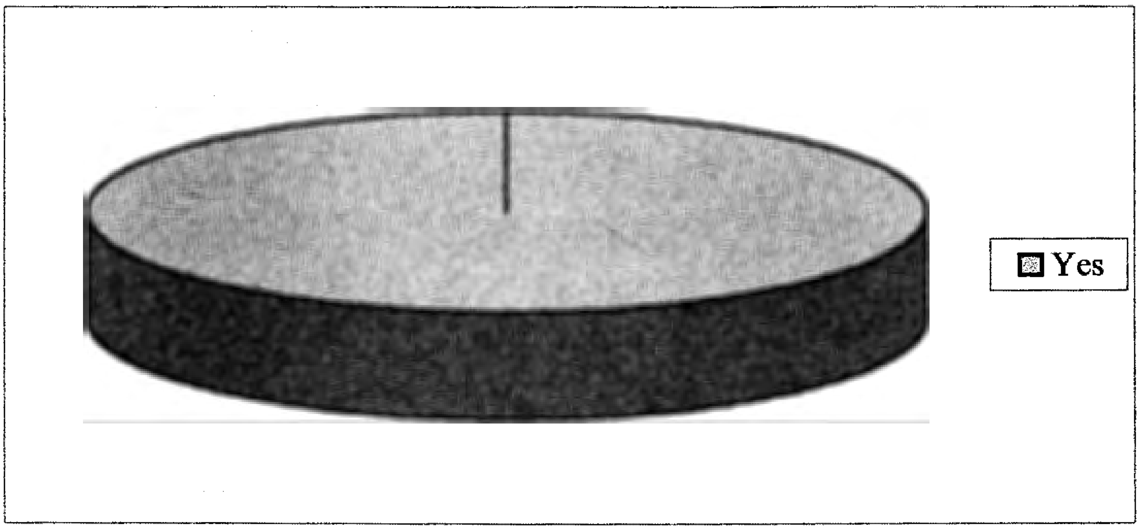
Question 11 tested the definition of market strategy, namely the contribution of marketing management to the formulation of strategy. Figure 6.10 summarises the responses to question 11.

Figure 6.10 Market strategy as the contribution of marketing management to the formulation of strategy



According to figure 6.10, five (5) (83%) respondents agreed with the definition of market strategy, while one (1) (17%) respondent strongly disagreed. On further investigation it appeared that the respondent who strongly disagreed with the definition represented the corporate level of management and that the strategy responsibility of this firm rested with all the hierarchical levels of the firm. This response seemed strange, considering that all the hierarchical levels were involved in this firm's market strategy formulation and implementation efforts. The definition of market strategy was further tested with a question requiring the respondents to indicate whether or not their marketing departments contributed to strategy formulation. Figure 6.11 summarises the contribution of the marketing department to strategy formulation efforts of the firm.

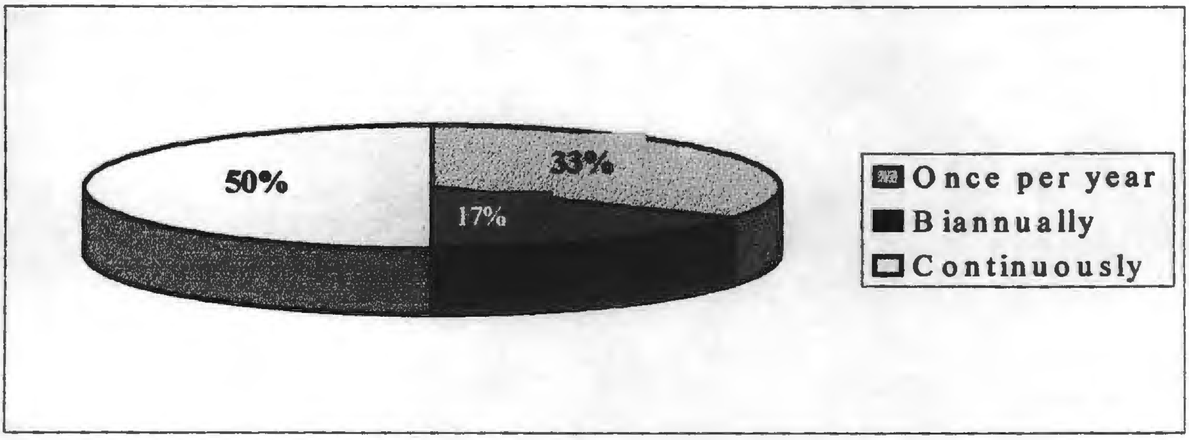
Figure 6.11 The contribution of the marketing department to strategy formulation efforts



According to figure 6.11, all the respondents indicated that their marketing departments contributed to strategy formulation. This is congruent with the theory, as set out in chapter 1 (see section 1.2.3). This response indicated that the firms in question might be considered market orientated.

Question 12 aimed at establishing the frequency at which market strategy was formulated. Figure 6.12 summarises the responses to the frequency of market strategy formulation.

Figure 6.12 Frequency of market strategy formulation



According to figure 6.12, only (3) three (50%) of the responding firms formulated market strategy continuously, while (2) two (33%) formulated market strategy once a year and (1) one (17%) formulated market strategy biannually. The continuous formulation of market strategy was consistent with the theory on market strategy (see especially chapter 4, section 4.2). The continuous formulation of market strategy was also deemed consistent with the demands placed on these firms by the volatile nature of the business environment in which they operated.

To gain insight into these responses, the responses were further investigated by referring to the foods they manufactured, the respondents' management level and the firms' strategy responsibility. Table 6.1 below summarises the frequency of market strategy formulation referring to the foods involved, the respondents' management level and the firms' strategy responsibility.

Table 6.1 The frequency of market strategy formulation referring to the foods involved, the respondents' management level and the firms' strategy responsibility[1]

Frequency of market strategy formulation	Food involved	Respondents' management level	Firms' strategy responsibility
Once per year	Meat; fish	SBU and functional	All hierarchical levels
Biannually	Fruit, vegetables , oils and fats	Corporate	All hierarchical levels
Continuously	Meat (3 firms)	Functional, SBU and corporate	All hierarchical levels; CEO, General Managers and approval of Board of Directors

According to table 6.1, market strategy seemed to be formulated continuously, mainly for meat. However, in one case market strategy was formulated once per year for meat. In this case the turnover was between R1 000 and R 4 999 million, which indicated that this firm was one of the market leaders. It would seem strange that a market leader did not formulate market strategy continuously. The respondents who indicated that market strategy was continuously formulated were from the three different hierarchical levels: functional, SBU and corporate. These respondents indicated that the strategy responsibility rested with all the hierarchical levels and the CEO, General Managers and approval by the Board of Directors. On further examination it appeared that the turnover of one of these firms was more than R1 000 but less than R4 999 million and the turnover of two of the firms were less than R500 million. The former could be considered a market leader, while the latter could be considered followers. There was no apparent trend in comparison to those who formulate market strategy once per year or biannually. The only distinguishing factor was that some firms, mainly involved in meat, formulated market strategy continuously, though not all firms engaged in the manufacture of meat formulated market strategy continuously. This perhaps indicated

[1] Unfortunately no comparison could be made between the financial results of the firms who formulated market strategy continuously and those who did not. The reason was that the responses were anonymous.

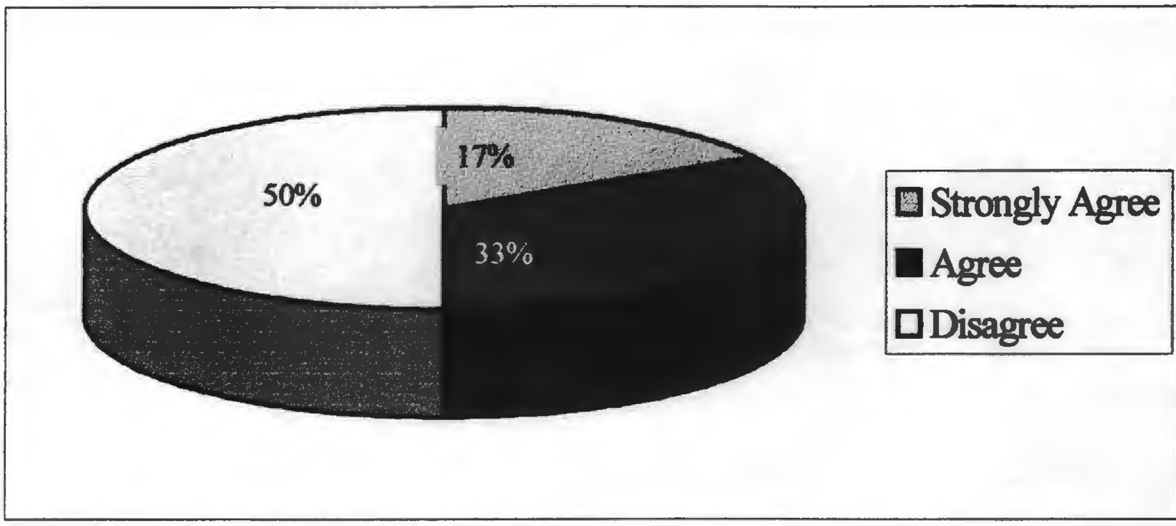
that some of the firms involved in the manufacture of meat were aware of and tried to adapt to the demands of the business environment. The demands of the environment were generally addressed via the SWOT analysis, embodied in questions 13 to 32.

6.2.3 Opinions about strengths, weaknesses, opportunities and threats

The purpose of a SWOT analysis is to determine the variables affecting the firm's survival and growth in an ever-changing environment. Furthermore, the SWOT is the means of identifying an SCA on which the market strategy is based. Effective market strategy presents a good fit between the resources of the firm and the external environment, meaning the firm is in a position to maximise strengths and opportunities and to minimise the impact of weaknesses and threats. It is necessary to analyse strengths as they are based on assets/resources, which ultimately form the foundation of SCA. The theoretical constructs strengths, weaknesses, opportunities and threats were tested in questions 13 to 32, and are discussed in this section.

Question 13 tested whether or not the firms considered factors that might present strengths, weaknesses, opportunities and/or threats, which might limit the actions the firm could or should take in the formulation of market strategy. Figure 6.13 summarises the responses to question 13.

Figure 6.13 Market strategy formulation takes into account factors that might limit the actions that the firm could or should take



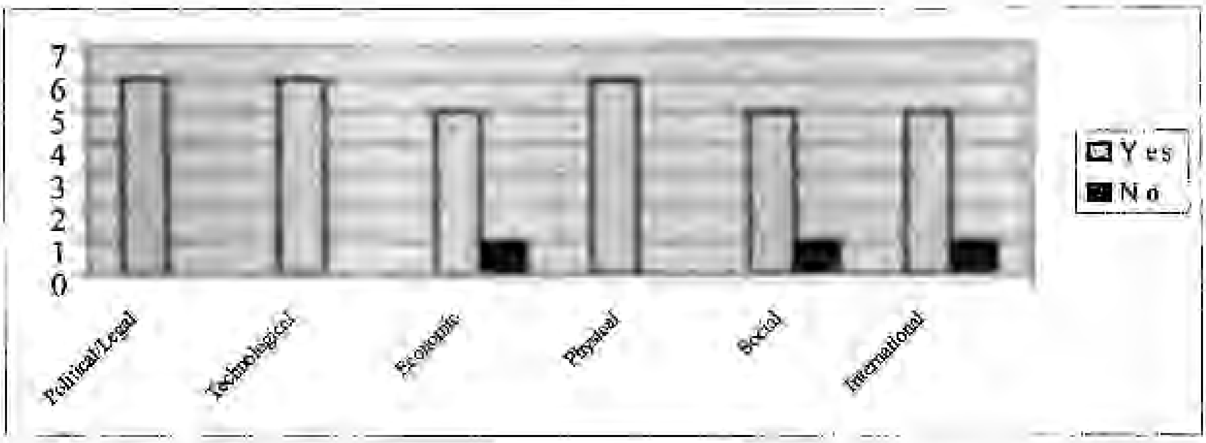
According to figure 6.13, (1) one (17%) respondent strongly agreed that the firm considered factors that might limit the actions the firm could or should take in the formulation of market strategy, while (2) two (33%) agreed and (3) three (50%) disagreed with the statement. Those respondents who disagreed with this statement implied that they did not consider factors that might present strengths, weaknesses, opportunities and/or threats, which might limit the actions the firm could or should take in the formulation of market strategy. This is in conflict with the theory as discussed in chapter 3 (see section 3.2). Furthermore, if firms do not consider factors that may limit the actions the firm can take in the formulation of market strategy, they may jeopardise their firms' performance. This, in the long term, may eventually impact negatively on the firms' survival and growth. This statement was further tested by questions 14 to 33. Questions 14 to 33 related to the variables in the different environments that might hold opportunities or posed threats, or presented strengths and weaknesses that could have influenced the market strategy application of the firms in question. It is interesting to note that despite their disagreement with the statement in question 13, the three respondents nevertheless completed questions 14 to 33. This seemed to be a contradiction. However, it may also indicate that the instructions in the questionnaire were not clear enough. The respondents who disagreed with the statement were not instructed to skip questions 14 to 33.

In chapter 2 it was pointed out that it is essential to analyse the business environment in which firms operate, as it is a prerequisite for the management of market strategy. Furthermore, market strategy is the tool that management uses to adapt to changes in the business environment to ensure that the firm arrives at its ultimate destination, namely survival and growth as explained in figure 4.2 (see chapter 4, section 4.2). The factors present in the environment that impact on the survival and growth of the firm are found in the macro-, market and micro-environments. Questions 14 to 19 established whether or not the respondents considered variables from the different sub-environments in their market strategy application efforts. If they considered variables from the environments in questions 14 to 19, they were required to list the three major variables from the particular environment in questions 14 (a) to 19 (a). If they had not considered variables from the sub-environments mentioned in questions 14 to 19, they were requested to give their reasons for not considering the variables from the sub-environment in questions 14 (b) to 19 (b). Questions 20 to 23 established whether factors present in the market environment were considered in the firm's market strategy application efforts. If so, they were requested to list the major factors from the market environment that impacted on their market strategy application efforts in questions 20 (a) to 23 (a). If not, they were requested to give their reasons why factors from the market environment were not considered in their market strategy application efforts in questions 20 (b) to 23 (b). Questions 24 to 30 established which factors present in the micro-environment were considered in their market strategy formulation and implementation efforts. If so, they were required to list the major factors from the micro-environment considered in their market strategy application efforts in questions 24 (a) to 30 (a). If not, they were requested to give reasons why factors from the micro-environment were not considered in their market strategy application efforts in questions 24 (b) to 30 (b).

Factors from the macro-environment

The factors present in the macro-environment were specifically from the political/legal (question 14), technological (question 15), economic (question 16), physical (question 17), social (question 18) and international (question 19) sub-environments. Figure 6.14 summarises the responses to the factors from the macro-environment considered in market strategy formulation.

Figure 6.14 Factors from macro-environment considered in market strategy formulation



According to figure 6.14, all the respondents indicated that they considered factors in the political/legal, technological and physical sub-environments in market strategy formulation. Only (5) five (83%) of the respondents indicated that they also considered factors from the economic, social and international sub-environments in the formulation of market strategy. One (1) (17%) respondent indicated that factors from the economic, social and international sub-environments were not considered in market strategy formulation and implementation. On further examination it appeared that this respondent was the National Sales and Marketing Manager of a firm manufacturing meat products, with a turnover of less than R500 million per annum. Furthermore, this respondent did not hold any qualification. From this respondent's responses it would appear that his/her firm was only involved in the manufacture of poultry products for the South African market. On further scrutiny it seemed that this respondent did not consider factors that were traditionally classified as economic, social or international variables in any of the other sub-environments (eg, political/legal, technological and/or physical). The omission to consider factors from these environments seems strange, especially since the poultry manufacturers were beset by imports of dumped poultry from the USA. This particular response is further discussed in the response to questions 16 (b), 18 (b) and 19 (b), where the respondent was required to give reasons for not considering variables from these environments.

Questions 14 (a) to 19 (a) required the respondents to list the three most important factors in these sub-environments that were considered in market strategy formulation and implementation, as they might constitute possible opportunities and threats. Table 6.2 summarises these factors, with reference to the food involved, the respondents' management level and the firms' strategy responsibility.

Table 6.2 Factors in the macro-environment considered in market strategy formulation

Factors in macro-environment	# of respondents	Food category involved	Management level of respondent	Strategy responsibility in firm
Political/legal environment				
Legislation				
• Tariffs	3	All	SBU; Corporate (2)	CEO etc; All
• Health requirements	3	Meat; fish	SBU; Functional (2)	All All
• Export/import requirements	1	Fish	Functional	All
• Quota restrictions	1	Fish	Functional	All
• Substances used to treat products	1	Meat	Corporate	All
• Labour relations	1	Meat	Functional	All
Trade agreements	3	All	Functional; Corporate (2)	All
Aids	1	Meat	Functional	All
Government aid to EU agricultural products	1	Fruit vegetables, oils and fats	Corporate	All
Technological change and requirements	4	All	All	All
Processing and packing technology; new products, processes, procedures (innovation)	2	All	Corporate, SBU	All; CEO etc
E-commerce	1	Fish	Functional	All
	1	Fruit, vegetables, oils and fats	Corporate	All
MIS				
Investment				
Economic variables				
Consumer expenditure trends	4	All	All	All; CEO etc
PPI/CPI	3	Meat; Fish	SBU;	CEO, etc
Exchange rates	2	Meat; Fish	Functional	All
Interest rates	2	Meat	Functional; Functional	All All
Economic growth rate	1	Fruit, etc	Corporate	All
Inflation	1	Fruit, etc	Corporate	All
Raw material costs, including petrol and protein prices	1	Meat	SBU	CEO, etc

Physical variables				
Skills level of workers/training/experience	3	All	Corporate; Functional	All
Climate (national and international)	2	All	Corporate; Functional	All
Production capacity	2	Meat	Corporate; SBU	All
Yields/landings	2	Fruit, etc; fish	Corporate; Functional	All
Mortality	1	Meat		CEO etc
Holidays and public holidays	1	Meat	SBU SBU	CEO, etc
Social factors				
Nutritional status and health	4	All	All	All
Consumption patterns	3	All	Corporate, SBU	All; CEO etc
Convenience	3	All	All	All, CEO etc
Value for money	1	Fruit, etc	Corporate	All
Affordability	1	Meat	Functional	All
Hunger	1	Fruit, etc	Corporate	All
International variables				
Exchange rates	4	Meat, Fish	All	All, CEO etc
Export opportunities, especially to Africa	3	All	Corporate; Functional	All
Breakout of diseases	1	Meat	Functional	All
Demand for products	1	Fish	Functional	All
Consumption patterns	1	Meat	Corporate	All
US exports of poultry to SA	1	Meat	SBU	CEO, etc
Political/social influences	1	Fish	Functional	All

According to table 6.2, the respondents indicated that they considered various factors in the macro-environment in the formulation and implementation of market strategy. A closer look at table 6.2 revealed that:

- Some factors were listed in more than one sub-environment: for example, consumer expenditure was mentioned as a factor in the economic, social and international sub-environments, though in different guises. These guises included consumer expenditure trends (economic variables), consumption patterns (social factors) and demand for products (international variables). This showed that the factors were interwoven and a classification system was required to simplify the investigation thereof as pointed out in chapter 2 (see section 2.1);

- The factors most often mentioned, irrespective of the category in which they were listed, related to (1) consumer expenditure trends, followed by (2) exchange rates, (3) processing and packaging technology, new products, processes, procedures and innovation and (4) nutritional status. In an examination of these factors, it transpired that they corresponded to the driving forces of change in the food industry, namely consumer expenditure patterns and technology as pointed out in chapter 2 (see section 2.3.1). Consumer expenditure patterns and nutritional status might influence innovation (for example nutritionally enriched foods) and technology (improved processes). The driving forces of change in the food industry, and specifically affecting the food major group meat, fish, fruit, vegetables, oils and fats seemed to be interwoven.
- All kinds of factors were considered by the different hierarchical levels and the persons charged with the market strategy responsibility. A definite trend followed by the different hierarchical levels or the different positions charged with market strategy responsibility could not be discovered. For example, functional level respondents indicated exports that could be deemed a corporate issue, following the rationale of figure 1.6 about the responsibilities of the different hierarchical levels (see chapter 1, section 1.2.3). This could possibly be ascribed to the fact that all the different hierarchical levels in the responding firms were involved in market strategy formulation and implementation.

This section discusses the various sub-environments and factors listed in each as illustrated in table 6.2 briefly. The factors in the political/legal environment considered included legislation and specifically tariffs, health requirements, import and export requirements, quota restrictions, substances used to treat products, and labour relations as well as trade agreements, aids and Government aid to EU agricultural products. All the factors listed under political/legal environment were discussed in chapter 2 (see section 2.2.1). However, not all the issues discussed in section 2.2.1 were listed in table 6.2. According to the responses set out in table 6.2, tariffs and health requirements were equally frequently considered under legislation. The consideration of tariffs did not come as a surprise as poultry forms part of meat, which was manufactured/processed by (4) four (66%) of the respondents (see question 5). Poultry, in turn, was heavily affected by USA dumping in the period under review, which necessitated the increase in tariffs applicable to poultry in order to protect the South African poultry industry as indicated in chapter 2 (see section 2.2.1). Health requirements were almost considered obvious given the nature of this industry and its potential impact on people's health and wellbeing. Trade agreements were rated equally often in considering market strategy formulation, though particulars of the trade agreements were not disclosed. From a closer look at these responses it also appeared that the responding firms manufacturing food for export (meat, fruit, vegetables) generally considered tariffs and trade agreements. After tariffs, health requirements and trade agreements, the remainder of the factors listed that were considered in the formulation of market strategy seemed to be often mentioned equally. The remainder of the factors were less frequently mentioned and thus seemed to be less important than the previous ones.

According to table 6.2, factors in the technological environment that were considered in the formulation of market strategy included processing and packing technology; new products, processes, procedures (innovation), e-commerce and investment. It was not clear what the respondent meant by "investment", but possibly "investment" in new machinery/equipment that was generally expensive. The variables considered in market strategy formulation most often mentioned, and thus deemed to be the most important in this sub-environment, were processing and packaging technology, new products, processes, procedures and innovation. This was consistent with the information in chapter 2 (see section 2.2.2). Processing included preserving which is enhanced by packaging. These factors were understandably important in the formulation of market strategy of the firms in question, as these formed part of one of the forces driving change in this industry. Furthermore, these factors form part of the key success factors of the industry and factors that drive change in the industry as indicated in chapter 2 (see section 2.3.6). Health requirements, mentioned under the political/legal environment, should perhaps be read in conjunction with these factors. It should be noted, however, that none of the respondents indicated that genetically modified foods were considered, given the lower costs associated with them. This could perhaps indicate that South Africa is not yet ready for genetically modified foods, given the negative reaction to them as pointed out in chapter 2 (see section 2.2.2).

In the case of factors considered in the economic environment in the formulation of market strategy, the respondents indicated that consumer expenditure trends, PPI/CPI, exchange rates, interest rates, economic growth rate and raw material costs, including petrol and protein prices were taken into account. These factors were discussed in chapter 2, but not all the factors discussed under section 2.2.3 dealing with economic variables were listed in table 6.2. Given the correlation between the economic, social and international environments, consumer expenditure patterns were most often mentioned, and thus understood to be the most important factor in the economic environment considered in the formulation of market strategy. Thus it is surprising that the one respondent indicated that his/her firm does not consider the variables from these environments as indicated in figure 6.14. As mentioned earlier, consumer expenditure patterns constituted one of the driving forces of change in the food industry. As such, the firms in question appeared to have, generally, considered relevant factors that influenced the industry. Respondents manufacturing products that are exported (meat, fish, fruit, vegetables), however, did not mention factors, such as international competitiveness, exchange controls, country risk ratings and food inflation (see chapter 2, section 2.2.3), which could influence the market strategy formulation. These factors could possibly be implied in factors such as exchange rates and consumer expenditure patterns. Though more in-depth research may be required to confirm this statement.

According to table 6.2, factors in the physical environment that were considered in market strategy formulation included the skills level of workers/training/experience, climate (national and international), yields/landings, production capacity, mortality and holidays and public holidays. Climate and capacity were discussed in chapter 2 (see section 2.2.4). Climate was specifically addressed in terms of its impact on the quality of agricultural outputs, which, in turn, impacts on the quality (inter alia yields/landings) and thus price of processed foods. Capacity was addressed in relation to costs, which in turn, influence the price of the products manufactured. Skills could perhaps indicate or point to productivity, which might also have a bearing on costs and prices of products manufactured. The factors considered in the physical environment influenced costs and prices, which might denote that the responding firms were cost conscious. This possibility was verified with the responses to question 38, which revealed that all of the responding firms, except for the one manufacturing fish products, applied a low cost strategy. However, the respondent manufacturing fish products applied maintenance and harvest strategies, which might imply cost consciousness.

Social factors considered in the formulation of market strategy by the respondents included nutritional status and health, consumption patterns, convenience, value for money, affordability and hunger. Some of these factors were discussed in chapter 2 (see section 2.2.5), though not all factors discussed in chapter 2 were listed in table 6.2. As pointed out in the discussion of the economic variables, consumer expenditure patterns were deemed a driving force of change in the industry and, as such, critical for the firms in question. Nevertheless, none of the respondents mentioned human development (see chapter 2, section 2.2.5) that could hold opportunities for the firms in question. Some of the factors mentioned (nutritional status, health, hunger, affordability) could denote human development. However, further research would be needed to confirm this notion. Yet value for money was only mentioned once. The respondent who mentioned value for money was the manufacturer of fruit, vegetable, oil and fat products. This respondent represented the corporate level of management and all hierarchical levels of the firm were charged with the strategy responsibility. Value for money could point to a consumer orientation required for achieving and maintaining SCA as discussed in chapter 3 (section 3.3.1). This response might indicate that a consumer orientation was generally not a priority to some of the respondents. In this case, however, the particular response was congruent with the notion that this firm was market orientated as shown by responses to question 35 (definition of SCA that included the consideration of value for money) and question 11 (contribution of the marketing department to strategy formulation and implementation). However, according to the responses of the majority of firms, it would appear that these firms might not be market orientated. This may perhaps be indicative of their mediocre performance as illustrated in chapter 2 (section 2.4).

In the case of international variables considered in the formulation of market strategy, the respondents indicated that exchange rates, export opportunities especially to Africa, US exports of poultry, breakout of diseases, demand for products, consumption patterns and political/social influences were considered. As pointed out earlier, some of these factors overlapped with some of those mentioned under other sub-environments, thereby denoting the interwovenness of the sub-environments of the macro-environment. Some of the variables listed in table 6.2 were discussed in chapter 2 (see section 2.2.6), though not all of the factors mentioned in section 2.2.6 were mentioned in table 6.2.

Given the responses to questions 14 (a) to 19 (a), namely the variables considered in the sub-environments, were generally deemed consistent with the theory covered in chapter 2, section 2.2. It was noted that the factors considered from the sub-environments corresponded to those mentioned in the literature. However, not all of the factors discussed in chapter 2 were considered. The question that arises is whether or not the respondents succeeded in focusing on the major variables from the sub-environments. This will have to be investigated in further research.

As pointed out in the discussion of figure 6.14, questions 16, 18 and 19 each received a negative response. In other words, at least one respondent indicated in each case that factors from the social, economic and international environments were not considered in the formulation of market strategy. The reasons why factors from the economic, social and international environments were not considered in market strategy formulation, as mentioned in questions 16 (b), 18 (b) and 19 (b), are summarised in table 6.3 below.

Table 6.3 Reasons why factors from the economic, social and international environments were not considered in market strategy formulation

Factor and reason advanced why it was not considered	# of respondents	Food involved	Management level of respondent	Strategy responsibility
Economic variables Price changes	1	Meat	SBU	All levels
Social factors White meat (poultry) says it all	1	Meat	SBU	All levels
International variables Due to world-wide consumption difficulties it is limited for South Africa	1	Meat	SBU	All levels

According to table 6.3, the reasons the factors were not considered in market strategy formulation were not clear. However, these responses necessitated the following observations:

- The sub-environments containing the factors that drive change in the industry were omitted, and would inevitably affect the firm detrimentally, as this firm would not be in touch with the changing environment. One can assume that this respondent was involved in poultry processing (white meat says it all). Furthermore, poultry was the only product (of those in question) that was not exported. One may conclude from this response that the respondent was internally focussed rather than externally.
- Factors, such as innovation, that are critical to SCA and relevant in outperforming competitors, were present in these environments and thus neglected.
- This response could indicate that the particular firm might not be market orientated. On further investigation it appeared that this firm was not a market leader as indicated by its turnover (less than R500 million as pointed out in discussion under

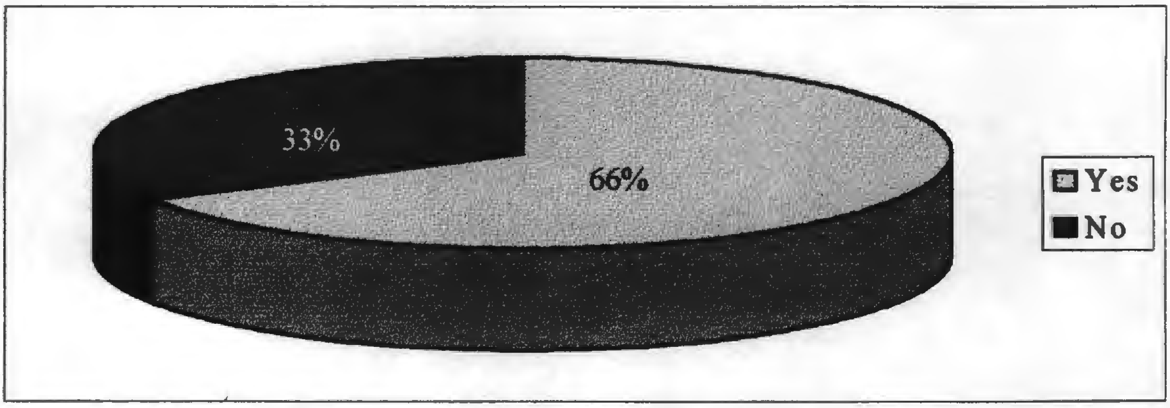
figure 6.14). The omission of critical factors in the application of market strategy might have contributed to this firm's position (ie, not a market leader and, in fact, small compared to the market leaders with turnovers of between R1 000 and R4 999 million).

- All the relevant factors that might impact on the survival and growth of the firm were not considered, which might suggest why this firm's performance could have improved.
- The oversight not to consider factors in these sub-environments was inconsistent with the theory.

Factors from the market environment

Questions 20 to 23 related to factors in the industry and market, which could hold opportunities or pose threats to the firms in question and should therefore be considered in market strategy formulation. According to the theory, especially figure 2.1, the market consists of consumers, competitors, intermediaries and suppliers. It was established in chapter 2 (see section 2.3) that consumers and intermediaries were the same in the case of the firms under investigation, namely the wholesalers and retailers. It was also established that the firms in question were generally their own suppliers as they were backward integrated. Thus, for the purposes of this study, the market environment consisted of competitors and intermediaries (wholesalers and retailers). As pointed out in chapter 2 (see section 2.3.2), these firms were backward integrated and as such their own suppliers. Thus suppliers were not considered in the market environment. Therefore questions 20 to 23 tested whether or not competitors and intermediaries were considered in market strategy formulation by the firms in question. Question 20 established whether or not actions taken by competitors were taken into account in formulating market strategy. Question 20 (a) required the respondents to indicate what competitor actions were considered. Question 20 (b) required the respondents to give reasons why competitor actions were not considered. Figure 6.15 summarises the responses to question 20.

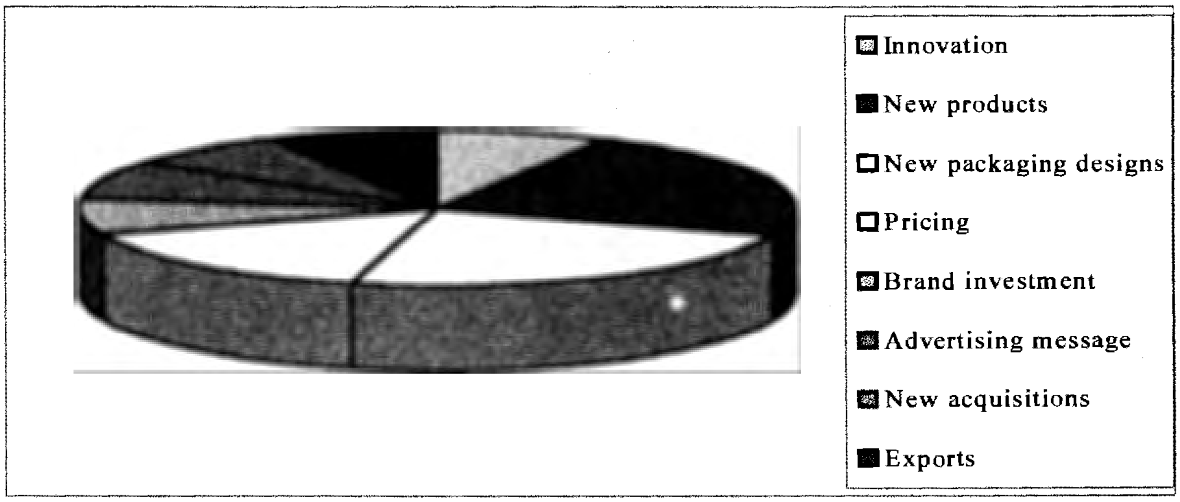
Figure 6.15 Actions of competitors were taken into account in market strategy formulation



According to figure 6.15, four (66%) of the respondents indicated that they considered the actions taken by competitors in market strategy formulation. In examining the responses, it appeared that the two firms who responded negatively to this question were involved in the manufacture of meat products, and the respondents represented the SBU level of management (these responses are further examined in the responses to question 20 (b)). The responses that competitor actions are not considered in market strategy formulation are inconsistent with the theory. The firms who considered competitor action in market strategy formulation were involved in the manufacture of meat, fish, fruit, vegetables oils and fats and represented the corporate and functional levels of management. The responses that the actions of competitors were taken into account in market strategy formulation are consistent with the theory.

Question 20 (a) established the kinds of actions taken by competitors that were taken into account in market strategy formulation. These actions are summarised in figure 6.16 below.

Figure 6.16 Action taken by competitors considered in market strategy formulation



According to figure 6.16, a number of actions taken by competitors were considered in market strategy formulation. An examination of these actions revealed that some of them could be grouped – innovation, new products and new packaging designs could be grouped as technological variables. This denoted that the firms in question observed their competitors in terms of one of the driving forces of change in the industry, which might impact on SCA. This in itself was significant, as SCA was required to outperform the competition.

According to figure 6.16, competitor actions that were considered by the respondents in their market strategy formulation efforts seemed to be mainly related to the marketing mix, namely

- product – core (such as new products) and extended product (such as packaging, brand investment)

- pricing
- promotion (such as advertising message)
- place (such as exports)

The marketing mix indicated issues that were typically addressed on the functional level of management. In this case it would thus appear that only new acquisitions were a matter dealt with by the corporate and SBU levels of management as suggested in chapter 1 (see section 1.2.3) and chapter 4 (see section 4.2.3.1). However, given the information in figure 6.16, in relation to other responses to the questionnaire, such as food involved, management level of the respondent, strategy responsibility in the firm and strategy applied, this picture changes completely. Table 6.4 summarises the competitor action considered, the type of food involved, the management level of the respondent, the strategy responsibility and strategies applied by the responding firms.

Table 6.4 Competitor action considered, the type of food involved, the management level of the respondent, the strategy responsibility and the strategy applied by the responding firms

Competitor action	Type of food involved	Management level of respondent	Strategy responsibility	Strategy applied
Innovation	Fruit, vegetables, oils and fats	Corporate	All levels	Differentiation, Low cost, first mover
New products	Meat, Fish	Corporate, Functional	All, CEO etc	Differentiation First mover
New packaging designs	Meat	Corporate	CEO etc	Differentiation, First mover
Pricing	All	Corporate, Functional	All	Low cost Differentiation Maintenance Harvest Divest
Brand investment	Fruit, vegetables, oils and fats	Corporate	All	Differentiation
Advertising message	Fish	Functional	All	Differentiation
New acquisitions	Fish	Functional	All	Differentiation Growth
Exports	Meat	Functional	All	Differentiation Growth

Of all the information in table 6.4, only the most significant observations merited comment. Firstly, the respondents at the corporate level seemed to have raised the typical functional level issues and vice versa. A closer look at this ostensible conflict indicated that all the hierarchical levels in the responding firms were charged with the strategy responsibility. As such, all relevant issues in market strategy could be expected to be raised in market strategy application, irrespective of the hierarchical levels. Furthermore, a comparison of responses and strategies applied by the responding firms would seem to indicate that the competitor actions considered might affect the market strategy of the responding firms. Most of the firms in question applied a differentiation and first mover strategy. Thus it was necessary for them to attend to the competition in terms of innovation, new products and new packaging designs (the driving forces of change in the industry). Should the competition achieve a break-through in these areas, it would nullify the responding firms' strategies of differentiation and being first with a move. The same principle applied to new acquisitions and exports, in which cases the responding firms applied growth (which might include diversification) strategies. The competitor actions considered in market strategy as illustrated in figure 6.16 seemed to be mainly functional level issues, though these actions appeared to be critically important for the application of market strategy by the responding firms. Furthermore, it should be kept in mind that market strategy is executed on the functional and operational levels of the firm as set out in chapter 1 (see section 1.2.3) and, as such, the competitor actions considered in market strategy seem relevant from a market strategy perspective. This response seemed to confirm the conclusion in chapter 4 (section 4.2.2.1) that the functional management level cannot completely be disregarded in market strategy formulation.

None of the respondents explicitly mentioned other issues relevant to competitors, such as "who is in the strongest and weakest position" and "who is going to make what move next". However, these issues would seem to be implied by the response as illustrated in figure 6.16. The actions in table 6.4 corresponded to some degree to those indicated in the literature and discussed in chapter 2 (see section 2.3). The question is whether or not the respondents succeeded in considering the most important competitor actions in their market strategy application. This, however, should be tested in further research.

Question 20 (b) established the reasons why actions taken by competitors were not considered in market strategy formulation, and are summarised in table 6.5 below.

Table 6.5 Reasons why actions taken by competitors were not considered in market strategy formulation

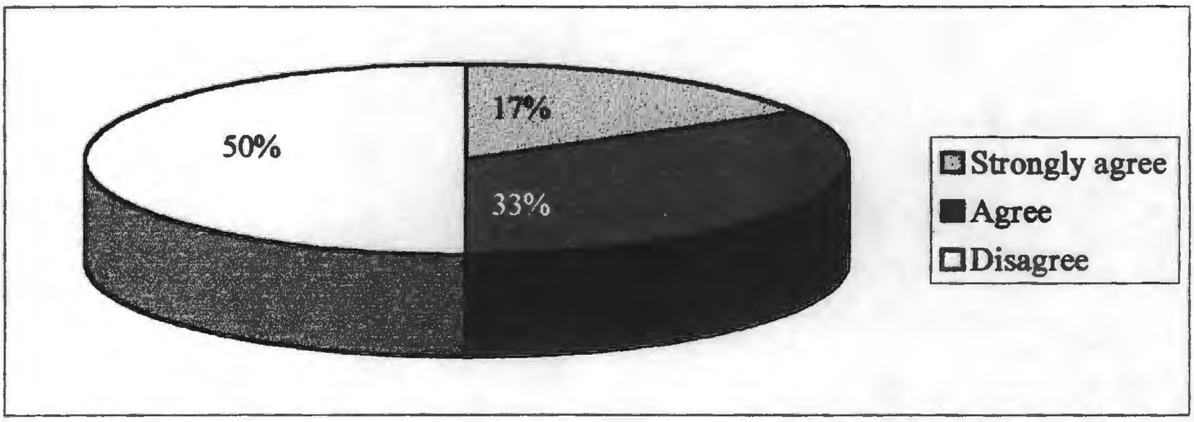
- Should be considered, but no formal consolidation of information
- We don't like to be followers

The responses in table 6.5 were not clear, but it was assumed that the first response asserted that the firm's information system did not allow for the incorporation of such information. Should this be the case, it would be dangerous as market strategy requires a good management information system as discussed in chapters 4 and 2 (see section 4.2 and section 2.2.2 referring to technology and examples of money spent on technologically advanced information/management systems). The second reason in table 6.5 why competitor actions were not considered in market strategy formulation might be equally dangerous, if it suggested that the respondent would copy competitors if their actions were considered. This was not the case at all, as demonstrated by the discussion of figure 6.16 above.

On further examination it appeared that the firms who did not consider the actions of competitors in their market strategy application efforts were involved with the manufacture of meat. Their turnovers were between R1 000 and R4 999 million and less than R500 million, respectively. This meant that the former could be considered a market leader. In this case, the respondent represented the SBU level of management and the strategy responsibility rested with the CEO, Managing Director and approval of the Board of Directors. The respondent of the firm with the smaller turnover indicated that "we don't like to be followers" and in terms of its turnover was a follower. A firm, whether a market leader or not, should take note of what competitors were doing, to be aware of the environment in which it operated as competitor action could benefit or threaten the firm. This response seemed to indicate an attitude of not being market orientated. The respondent with the bigger turnover indicated in its definition of SCA (see question 35) that it might be market orientated as it considers value offered to the market. It also indicated that SCA was used to outperform competitors (see question 37). However, in the responses to question 38 (strategies and the ways in which they were employed), sadly, no relevance were indicated between SCA and the strategies employed. This might also indicate that this firm was not (sufficiently) market orientated. In the case of the firm with the smaller turnover, its definition of SCA did not mention value to the market (ie, customer orientation). Nor did it attempt to indicate how SCA impacted on its market strategy. It is therefore argued that this firm might not have been absolutely customer orientated. From the above discussion, it would appear that some of the firms' responses provided conflicting messages. Furthermore, the responses of these firms were not consistent with the theory set out in chapter 2.

After establishing what competitor actions were taken into account in market strategy formulation by some of the firms at least, it was necessary to determine their views on what competitors were. This was achieved by question 21, which states that competitors were companies that manufacture more or less similar products competing for the same customers. Figure 6.17 summarises the responses to question 21.

Figure 6.17 Competitors are companies that manufacture more or less similar products competing for the same customers



According to figure 6.17, (1) one (17%) respondent strongly agreed, (2) two (33%) agreed and (3) three (50%) disagreed with the definition of competitors. This meant that basically half the respondents agreed and half disagreed with the definition of competitors. To gain insight into these responses, question 21 was compared with other dimensions covered in the questionnaire such as the management level of the respondent, product involved and whether competitor actions were considered in market strategy formulation. The opinions about competitors compared to these dimensions are summarised in table 6.6 below.

Table 6.6 Opinions about definition of competitors compared to dimensions of management level of respondent, product involved and consideration of competitor action in the formulation of market strategy

Opinion about definition of competitors	Management level of respondent	Product involved	Consider competitor actions
Strongly agree	SBU levels	Meat	No
Agree	Functional levels	Meat; fish	Yes, Yes
Disagree	Corporate levels; SBU level	Fruit, vegetables, oils and fats, meat (2)	Yes, Yes, No

From table 6.6, no general trend could be discerned between those respondents who agreed or disagreed with the definition of competitors. Respondents representing the corporate level of management generally seemed to disagree with this definition of competitors. However, these respondents indicated that they considered the actions of competitors in their market strategy formulation efforts. One of the respondents at the SBU level strongly agreed and one disagreed with the definition of competitors. However, both these respondents indicated that their firms did not consider the actions of competitors in their market strategy formulation efforts. Both of these firms were involved in the manufacture of meat products. The respondents at the functional level of management agreed with the definition of competitors. They both indicated that their firms considered competitors in the application of market strategy. These firms manufactured, respectively, meat and fish products. Further insight might result from the reasons why these firms indicated that they disagreed with the definition of competitors. The reasons why respondents disagreed with this definition of competitors are summarised in table 6.7 below.

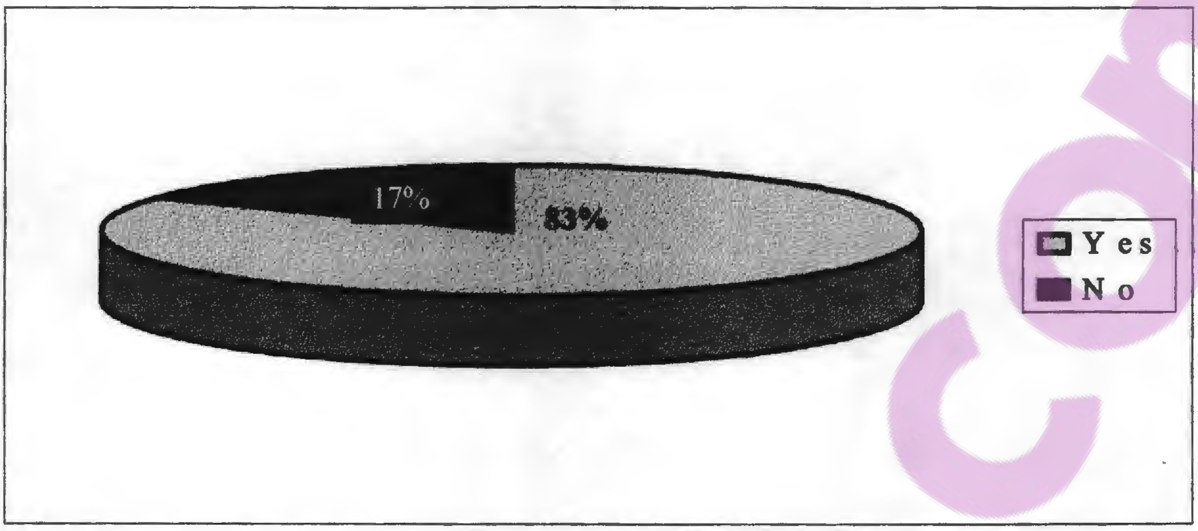
Table 6.7 Reasons why respondents disagreed with definition of competitors

Reasons why respondents disagree with definition of competitors	Management level of respondent	Competitor actions considered in market strategy formulation and implementation
• Nutritional value should be considered, thus indirect competitors	Corporate	Yes
• Target market differs according to range of products produced	SBU	No
• More or less similar products within specific range for example proteins	Corporate	Yes

A closer look at the information in table 6.7 seemed to indicate that the topics raised by these respondents were implied in the definition stated in question 21. Similar products could denote nutritional value, or category, while target market referred to the customer. Given this interpretation of the responses, they were deemed to be congruent with the definition of competitors stated in question 21. Therefore, it was argued that all of the respondents agreed with the definition of competitors, although some respondents did not recognise these definitions as such. Consequently these responses could be considered consistent with the theory.

After the respondents' views were established on competitors, their ideas on the industry were tested. According to Porter, there are five competitive forces that shape competition in an industry, namely rivalry among firms, threat of substitute products, threat of new entrants, power of buyers and power of suppliers as discussed in chapter 2 (see section 2.3.2). The purpose of question 22 was to establish whether or not the industry factors influenced the market strategy formulation efforts of the firms in question. Figure 6.18 summarises the responses to whether industry factors influence the market strategy formulation efforts.

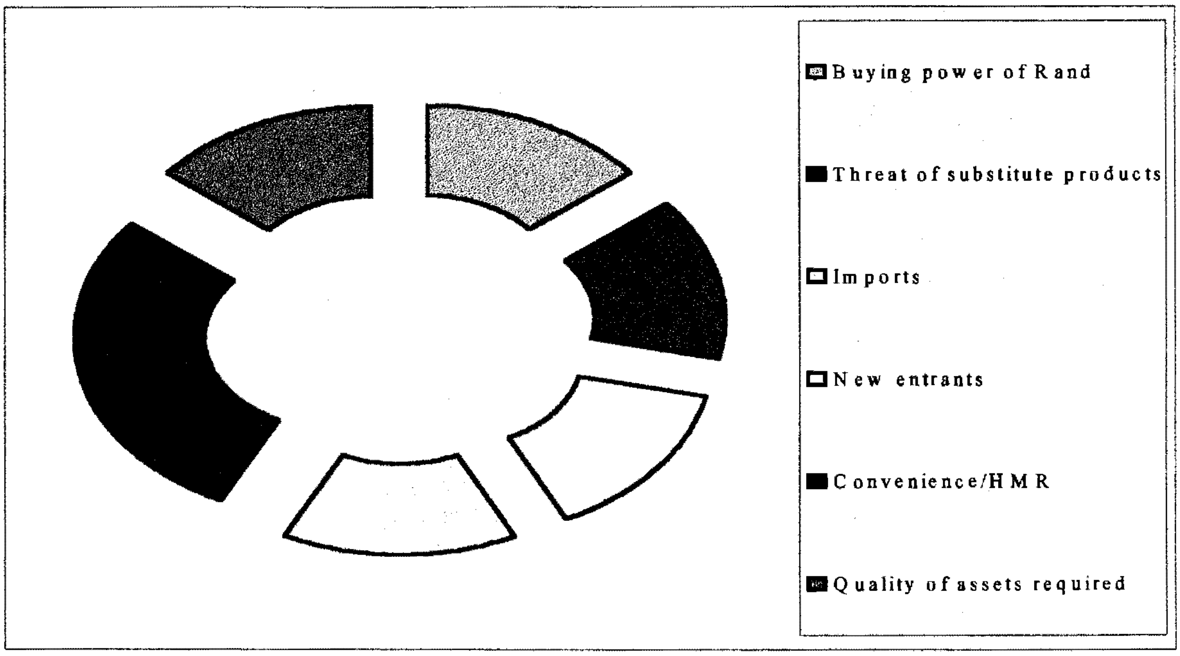
Figure 6.18 Industry factors influence market strategy application



According to figure 6.20, five (83%) of the respondents indicated that they considered the industry as such in their market strategy formulation efforts, while (1) one (17%) indicated the contrary. This respondent was the same one who did not consider factors from the economic, social or international environment and actions taken by the competitors. The reason the industry as such was not considered was stated as " the industry is highly competitive and therefore one cannot wait for things to happen". The statement in question 22 by no means implied that firms should be reactive; in fact, the nature of market strategy is proactive as illustrated in chapter 4 (see section 4.2). Thus the respondent, without realising it, seemed to support the statement. Therefore, all the respondents were considered to be in agreement and thus potentially considered the industry as such in their market strategy formulation efforts.

Question 22 (a) established what the most important industry variables were that impacted on market strategy formulation by the firms in question. These factors are summarised in figure 6.19 below.

Figure 6.19 The most important industry variables considered in market strategy formulation



According to figure 6.19, a number of industry variables were listed, of which convenience/Home Meal Replacement (HMR) were listed most often, followed by an equal representation of quality of assets required, buying power of the Rand, threat of substitute products, imports and new entrants. HMR could indicate that consumer demand was considered, implying that one of the driving forces of industry change was taken into account. Another observation from figure 6.19 was that some of these variables could be grouped – for example, buying power of the Rand, convenience/HMR and quality of assets could relate to rivalry among firms. Threat of substitute products, imports and new entrants could be related to substitute products and/or new entrants. On the face of it, these variables listed in figure 6.19 did not appear to correspond to those mentioned by Porter as discussed in chapter 2 (see section 2.3, figure 2.3). However, on further examination, they could be related to Porter's, and as follows:

- Buying power of the Rand could possibly be related to the power of buyers and suppliers – only so much could be done with one Rand (R1) and thus the option that provided the best value for money was chosen. The same applied to consumers, and from this perspective the buying power of the Rand could also denote rivalry among firms to provide best value for money to consumers.
- Imports could be related to both threat of new entrants and substitute products as imports could be a source of both.
- Convenience/HMR can be related to consumer demand and thus to buying power of buyers and/or to rivalry among firms.
- Quality of assets could be related to rivalry among firms as it might impact on costs, quality and, ultimately, whether the firm could meet the consumers' demands.

It was contended that the respondents, without using the same terminology as Porter, dealt with the competitive forces in market strategy formulation. It would seem from figure 6.19 that the most often considered variable was convenience/HMR, which was related to rivalry among firms. A few further observations about the industry variables considered as listed in figure 6.19, in view of the information in chapter 2, and earlier responses to the questionnaire (for example question 14 to 19 relating to the factors in the macro-environment considered) are warranted. The declining buying power of the Rand (see chapter 2, section 2.2.3) might put pressure on all participants in the industry as well as consumers. It may also denote that these firms implicitly address issues such as value offered. The buying power of the Rand might contribute to innovative products. Innovation was important to sustain SCA and to outperform competitors. As indicated in questions 15 and 20, innovation was an important variable considered by the firms in question in market strategy formulation. Though, value to the market did not seem to be a high priority of the respondents (see also responses to questions 14 to 19, 33, 37 and 38 in this regard). Further research would be needed to determine their exact customer orientation, as indicated by value to the market and expressed by, inter alia, value for money. Threat of substitute products could also be related to innovation, given products such as soy stews with the flavour and texture of real meat, that were cheaper than their original counterparts as indicated in chapter 2 (see section 2.2.2). New entrants were not considered a major issue in the literature, given the high entry barriers in the industry as explained in chapter 2 (see section 2.3.2). It was reasoned that new entrants would rather enter this market by way of joint ventures, which might be beneficial to both local and international players. In this instance, it would be invaluable to observe competitor actions in this regard, as such joint ventures could be potentially detrimental to the other players in this industry. Convenience/HMR might indicate that consumer preferences might be taken into account and, as such, the respondents might be market orientated. Convenience/HMR could take the form of either chilled products (for the upper section of the market) or canned products (for the lower section of the market). Furthermore, consumer demands/expenditure patterns were one of the major factors considered in the macro-environment as illustrated in table 6.2. All the industry variables considered by the responding firms in their market strategy formulation efforts were deemed to indicate that these firms had a competitive approach to their businesses.

The industry variables considered by the respondents in their market strategy formulation efforts were further investigated to gain insight into market strategy application. The further investigation took the form of comparing these variables with the type of food manufactured, the management level of the respondent and the strategy responsibility. This information is summarised in table 6.8 below.

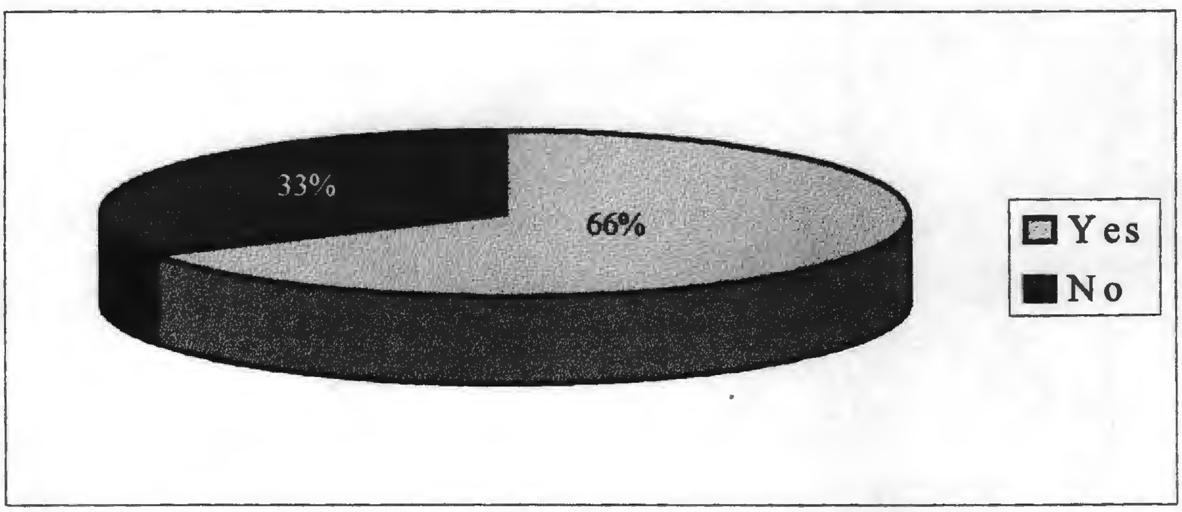
Table 6.8 Industry variables compared to type of food manufactured, the management level of the respondent and the strategy responsibility

Industry variable	Type of food manufactured	Management level of respondent	Strategy responsibility
Buying power of Rand	Fruit, vegetables, oils and fats	Corporate level	All
Threat of substitute products	All	Corporate; Functional level	All
Imports	Meat	Corporate level	CEO, etc
New entrants	Meat	Corporate	CEO, etc
Convenience/HMR	Meat	SBU	All
Quality of assets required	Fish	Functional	All

No trend could be discerned from the information in table 6.8. However, a few significant observations are warranted. It should be pointed out that according to table 6.8 the variables (buying power of Rand, convenience/HMR, quality of assets) relating to rivalry among firms were considered by firms manufacturing the spectrum of foods involved. The fact that products such as meat and fish were especially affected by rivalry among firms did not come as a total surprise, given the fierce conditions prevailing in those sectors of the food industry and discussed in chapter 2. The respondents represented all the hierarchical management levels and the same applied to the strategy responsibility. The variables threat of substitute products, imports and new entrants, which could be related to substitute products and/or new entrants were considered by all food manufacturers, especially meat. Once again, this could point to the competitive state of the meat sector. The respondents represented the corporate and functional levels of management. In one case the strategy responsibility rested with all of the hierarchical levels, while in the other, it rested with the CEO and General Managers with approval of the Board of Directors.

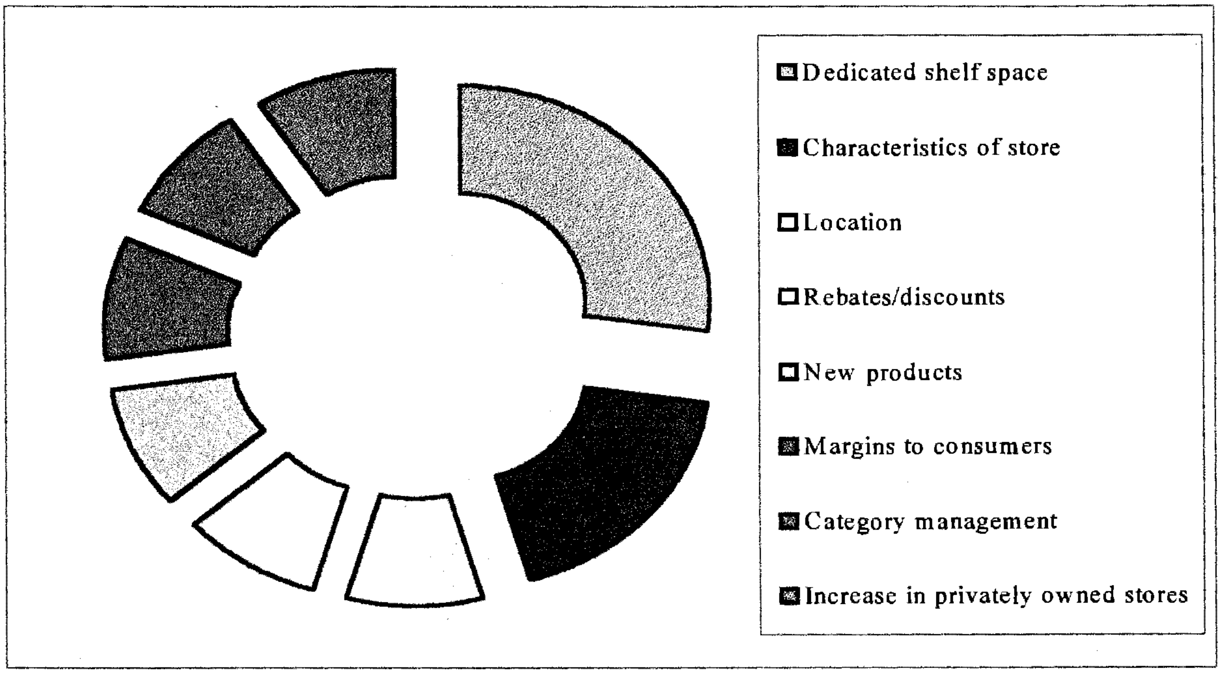
According to the literature, another factor in the market that impacted on market strategy formulation is intermediaries. As pointed out earlier (also chapter 2, section 2.3), intermediaries for purposes of this study were wholesalers and retailers, who formed part of the market environment. The aim of question 23 was to establish whether or not the action taken by wholesalers and retailers was given specific consideration in the market strategy formulation efforts of the firms. If so, in question 23 (a) the respondents were required to list the actions of wholesalers and retailers considered in their market strategy application efforts. If not, in question 23 (b) they needed to give in reasons why not. The responses to question 23 are summarised in figure 6.20 below.

Figure 6.20 Action of wholesalers and retailers were taken into account in market strategy formulation



According to figure 6.20, four (66%) of the respondents indicated that they considered the actions of wholesalers and retailers in their market strategy formulation efforts, and two (33%) indicated the opposite. On further investigation the latter firms appeared to be involved in the manufacture of meat products. They were also the firms who indicated that they did not consider the actions of competitors in their market strategy formulation efforts. Their responses are further discussed in question 23 (b). The aim of question 23 (a) was to establish what major actions of wholesalers and retailers impacted on the formulation of market strategy. These actions are summarised in figure 6.21 below.

Figure 6.21 The major actions of wholesalers and retailers that impacted on market strategy



According to figure 6.21, a number of actions taken by wholesalers and retailers were considered. According to figure 6.21, the actions mostly (27%) considered in their market strategy formulation efforts were indicated as dedicated shelf space followed by characteristics of store (18%). These were followed by the location of the store, rebate/discount offered, new products, margins to consumers, category management and the increase in privately owned stores, which were mentioned equally frequently (14%). On further investigation it seemed that the actions of the wholesalers and retailers could be grouped. Dedicated shelf space, rebates/discounts, new products, margins to consumers and category management could be grouped as "category management". It was accepted that category management referred to the integrated management of all of the product groups and the offerings in the groups, including brands and relationship between brands, irrespective of supplier of product. The aim of category management was ultimately to have the "right" products available to consumers. This might indicate a consumer orientation, however it should be tested in further research. In this regard, manufacturers and retailers should collaborate, that was, the manufacturers should supply the store with information about products/brands that sell well or do not sell well or stock moving slowly. Shelf space could be awarded on basis of this information. Shelf space, in turn, might influence the visibility of the manufacturers. New products might point to the innovative aptness of the retailers and to preventing a situation of undifferentiated products. Discounts/rebates could refer to discounts offered to customers during promotions, which could also contribute to efficient shelf space planning. If the relationship between manufacturer and retailer was good, the retailer might disclose information on margins to consumers to the manufacturer, which could in any event be calculated by the manufacturer.

Characteristics of the store might point to the fit between the store and the image of the manufacturers. The location of the store might point to the proximity of the store to the customers, who were the ultimate user of the products in question. Nowadays, with the emphasis on convenience, a number of smaller stores like these at petrol stations were mushrooming and in townships there seemed to be a change in availability of stores. There might also be a relationship between the increase in privately owned stores and the location of stores. As pointed out in chapter 2 (section 2.3.1), the large retailers were not the only distribution channels. From the information in figure 6.21, the respondents appeared to be focused on the needs of the final consumer and thus market orientated which ultimately impacted on the market strategy applied. This supported the responses to question 11 (marketing department contributes to strategy formulation as indication of market orientation), but contrasted with those of questions 37 (how SCA was applied by the firms, which is comprehensively discussed in the response to question 37). The conflicting information made it doubtful whether or not the respondents were in fact truly market orientated. This should be investigated in further research.

The actions of wholesalers and retailers that impacted on the market strategy formulation of the responding firms seemed to be related to the functional level of management. The relevant wholesaler and retailer actions and the food manufactured by these respondents, the management level of the respondents, the strategy responsibility and examples of the market strategies applied were then examined and compared. The results are summarised in table 6.9 below.

Table 6.9 Action of wholesalers/retailers compared to food manufactured, management level of the respondent, strategy responsibility and examples of market strategy applied by the firm

Action	Food manufactured	Management level of respondent	Strategy responsibility	Examples of market strategies applied by the firm
Dedicated shelf space	All	Functional (2) Corporate	All	Differentiation Low cost First mover Growth
Characteristics of store	Meat, Fish	Functional	All	Differentiation First mover Growth
Location	Meat	Functional	All	Differentiation Low cost First mover Growth
Rebates/discounts	Fruit, vegetables, oils, fats; meat	Corporate (2)	All	Differentiation Low cost First mover Growth
New products	Fruit, vegetables, oils and fats	Corporate	All	Differentiation Low cost First mover Growth
Margins to consumers	Meat	Corporate	All	Differentiation Low cost First mover Growth
Category management	Fish	Functional	All	Differentiation First mover Growth
Increase in privately owned stores	Meat	Corporate	All	Differentiation Low cost First mover Growth

According to table 6.9, all the food forming the focus of this study was affected by the actions of wholesalers and retailers listed in table 6.9. The respondents represented mainly the functional and corporate levels of management (the SBU levels indicated that they did not consider this aspect), and the strategy responsibility of the responding firms in these instances, rested with all their hierarchical levels. Although the issues listed in figure 6.21 and table 6.9 appeared to be functional level issues, it would seem that they were in fact, also corporate level concerns as verified in table 6.9.

Furthermore, it could be inferred from table 6.9 that the actions (such as dedicated shelf space) of wholesalers and retailers considered in market strategy formulation impacted on market strategies (differentiation, low cost, first mover and growth) applied by the responding firms.

The reasons advanced for not taking the actions of wholesalers and retailers into consideration, compared to turnover, considering competitor actions and factors from the economic, social and international environments, are summarised in table 6.10 below.

Table 6.10 Reasons why actions of wholesalers and retailers were not considered in market strategy formulation

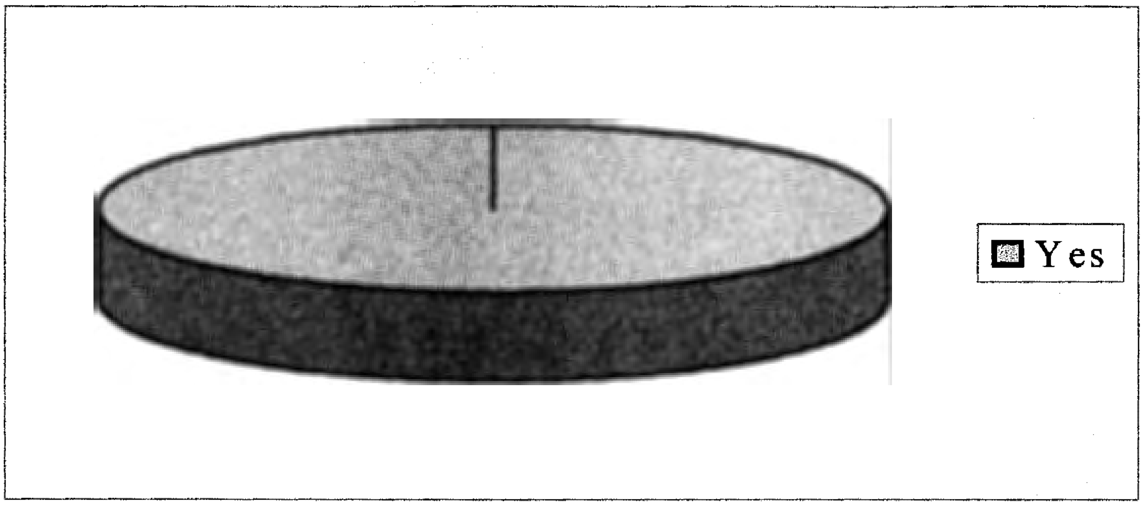
Reasons why actions of wholesalers and retailers were not considered in market strategy formulation and implementation	Turnover	Consider competitors in market strategy formulation and implementation	Consider factors from the economic, social and international environments
• Due to the high rate of stock we command pro-rata shelf space	Less than R500 million	No	No
• The poultry industry is more about changing retail perceptions and the patterns and the education on features and benefits	More than R1000 but less than R4 999 million	No	Yes

According to table 6.10, none of the reasons advanced seemed to be market orientated. The first statement would seem to imply that the respondent (manufacturer) might not be interested in consumer preferences or demands, but rather felt that a major manufacturer was entitled to shelf space that would complement its size. Given the turnover of the responding firm, it could not be considered a category leader as its turnover was smaller than that of other meat producers who responded to this questionnaire. This kind of reasoning appeared to date from a previous marketing orientation namely product orientation, which is outdated given the current thinking, namely market orientation. It was not at all clear what the second statement intended to achieve. However, it might be that this respondent was of the opinion that wholesalers and retailers were not in a position to influence market strategy or were not geared to educate customers regarding the benefits of his/her products. Nevertheless, some of the responses (eg, question 20 considering competitor actions) of these two firms might indicate an internal focus, rather than an external focus. An external focus, as discussed in chapter 4 (section 4.2) is required to be truly market orientated. This would indicate that these firms may perhaps not be as (sufficiently) market orientated as they portray themselves to be (eg, question 11 their marketing departments contribute to strategy formulation).

Factors from the micro-environment

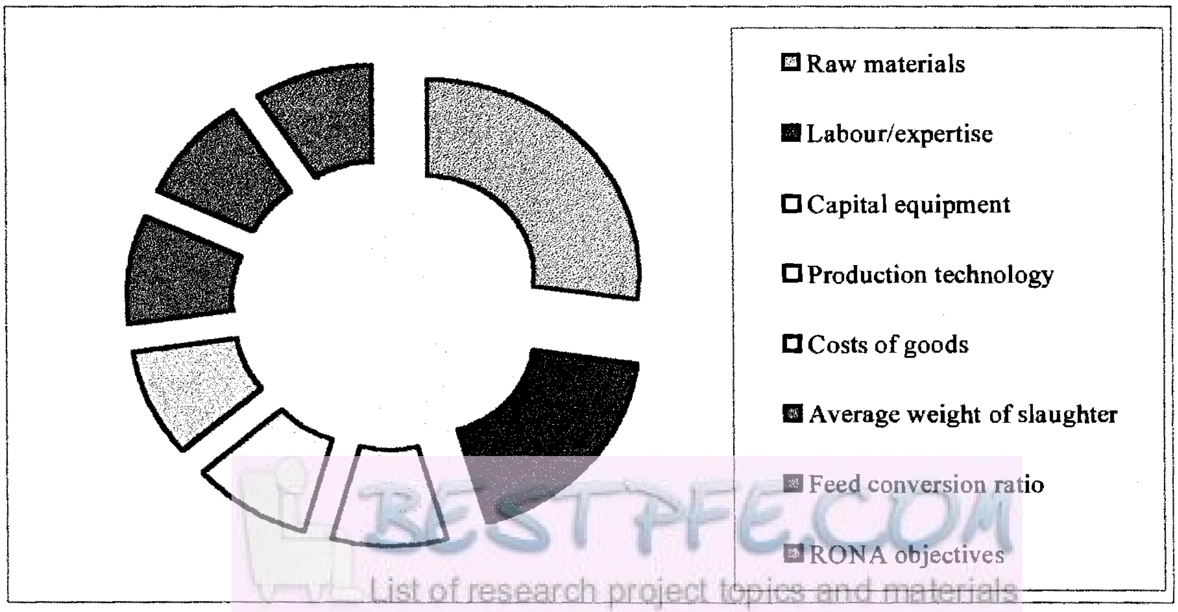
After considering factors in the macro- and market environments, the questionnaire dealt with the factors from the micro-environment that might impact on the market strategy formulation efforts of the responding firms. The micro-environment holds strengths and weaknesses that the firm must take into consideration in market strategy formulation to be successful and was comprehensively discussed in chapters 2 and 3 (see sections 2.4 and 3.2). According to the discussion, strengths are based on assets/resources of the firm. The unique strengths are of particular interest, as they are transformed to an SCA. Specifically, assets/resources and skills/capabilities of the firm are important as they form the basis for competencies and core competencies, which in turn form the foundation for SCA (see section 3.2 the explanation of Javidan). Questions 24 to 30 tested various aspects of the micro-environment that may impact on market strategy formulation. Question 24 tested whether or not the resources of the firm were considered, and if so what were considered to be resources that were examined in market strategy formulation. Figure 6.22 summarises the responses to question 24.

Figure 6.22 Consideration of the firm's resources in market strategy formulation



According to figure 6.22, all the respondents indicated that the firms' resources were considered in market strategy formulation, which was consistent with the theory. The major resources considered in the market strategy formulation efforts are summarised in figure 6.23 below.

Figure 6.23 The major resources considered in the market strategy formulation



According to figure 6.23, the resources considered in market strategy formulation most often (27%) mentioned were raw materials followed by labour/expertise (18%), and an equal representation (9%) of capital equipment, production technology, costs of goods, average weight of slaughter, feed conversion ration and RONA (return on net assets). At first glance some of the resources illustrated in figure 6.23 appeared not to be resources, in terms of the definition of resources as presented in chapter 3 (see section 3.1), notably cost of goods, average weight of slaughter, feed conversion ratio and RONA objectives. However, these items might point to management abilities, which might be deemed a skill rather a resource. Resources were generally associated with items such as brands, machinery, equipment and buildings. As such, raw materials might qualify as resources, as main input to the processing of the firms in question. Raw materials might be important as they impact on the quality of the final product. It was important firstly (following the reasoning of Javidan in section 3.2) to distinguish between resources and skills, and secondly the particular resources and skills that were considered as these ultimately formed the basis for SCA.

To gain additional insight into the responses illustrated in figure 6.23, the resources considered in market strategy formulation were compared with the type of food manufactured, the management level of the respondent, the strategy responsibility, and factors considered from the macro-environment. These are summarised in table 6.11 below.

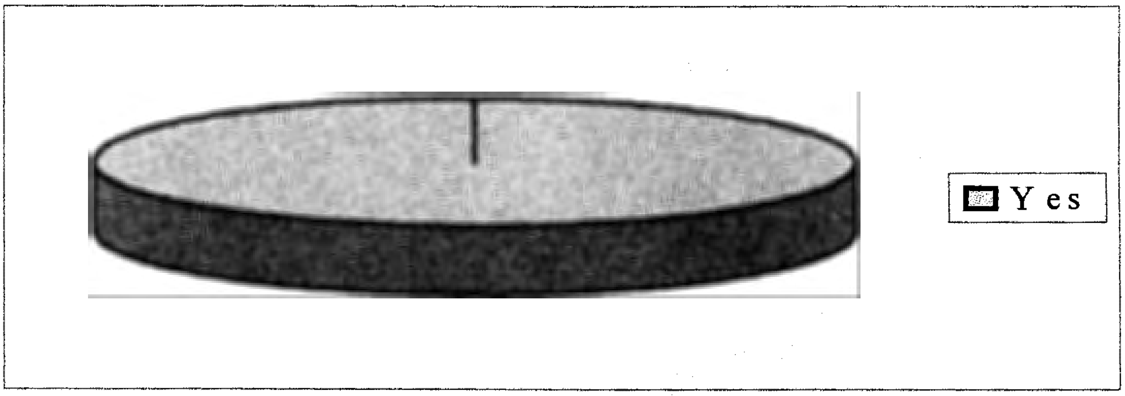
Table 6.11 Resources compared with the type of food manufactured, the management level of the respondent, the strategy responsibility, and factors considered from the macro-environment

Resources	Type of food manufactured	Management level of respondent	Strategy responsibility	Factors considered from macro-environment
Raw materials	All	Corporate, SBU, Functional	All	Physical and economic
Labour/expertise	Meat, Fish	Corporate, Functional	All	Physical
Capital equipment	Meat	SBU	All	International Economic
Production technology	Fish	Functional	All	Technological
Costs of goods	Fruit, vegetables, oils and fats	Corporate	All	na
Average weight of slaughter	Meat	SBU	CEO, General Manager and approval of Board of Directors	na
Feed conversion ratio	Meat	SBU	CEO, General Manager and approval of Board of Directors	na
RONA objectives	Fruit, vegetables, oils and fats	Corporate	All	na

According to table 6.11, all the products in question were affected by the resources that the responding firms considered in their market strategy formulation efforts – notably raw materials. The importance of raw materials did not come as a surprise, as raw materials impact on the quality of the final product. The factors from the physical and economic sub-environments seemed to be congruent with raw materials. As indicated in chapter 2 (section 2.2), the physical environment impacted on the quality of raw materials that in turn, impacted on the quality and cost of the final product. The economic sub-environment might impact on the cost of the materials, especially if raw materials would have to be imported. Average weight of slaughter and feed conversion ratio might also impact on cost and thus prices. The latter might influence competitiveness. The respondents also represented all the hierarchical levels and the same applied to the strategy responsibility. It further emerged from table 6.11 that the micro-environment, in this case the resources, was influenced by the macro-environment as set out in chapter 2 (see figure 2.1). The resources accounted for in the market strategy formulation efforts of the responding firms seemed to coincide with those factors considered in the macro-environment as illustrated in table 6.2. Thus the factors considered in market strategy formulation by the firms in question seemed to be congruent.

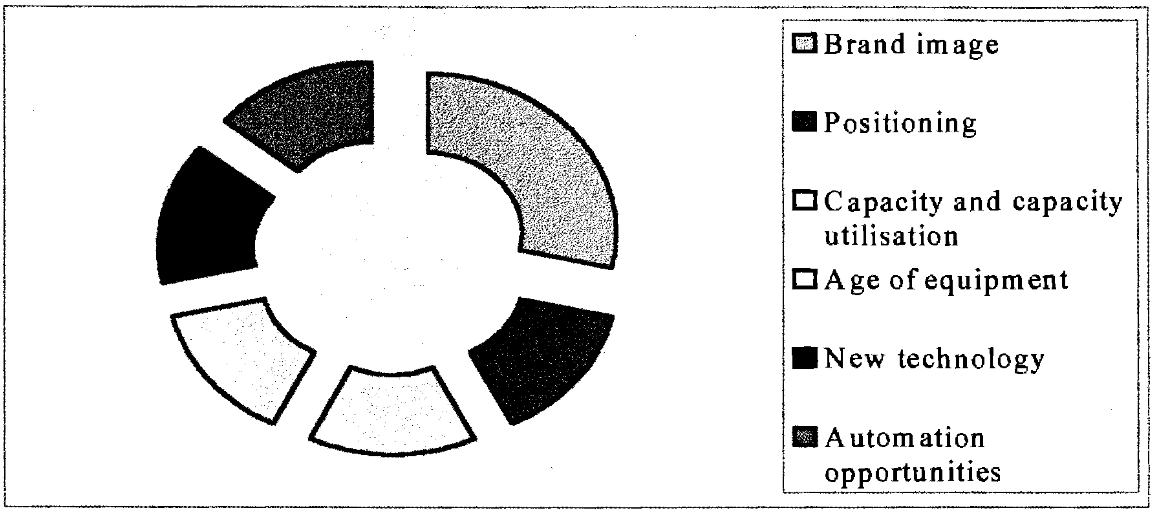
Question 25 established whether the firm's assets were considered in the firm's market strategy formulation efforts. The responses to question 25 are illustrated in figure 6.24 below.

Figure 6.24 Consideration of firm's assets in market strategy formulation



According to figure 6.24, all the respondents indicated that the firm's assets were considered in their market strategy formulation efforts. This was consistent with the theory. The major assets considered are illustrated in figure 6.25 below.

Figure 6.25 The major assets considered in market strategy formulation

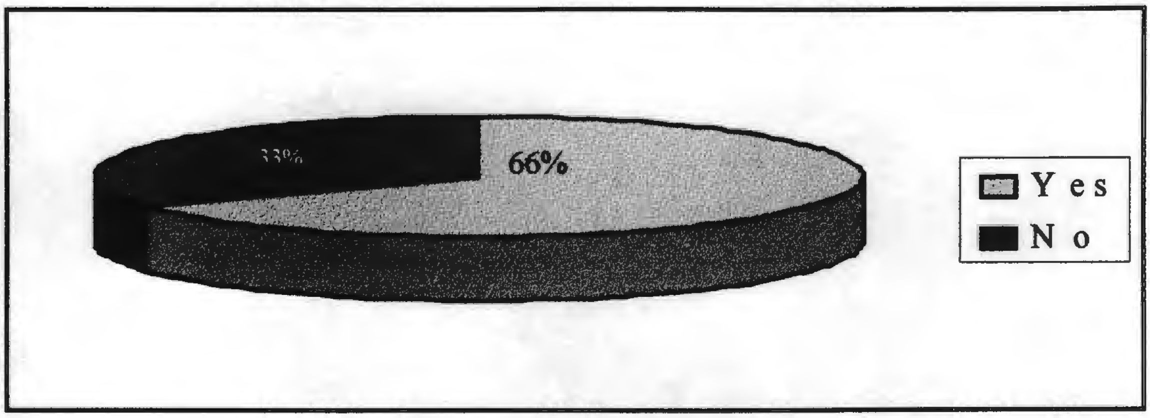


According to figure 6.25, of the assets listed, brand image was the most often (29%) mentioned by the respondents, followed by an equal number (14%) of the remaining assets, namely positioning, capacity and capacity utilisation, age of equipment, new technology, automation opportunities. In examining figure 6.25, it was clear that the assets listed could be grouped into one of two categories, namely technology or the extended product. Capacity and capacity utilisation, age of equipment and automation processes could be grouped in the technology category while brand image and positioning could be grouped in the extended product category. Given this, it would seem that the assets listed related to functional (capacity and capacity utilisation) and SBU (brand image and positioning) level issues, following the reasoning of figure 1.6 in chapter 1 (see section 1.2.3). Only a minority of assets listed in figure 6.25 and table 6.11 appeared to be associated with assets as defined in the literature, such as machinery, equipment, buildings, patents and trademarks (see chapter 3, section 3.1). However, technology and automation processes rather related to processes, which were deemed to be skills (abilities or capabilities) rather than assets as discussed in chapter 3 (see section 3.1). The same applied to positioning. Thus the same argument proposed in the consideration of resources applied here. In the case of positioning an understanding of what customers' value as discussed in chapter 3 (see Slater in section 3.3.1) was required. Customer value, in turn, impacted on SCA and outperforming competitors. It thus appeared if some of the firms in question, might be market orientated. Furthermore, given the kinds of assets considered by the respondents, it would seem that relevant issues, (ie, technology, positioning) were considered by the respondents in their market strategy application. However, the labels used to identify these topics did not correspond to the labels or the categories used in the literature to identify or classify them.

Despite the classification of the items listed as either assets, resources or skills, it is important to note that these items were consistent with earlier responses (for example, question 15). Furthermore, these responses denoted that the responding firms generally attended to significant variables (technology is one of the key success factors of the industry and a major force driving change in the industry indicated in chapter 2, section 2.3.1) in the micro-environment that shaped market strategy.

Question 26 established whether or not the skills of the firm (employees) were given specific thought in the firm's market strategy formulation and implementation efforts. The responses to question 26 are summarised in figure 6.26 below.

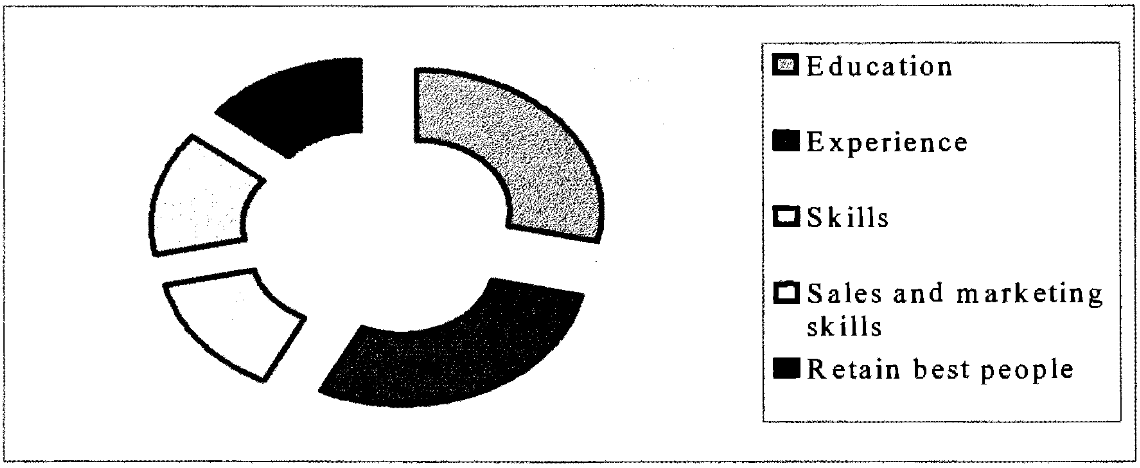
Figure 6.26 Consideration of the skills of the firm (employees) in market strategy formulation



According to figure 6.28, four (66%) of the respondents indicated that they considered skills in the formulation of market strategy, while two (33%) indicated the contrary. On closer scrutiny it appeared that the latter respondents were involved in the manufacture of meat and represented the SBU level of strategy. They were the same respondents who did not consider actions of competitors and wholesalers and retailers. Unfortunately no information is available as to whether these firms are automated or labour intensive. However, from the responses to question 26 (b) (why these skills are not considered), it would seem that at least one of them might be labour intensive, although they might have employed unskilled labour (see discussion of question 26 (b) in a subsequent paragraph).

The skills considered in market strategy formulation are illustrated in figure 6.27 below.

Figure 6.27 The skills considered in market strategy formulation



According to figure 6.27, the skills most often considered (29%) by the responding firms were education (29%) and experience (29%) followed by an equal presentation (14%) of "skills", sales and marketing skills and retaining best people. Skills such as management and processes were not mentioned in this question. However, management (as expressed by cost of goods sold, and RONA) was dealt with by responses to assets and resources and, as such, considered by the firms in question. Considering management and processes (although under a different heading) in market strategy formulation and implementation seemed to be congruent with the theory as set out in chapter 4 (see sections 4.2.1.2 and 4.2.2.2). Management abilities are furthermore important in supporting SCA. Management abilities appeared to be a major problem for most of the firms in question as discussed in chapter 2 (see section 2.4). Retaining best people perhaps pointed to management abilities, but there is more to management abilities than just that. In theory it was demonstrated that most of the firms in question had at one time or another employed "re-engineering" or "restructuring" to improve the particular business' performance (see chapter 1, table 1.12 in this regard). Re-engineering and/or restructuring specifically aims at improving processes to improve business performance. However, nowhere did the responses of the respondents indicate that they considered processes per se. It might be that considering technology could encompass processes, although this should be established in further research.

The kinds of skills considered, as listed in figure 6.27 (ie, education, experience, and skills), furthermore appeared to be insignificant compared to those covered in the theory, such as competent employees, advanced technologies and efficient and effective processes, (see chapter 3, section 3.1). This might explain why some of the firms did not perform as could be expected (ie, their performance could be improved). The skills considered by the firms in question were thus not entirely consistent with the theory. As pointed out earlier, skills encompass far more (ie, processes) than these respondents apparently had in mind.

The reasons why the two respondents did not consider skills in the formulation and implementation of market strategy compared to dimensions such as food involved, management level of respondent and strategy applied are summarised in table 6.12 below.

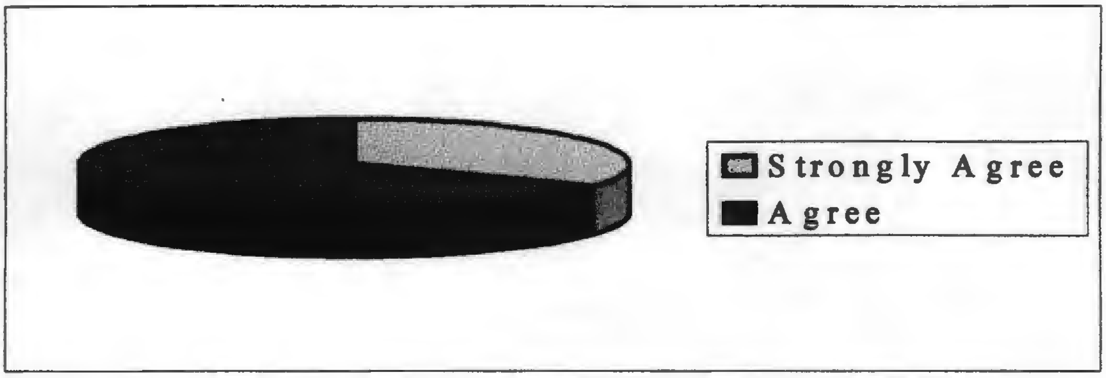
Table 6.12 Reasons why skills were not considered in the formulation of market strategy compared to dimensions such as food involved, management level of respondent and strategy applied

Reasons	Food involved	Management level of respondent	Strategy applied
• Not core in turnaround phase; huge turnover therefore a skills shortage	Meat	SBU	Low cost, focus, warfare
• Training to accommodate a new development is provided	Meat	SBU	Differentiation, low cost, first mover

The reasons listed in table 6.12 were not clear. It was presumed that the one firm was engaged in a turnaround exercise that involved a high turnover of employees, which might render skilling of employees expensive as they might be retrenched. As pointed out in chapter 4 (sections 4.2.1.2, 4.2.2.2 and 4.2.2.3), the firms in question retrenched employees in the period under review, as part of re-engineering or restructuring exercises. Furthermore, the firm might use mainly unskilled labour, which needed minimum qualifications. The second reason might point to training provided to stay abreast of progress in the industry, which could include supporting low cost strategies or techniques to reduce costs, which might include automation.

After establishing what assets/resources and skills were considered in market strategy formulation and implementation the respondents' views were established on strengths, weaknesses opportunities and threats. Questions 27 to 30 tested the definitions of strengths, weaknesses, opportunities and threats. The responses to question 27 are summarised in figure 6.28 below.

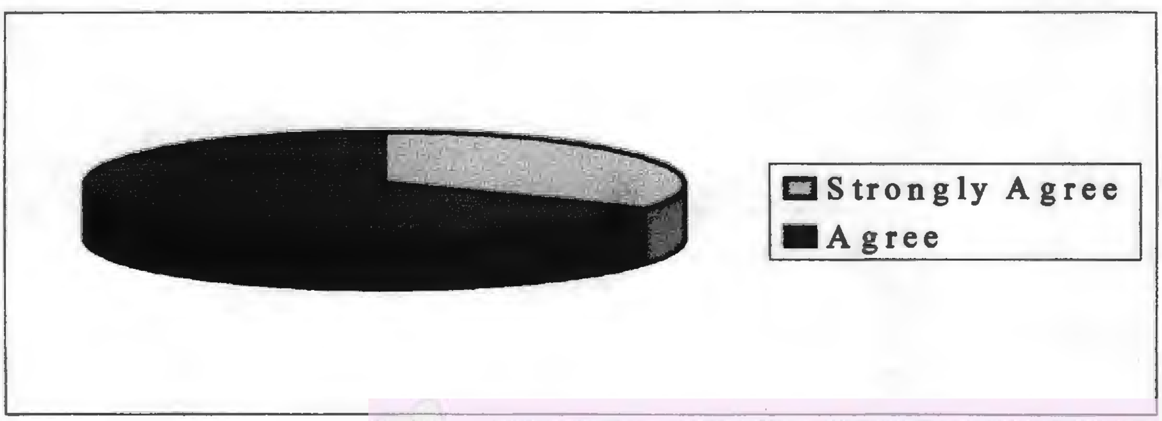
Figure 6.28 A strength is a favourable position in the firm compared to competitors



According to figure 6.28, all the respondents agreed and two strongly agreed with the definition of a strength as depicted in question 27. This was consistent with the theory. The respondents were not required to indicate what they considered a strength, as that was deemed sensitive information. The same applied to a weakness, opportunities and threats.

Question 28 tested the definition of a weakness, and the responses are summarised in figure 6.29 below.

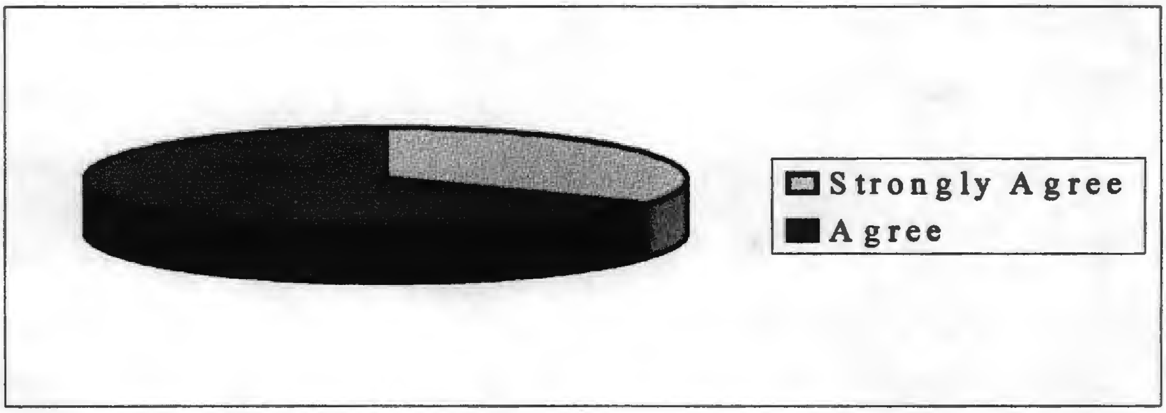
Figure 6.29 A weakness is an unfavourable position in the firm compared to competitors



According to figure 6.29, all the respondents agreed. Of these two strongly agreed with the definition of a weakness. These responses were consistent with the theory.

Question 29 tested the definition of an opportunity, and the responses are summarised in figure 6.30 below.

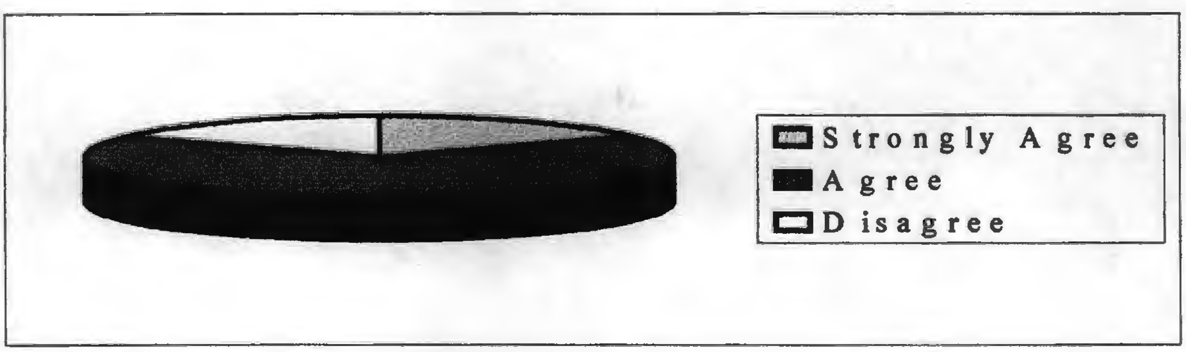
Figure 6.30 An opportunity is a favourable position in the external environment



According to figure 6.30, all the respondents agreed and two strongly agreed with the definition of an opportunity. These responses were consistent with the theory.

Question 30 tested the definition of a threat, and the responses are summarised in figure 6.31 below.

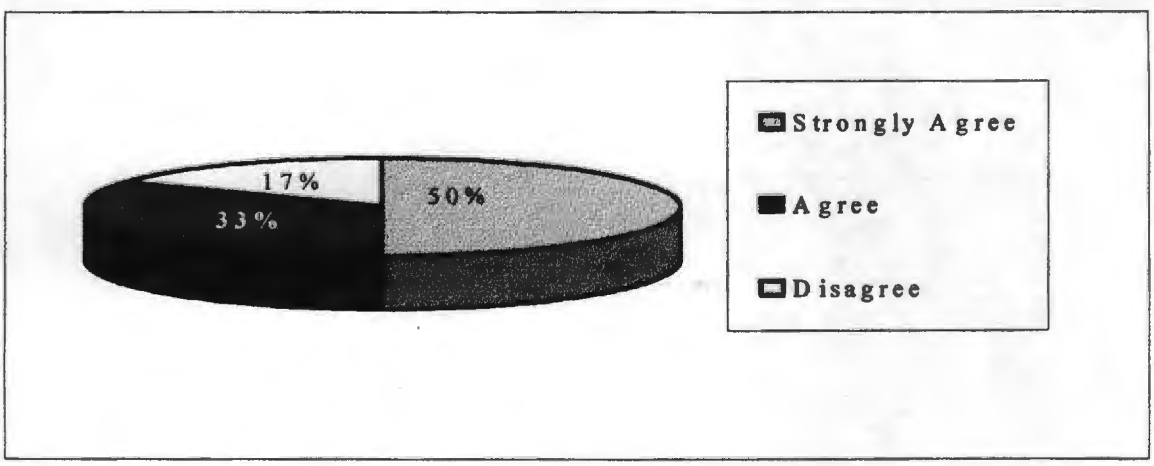
Figure 6.31 A threat is an unfavourable position in the external environment



According to figure 6.31, one (17%) respondent strongly agreed, two (66%) agreed and one (17%) disagreed with the definition of a threat. The majority of the respondents agreed, which was consistent with the theory. The respondent who disagreed with the definition of a threat indicated that a threat in his/her view was an unfavourable position in the external environment, which would lead to some further opportunity in the environment. This definition showed that concepts have different interpretations as pointed out in chapter 5 (see section 5.3 where it was pointed out that different interpretations of concepts might impact on the responses). The intention of the definition of a threat in this case was to point to a situation after all further opportunities were exhausted.

Question 31 established whether strengths, weaknesses, opportunities and threats were taken into account in market strategy formulation. The responses are summarised in table 6.32 below.

Figure 6.32 SWOT (strengths, weaknesses, opportunities and threats) was taken into account in the formulation of market strategy



According to figure 6.32, the majority of the respondents (50%) strongly agreed, 33 % agreed and 17% disagreed that SWOT was taken into account in market strategy formulation. Question 31 served as verification of question 13, which required the respondents to indicate whether they took factors into account that might limit the actions a firm could or should take in market strategy application. The responses to question 31 were different to those to question 13. In the case of question 13, only one respondent strongly agreed, 2 agreed and 3 disagreed with the statement. On further investigation it appeared that the respondent who disagreed with this statement was the National Sales and Marketing Manager of a firm involved with meat products with a turnover of less than R500 million per annum. It is the same respondent who did not consider all factors from the macro-, market and micro-environments. Those respondents who agreed indicated how they took SWOT into account, compared to food involved, management level of the respondent and strategy responsibility, which are summarised in table 6.13 below.

Table 6.13 How SWOT was taken into account in the formulation and implementation of market strategy compared to food involved, management level of the respondent and strategy responsibility

How SWOT is taken into account in market strategy formulation and implementation	Food involved	Management level of respondent	Strategy responsibility
1. We use it as a base to formulate market strategies and action plans.	Fruit, vegetables oils and fats	Corporate	All
2. Strategy is designed to address weaknesses and threats, but day-to-day issues dictate actions and strategy often not implemented.	Meat	SBU	CEO, General Managers and approval of Board of Directors
3. Company versus opposition (local and international).	Meat	Corporate	All
4. A stringent analysis of the company's SWOT is undertaken each year to asses how these impact on our business. This information is then used in our marketing plans.	Fish	Functional	All
5. Do SWOT on a regular basis to determine strategy.	Meat	Functional	All

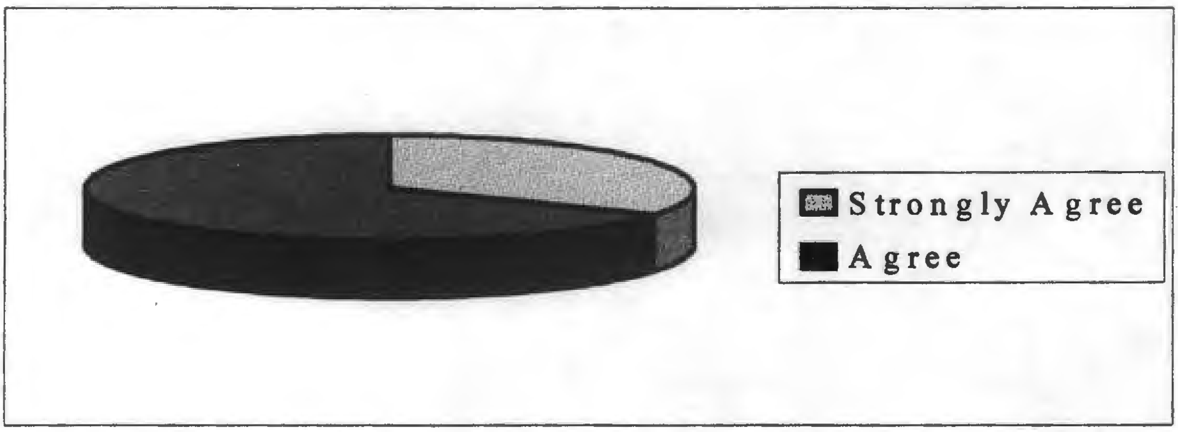
The responses listed in table 6.13 were vague, and might indicate that the respondents did not apply SWOT as intended in the literature and discussed in chapter 3 (see section 3.2). The ultimate purpose of SWOT is to identify an SCA on which the market strategy should be based. The most important observation from table 6.13 was that the respondents did not even hint at the fact that SWOT established variables that impacted on the survival and growth of the firm, given that this question was open-ended. Nor did they convincingly indicate the relevance between SWOT and SCA, though responses 1, 4 and 5 might point in that direction. It was inferred from these responses that the respondents did not capitalise on SWOT.

The next section deals with the questions testing SCA, as embodied in questions 33 to 37.

6.2.4 Opinions about sustainable competitive advantage

This section of the questionnaire established the respondents' views on SCA. SCA is the key to effective market strategy, which gives the firm an edge in offering value to customers. Question 33 tested whether or not the market strategy formulation efforts of the firm included the development of sustainable competitive advantage. Figure 6.33 summarises the responses to this question.

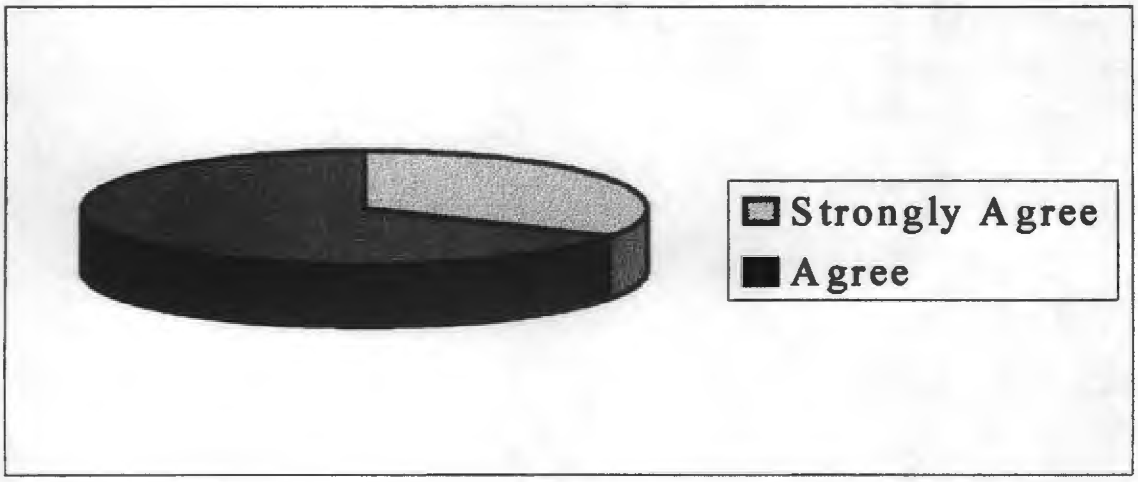
Figure 6.33 Market strategy formulation included the development of sustainable competitive advantage



According to figure 6.33, all the respondents agreed and 33% strongly agreed with this statement. These responses were consistent with the theory. If market strategy considers SCA it means it offers value to the market, and as such is market orientated as set out in chapter 3 (see section 3.3.1). On the face of it, the responses to question 33 were in agreement with question 11 (marketing department contributed to strategy formulation), but contrasted with that of questions 14, 15, 16, 17, 18 and 19 (factors considered from the political/legal, technological, economic, social, physical and international sub-environments in the application of market strategy as only one firm indicated value for money was a variable considered from these sub-environments). The respondents' views on SCA were further tested by questions 35 (definitions of SCA) and 37 (how they applied SCA) and discussed in subsequent paragraphs.

Question 34 established whether or not these firms were in agreement that strengths form the basis of competitive advantage. The responses to question 34 are summarised in figure 6.34 below.

Figure 6.34 Strengths form the basis of competitive advantage



According to figure 6.34, all the respondents agreed and 33% strongly agreed with this view. This was consistent with the theory.

Question 35 tested the respondents' views on sustainable competitive advantage, according to the different definitions in the literature as discussed in chapter 3 (see section 3.3.1). The responses to question 35 compared to food manufactured, management level of respondent and strategy applied are summarised in table 6.14 below.

Table 6.14 The definition of sustainable competitive advantage that corresponds best with your view of the concept compared to food manufactured, management level of respondent, strategy applied, considering competitors, considering resources, assets, skills and factors from the macro-environment

Definition of SCA	Food manufactured	Management level of respondent	Strategy responsibility	Strategy applied	Considering competitors	Considering resources, assets, skills	Considering factors from the macro-environment
(1) The things the firm does exceptionally well in comparison to competitors owing to unique combinations of resources and abilities	Meat (2); Fish	Corporate SBU Functional	All hierarchical levels	Differentiation, low cost, focus growth, maintenance, harvest, divest, war	Yes No Yes	Yes Yes Yes	Yes To a degree Yes
(2) Strategy is supported by assets and skills when it is employed in the competitive arena that values the strategy and competitors are unable to match or neutralise the competitive advantage	Meat	Functional	All hierarchical levels	Differentiation, low cost, focus, first mover, synergy, growth, war	Yes	Yes	Yes
(3) The ability of a firm to offer superior value to the market that can be sustained for a prolonged period of time	Fruit, vegetables, oils and fats	Corporate	All hierarchical levels	Differentiation, low cost, focus, growth, maintenance, harvest, divest	Yes	Yes	Yes
(4) Combination , namely a unique combination of resources/abilities compared to competitors that can be sustained for a prolonged period, thereby giving the company an advantage in the market	Meat	SBU	CEO, General Managers, and approval of Board of Directors	Low cost, focus, war	No	Yes	Yes

Table 6.14 contains a multitude of information that needs elaboration. The alternatives (1) to (4) listed in table 6.14 represented the crux of the concept of SCA as defined in some of the literature in chapter 3 (see section 3.3.1). The majority of the respondents agreed with Selznick's view (alternative 1), followed by equal support for Aaker (alternative 2) and Van der Walt et al (alternative 3). One respondent did not support a particular definition as listed in the questionnaire. However, the definition given by this respondent supported a combination of views (ie, Selznick, Van der Walt and Aaker). As pointed out in chapter 3 (section 3.3.1), a combination of the views on SCA perhaps renders the answer to SCA. The important observation though is that according to all of these responses, the respondents' views of SCA were explicitly or implicitly based on the resources/assets/skills of the firm. Furthermore, in previous responses the respondents indicated that they considered assets/resources/skills, although not in the exact category proposed by the theory, in their market strategy formulation efforts. The consideration of resources, assets, skills by the responding firms is also illustrated in table 6.14. The definition of SCA supported by the respondents appeared to be congruent with their consideration of resources, assets and skills, which form the base of SCA, in the formulation of market strategy. Furthermore, it also seemed to be compatible with the consideration of factors from the macro-environment that might influence their market strategy formulation efforts.

Another observation from table 6.14 was that the respondents' views of SCA considered competitors explicitly (alternatives 1, 2, 4) or implicitly (alternative 3). All except two respondents indicated that they considered competitors in their market strategy formulation efforts. Except for these two respondents, it was inferred that the respondents' views on SCA were in agreement with the factors taken into account in market strategy formulation.

One more observation from table 6.14 is that the respondents' views on SCA, on the face of it, seemed to support their strategies applied. In the case of SCA being "the things the firm does exceptionally well in comparison to competitors owing to unique combinations of resources and abilities" it would seem reasonable to apply strategies such as differentiation, low cost, focus growth, maintenance, harvest, divest and warfare.

The final observation about SCA is that the crux of it is value offered to the market. This notion corresponds to the marketing concept as explained in chapter 4 (see section 4.1) and the cultural dimension of marketing as discussed in chapter 1 (see section 1.2.3) that indicates a customer orientation. Only two respondents indicated that their views of SCA supported the concept of value offered to the market (alternatives 3 and 4). However, in checking their earlier responses to the questionnaire (eg, questions 15, 16, 17, 18, 19, 20 and 22), it appeared that value offered to the market was not unequivocally established throughout, even by these two respondents. Consequently, their market orientation was once again questioned. Furthermore, it was inferred that the respondents might not view and apply the concept of SCA as intended in the literature, and therefore did not appear to gain the full benefit of SCA.

Question 37 was the final question about SCA and established how SCA impacted on the respondents' market strategy. The responses to this question, relating to dimensions such as food involved, management level of respondent and strategy responsibility, are summarised in table 6.15 below.

Table 6.15 How competitive advantage impacted on your market strategy compared to food involved, management level of respondent and strategy responsibility

Impact of SCA on market strategy	Food manufactured	Management level of respondent	Strategy responsibility
1. We use it consistently to outmanoeuvre competition.	Meat	SBU	CEO, etc
2. It is an important part of strategy.	Meat	Functional	All
3. We use it to establish a unique selling proposition to offer higher value to customers.	Fish	Functional	All
4. We use it to differentiate our brands.	Fruit, vegetables, oils and fats	Corporate	All
5. Two did not respond to this question.	Meat	Corporate, SBU	All

According to table 6.15, only one response (the first) appeared to clearly indicate that the respondent applied SCA as intended in the literature. It was contended (chapter 3, section 3.3.1) that competitors can only be outmanoeuvred if value was offered to the market. The third response pointed in the right direction, as it hinted at superior value offered to the market. The first response, however, was the only one that was consistent with the respondents view of an SCA, namely a combination of the alternative definitions provided in question 36 and illustrated in table 6.14. The remainder of responses in table 6.15 was vague in terms of how SCA should be used as specified in the theory. Furthermore, none of these could further be linked to the responses provided to the previous questions relating to what SCA was. This might indicate that the majority of respondents did not apply SCA as intended in the literature. This might explain why the firms did not perform as could be expected and specifically why they did not consistently achieve above-average industry profits (see tables 2.22 to 2.26). From the responses provided so far it would seem that the potential did exist in the firms in question to achieve SCA (strongest bases are technology and brands see chapter 3, section 3.3) over and above key success factors that appeared to be present. However, it would seem that the respondents did not exploit SCA to the fullest, as they did not demonstrated achieving an edge over rivals in attracting customers.

The final section of the questionnaire dealt with the strategic options available to the firms, as discussed in the next section.

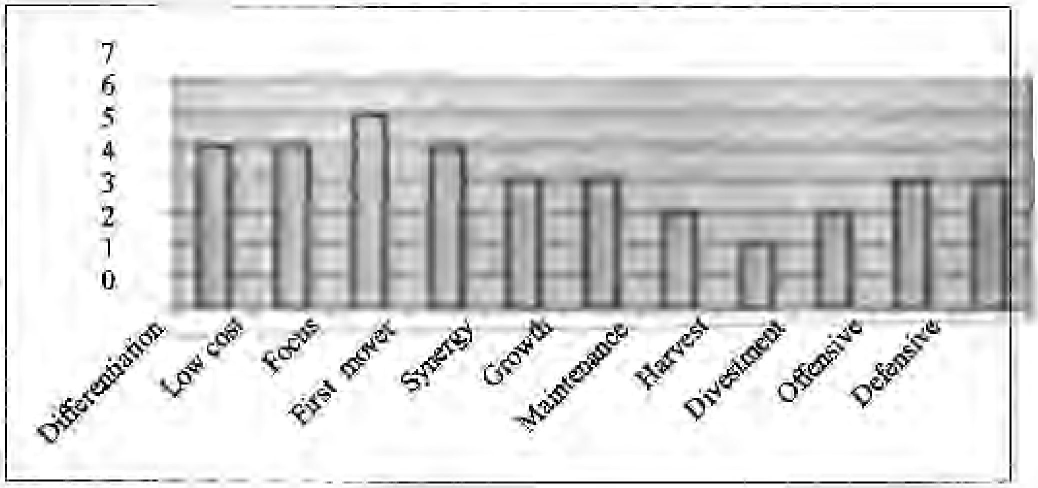
6.2.5 Opinions about market strategy options

Market strategy is important to firms in general and the firms in question in particular, in more than one respect. For instance, it

- is the tool used to cope with changes in the environment,
- directs the firm to survival and growth in order to achieve its profit objectives,
- offers value to the market and
- protects the SCA from erosion by competitors' actions.

However, to succeed, it is imperative that the firm choose the right market strategy or the right combination of market strategies that are based on the SCA of the firm. The purpose of question 38 was to establish which of the strategic options available the respective firms employed. The responses to question 38 are summarised in figure 6.35 below.

Figure 6.35 Strategic options employed by the respondents' firms



From the outset it should be pointed out that the interpretation of figure 6.35 was attempted with caution, as it was possible that more than one SBU of a particular firm completed questionnaires (see section 6.2 six useable questionnaires were returned from the five firms). Therefore, a direct comparison between the responses to question 38 and the theory should be carefully considered. According to figure 6.35, all the strategic options were employed, to a greater or lesser degree by the responding firms. This meant that the responding firms seemed to apply more than one of the strategic options available to them. This was consistent with the theory as indicated in chapter 4 (see section 4.2). All the respondents indicated that they employed a focus strategy, which was consistent with the information in chapter 4. Five of the six respondents indicated that they employed a differentiation, low cost, and first mover strategies. All five of the firms in question applied differentiation, low cost and first mover strategies, that is consistent with the information provided in chapter 4 (see section 4.2). Thus all six of the respondents would have been expected to indicate that they employed these options. Four of the respondents indicated that they employed synergy and warfare (both offensive and defensive) strategies. In the case of synergy, it was demonstrated in the literature (see chapter 4, section 4.2.1.4) that all the firms applied synergy. Hence, all of the respondents could have been expected to indicate that they employed a synergy strategy. Three of the respondents indicated that they employed a maintenance and divesting strategy. In the case of maintenance strategy, the theory showed that all the firms in question applied this option. On that account, all the responding firms could have been expected to indicate that they employed a maintenance strategy. In the instance of a divesting strategy, the theory demonstrated that at least four of the five firms employed a divesting strategy. More of the responding firms could have been expected to indicate this option. Two of the respondents indicated that they employed a harvesting strategy, which could be considered congruent with the theory. These responses would appear to be contrary to the theory as set out in chapter 4, which could be an indication that the firms might not view and/or apply market strategy as intended in the literature. The next question required the respondents to give examples of how they employed these strategies. These responses, compared to aspects of SCA such as resources, assets, skills and factors from the macro-environment considered in market strategy formulation, are summarised in table 6.16 below.

Table 6.16 Examples of how the respondents' firms applied the different strategic options compared to variables considered in connection with SCA, and factors from the macro-environment

Examples of how the respondents' firms applied the different strategic options	Firm	Resources, assets, skills considered (underpinning SCA)	Factors considered from the macro-environment
Differentiation Use branding	# 2[2]	Raw material availability, labour issues, price; age of equipment, new technology, availability; materials; training interventions, skills upliftment, knowledge and experiences	Technology (new inventions) Economic (consumer behaviour, private consumer expenditure); Physical (skills), Social (Nutritional status, health awareness, affordability)
Well-known brand Packaging to a certain specification	#5	Labour; trademarks; not mentioned which skills are considered	Technology (processes and processing equipment), Economic (private consumer expenditure), Physical (capacity and skills levels of employees), Social (consumption patterns, nutritional status)
Innovation	#4	Availability of raw materials, production technologies, human capital expertise; brand image, brand positioning, production issues such as capacity; educational level and experience of employees	Technology (innovation) Physical (improving human capital), Social (enriched foods, healthier way of eating, convenience)
Packaging Product concepts, packaging, value	#3	Resources not specifically mentioned; live raw material requires constant review of facilities; do not consider skills	Technology (new processes) Physical (mortality, capacity) Social and economic factors are not considered
Intrinsic and extrinsic product attributes such as quality, taste,	#6	RONA objectives, cost of goods sold, raw material	Technology (investment)

[2] The firms responded on an anonymous basis. They were numbered from 1 to 6 to facilitate the discussion. Though in one instance it is possible to infer who the firm is given the unique products manufactured.

colour, packaging and advertising.		supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and competencies in sales and marketing	Economic (private consumer expenditure), Social (consumption patterns and value for money)
Low cost Cross-subsidisation of products	#2	Raw material availability, labour issues, price; age of equipment, new technology, availability; materials; training interventions, skills upliftment, knowledge and experiences	Technology (new inventions) Economic (consumer behaviour, private consumer expenditure); Physical (skills), Social (nutritional status, health awareness, affordability)
Own "forms" (possibly denoting that they use their own stationery to contribute to low costs)	#5	Labour; trademarks; not mentioned which skills are considered	Technology (processes and processing equipment), Economic (private consumer expenditure), Physical (capacity and skills levels of employees), Social (consumption patterns, nutritional status)
Agricultural performance	#1	Raw material, # of birds produces, average weight @ slaughter, feed conversion ratio, capex for processing equipment; processing equipment; skills are not considered	Technology (processing technology), Economic (food expenditure), Social (consumption of poultry and other proteins, fast foods/convenience)
Essential in our industry to survive	#3	Resources not specifically mentioned; live raw material requires constant review of facilities; do not consider skills	Technology (new processes) Physical (mortality, capacity) Social and economic factors are not considered
Product/process re-engineering maintaining product quality; review value chain activities	#6	RONA objectives, cost of goods sold, raw material supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and competencies in sales and marketing	Technology (investment) Economic (private consumer expenditure), Social (consumption patterns and value for money)

Focus Concentrate on niche markets	#2	Raw material availability, labour issues, price; age of equipment, new technology, availability; materials; training interventions, skills upliftment, knowledge and experiences	Technology (new inventions) Economic (consumer behaviour, private consumer expenditure); Physical (skills), Social (Nutritional status, health awareness, affordability)
Efforts are concentrated in the right areas	#4	Availability of raw materials, production technologies, human capital expertise; brand image, brand positioning, production issues such as capacity; educational level and experience of employees	Technology (innovation) Physical (improving human capital), Social (enriched foods, healthier way of eating, convenience)
Specific market segment	#5	Labour; trademarks; not mentioned which skills are considered	Technology (processes and processing equipment), Economic (private consumer expenditure), Physical (capacity and skills levels of employees), Social (consumption patterns, nutritional status)
Fast food	#1	Raw material, # of birds produces, average weight @ slaughter, feed conversion ratio, capex for processing equipment; processing equipment; skills are not considered	Technology (processing technology), Economic (food expenditure), Social (consumption of poultry and other proteins, fast foods/convenience)
Cater for specific needs in the market	#3	Resources not specifically mentioned; live raw material requires constant review of facilities; do not consider skills	Technology (new processes) Physical (mortality, capacity) Social and economic factors are not considered
Identify core markets and core brands where investment and time will be focused	#6	RONA objectives, cost of goods sold, raw material supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and	Technology (investment) Economic (private consumer expenditure), Social (consumption

		opportunities; retain best people, develop skills and competencies in sales and marketing	expenditure), Social (consumption patterns and value for money)
First mover First to brand certain meat products in the SA market	#2	Raw material availability, labour issues, price; age of equipment, new technology, availability; materials; training interventions, skills upliftment, knowledge and experiences	Technology (new inventions) Economic (consumer behaviour, private consumer expenditure); Physical (skills), Social (nutritional status, health awareness, affordability)
Producing innovative products or using innovative production equipment	#4	Availability of raw materials, production technologies, human capital expertise; brand image, brand positioning, production issues such as capacity; educational level and experience of employees	Technology (innovation) Physical (improving human capital), Social (enriched foods, healthier way of eating, convenience)
First in the market	#3	Resources not specifically mentioned; live raw material requires constant review of facilities; do not consider skills	Technology (new processes) Physical (mortality, capacity) Social and economic factors are not considered
New product introductions and innovations	#6	RONA objectives, cost of goods sold, raw material supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and competencies in sales and marketing	Technology (investment) Economic (private consumer expenditure), Social (consumption patterns and value for money)
Synergy To control the whole process from feedlot to fork	#2	Raw material availability, labour issues, price; age of equipment, new technology, availability; materials; training interventions, skills upliftment, knowledge and experiences	Technology (new inventions) Economic (consumer behaviour, private consumer expenditure); Physical (skills), Social (nutritional status, health awareness, affordability)
Full involvement of all functional areas in business planning process	#4	Availability of raw materials, production technologies, human capital expertise; brand image, brand positioning,	Technology (innovation) Physical (improving human

		production issues such as capacity; educational level and experience of employees	capital), Social (enriched foods, healthier way of eating, convenience)
Combine activities/departments/brand development/distribution/ labels	#6	RONA objectives, cost of goods sold, raw material supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and competencies in sales and marketing	Technology (investment) Economic (private consumer expenditure), Social (consumption patterns and value for money)
Growth Exports and expanding product range	#2	Raw material availability, labour issues, price; age of equipment, new technology, availability; materials; training interventions, skills upliftment, knowledge and experiences	Technology (new inventions) Economic (consumer behaviour, private consumer expenditure); Physical (skills), Social (nutritional status, health awareness, affordability)
Through product innovation, product line extension, and entering new markets with existing products	#4	Availability of raw materials, production technologies, human capital expertise; brand image, brand positioning, production issues such as capacity; educational level and experience of employees	Technology (innovation) Physical (improving human capital), Social (enriched foods, healthier way of eating, convenience)
Production to specific market in order to receive best income	#5	Labour; trademarks; not mentioned which skills are considered	Technology (processes and processing equipment), Economic (private consumer expenditure), Physical (capacity and skills levels of employees), Social (consumption patterns, nutritional status)
New products, new distribution channels, new markets, new geographic markets, new segments	#6	RONA objectives, cost of goods sold, raw material supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and competencies in sales and marketing	Technology (investment) Economic (private consumer expenditure), Social (consumption patterns and value for money)

		production issues such as capacity; educational level and experience of employees	capital), Social (enriched foods, healthier way of eating, convenience)
Combine activities/departments/brand development/distribution/ labels	#6	RONA objectives, cost of goods sold, raw material supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and competencies in sales and marketing	Technology (investment) Economic (private consumer expenditure), Social (consumption patterns and value for money)
Growth Exports and expanding product range	#2	Raw material availability, labour issues, price; age of equipment, new technology, availability; materials; training interventions, skills upliftment, knowledge and experiences	Technology (new inventions) Economic (consumer behaviour, private consumer expenditure); Physical (skills), Social (nutritional status, health awareness, affordability)
Through product innovation, product line extension, and entering new markets with existing products	#4	Availability of raw materials, production technologies, human capital expertise; brand image, brand positioning, production issues such as capacity; educational level and experience of employees	Technology (innovation) Physical (improving human capital), Social (enriched foods, healthier way of eating, convenience)
Production to specific market in order to receive best income	#5	Labour; trademarks; not mentioned which skills are considered	Technology (processes and processing equipment), Economic (private consumer expenditure), Physical (capacity and skills levels of employees), Social (consumption patterns, nutritional status)
New products, new distribution channels, new markets, new geographic markets, new segments	#6	RONA objectives, cost of goods sold, raw material supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and competencies in sales and marketing	Technology (investment) Economic (private consumer expenditure), Social (consumption patterns and value for money)

			convenience)
Discontinue brand/product lines	#6	RONA objectives, cost of goods sold, raw material supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and competencies in sales and marketing	Technology (investment) Economic (private consumer expenditure), Social (consumption patterns and value for money)
Warfare **Price war**	#2	Raw material availability, labour issues, price; age of equipment, new technology, availability; materials; training interventions, skills upliftment, knowledge and experiences	Technology (new inventions) Economic (consumer behaviour, private consumer expenditure); Physical (skills), Social (nutritional status, health awareness, affordability)
Product innovation, promotions and pricing strategies	#4	Availability of raw materials, production technologies, human capital expertise; brand image, brand positioning, production issues such as capacity; educational level and experience of employees	Technology (innovation) Physical (improving human capital), Social (enriched foods, healthier way of eating, convenience)
Develop clear brand strategies as part of a comprehensive brand plan, which can be above the line or below the line. Advertising and promotion strategies form part of this plan.	#6	RONA objectives, cost of goods sold, raw material supply; protecting brands/trademarks, automation opportunities; retain best people, develop skills and competencies in sales and marketing	Technology (investment) Economic (private consumer expenditure), Social (consumption patterns and value for money)

Comment on table 6.16 was restricted to three areas deemed to be significant for purposes of this study, namely whether or not -

- the ways in which the responding firms applied the market strategies corresponded to those proposed in the literature
- it was conceivable that the firms based their strategies on the aspects of SCA considered by them
- the strategies employed were compatible, in view of the theory.

(1) Differentiation strategies

According to table 6.16, differentiation was achieved in various ways, for example through branding, packaging, innovation and quality. These ways seemed to be consistent with the theory (ie, branding, quality, packaging as part of technical superiority, and innovation as part of product breadth) as set out in chapter 4 (see section 4.2.1.1). These ways of differentiation were deemed part of the functional level, and were not further discussed in chapter 4 since the functional level fell outside the scope of this study. Thus no further comment, in this regard, could be justified. If the ways the responding firms achieved differentiation were compared to some of the aspects of SCA they considered, these strategies could conceivably have been founded on the aspects of SCA considered by them. This seemed relevant in the cases of especially firms 5, 4 and 6. In the case of firm 5, differentiation was achieved by way of well-known brands and packaging. The aspects of SCA that firm 5 considered in the application of market strategy included trademarks. Trademarks are related to brands and, as such, it would seem likely that this aspect of SCA might support this way of achieving differentiation strategy of firm 5. Furthermore, technological, social and other factors considered from the macro-environment in the application of market strategy seemed to be consistent with the aspects of SCA considered and the way of achieving differentiation. Packaging, on the other hand, might be influenced by technology and consumer preferences. These were factors present in the macro-environment that could influence market strategy application. In this instance, packaging might possibly be supported by factors from the macro-environment, such as technological and social environments, specifically processes and processing equipment and consumer preferences as expressed in terms of consumption patterns, considered by firm 5 in the application of market strategy. From this it could be inferred that, in the case of firm 5, its strategy of differentiation might be founded on SCA aspects considered in the application of market strategy. The same kind of argument could be proposed in the case of firms 4 and 6.

In the case of firm 4, differentiation was attained by way of innovation. The SCA aspects considered by firm 4 included production technologies and human capital expertise, which might impact on innovation. The factors from the macro-environment considered by firm 4 in the application of market strategy include innovation from the technological environment, improving human capital from the physical environment and enriched foods and convenience from the social environment. These factors seemed to be linked to SCA aspects and the way in which differentiation was attained. In this instance it could be inferred that the differentiation strategy applied by firm 4 might be founded on the SCA aspects it considered.

In the instance of firm 6, differentiation was achieved by means of intrinsic and extrinsic product attributes, such as quality, taste, colour, packaging and advertising. The SCA aspects considered by firm 6 included raw materials, brands/trademarks, which might have a bearing on the way it applied differentiation. The factors from the macro-environment that firm 6 considered in market strategy application included investments and consumer expenditure patterns (the latter may be indicative of consumer preferences). These might in turn impacted on the SCA aspects considered by firm 6 as well as its basis of differentiation. It might be inferred, then, that its strategy might be founded on the SCA aspects firm 6 considered.

However, in other instances, such as firms 2 and 3, the firm's strategy did not appear to be based on SCA. In the case of firm 2, the basis for differentiation was cited as "using branding". However, none of the SCA aspects considered by firm 2 pointed to branding/trademarks as part of those aspects. Neither did the factors considered in the macro-environment nor the way of differentiation suggest that there was a link between them and the SCA aspects considered. Thus it seemed doubtful whether the differentiation strategy applied by firm 2 could be based on the aspects of SCA considered by it. The same type of argument applied in the case of firm 3.

In firm 3, differentiation was accomplished by means of packaging, product concepts and value. However, none of the SCA aspects considered by firm 3 showed that packaging, product concepts and value were supported. Therefore it seemed unlikely that firm 3 based its differentiation strategy on the SCA aspects considered.

From the above discussion, not all the responding firms appeared to view/apply differentiation as intended in the literature. This might possibly explain (at least to a degree) why the firms in question did not perform as was to be expected.

(2) Low cost strategy

It was not always clear what the responses cited under "low cost" in table 6.16 denoted. The ways of achieving low cost listed included cross-subsidisation of products, own forms, agricultural performance, and re-engineering. Some of these ways, such as re-engineering, seemed to be consistent with those cited in the literature. However, a notable omission in all instances was value offered to the market (see chapter 4, section 4.2.1.2). From an examination of the ways in which the responding firms attained low cost, compared to some of the SCA aspects considered by them, it was doubtful whether their low cost strategies could be founded on the SCA aspects considered. The main reason for this argument was that none of the firms indicated that they considered value to the market. Value to the market is one of the most important aspects of SCA and ways of achieving low cost, according to the literature (see chapter 4, section 4.2.1.2).

The above information suggested that not all the responding firms appeared to view/apply low cost as described in the literature. This might explain (at least to a degree) why the firms in question did not perform as could be expected – in other words their results could be improved on.

(3) Focus strategy

All the respondents indicated that they employed a focus strategy. The ways in which they achieved focus as illustrated in table 6.17 (ie, concentrate on niche markets, specific market segments, fast food, cater for specific needs) seemed to correspond to those proposed in chapter 4 (see section 4.2.1.3). These responses were consequently deemed consistent with the theory and examples as set out in chapter 4 (see section 4.2.1.3). The ways in which the responding firms achieved focus also seemed to tie in with the idea of the "arena" of SCA denoting the area of competition as set out in chapter 3 (see section 3.4). The "arena" of competition is a prerequisite for achieving SCA. From a comparison of these ways of achieving focus and SCA aspects considered by the firms under investigation, it seemed possible that some of these firms could have based their focus strategy on the SCA aspects they considered. This seemed particularly relevant in the cases of firms 2, 4 and 6. In the case of firm 2, focus was attained by concentrating on niche markets. The SCA aspects considered by firm 2 included raw material availability, labour issues and price, which might influence the particular niche markets chosen. Furthermore, the factors from the macro-environment, such as new inventions and consumer behaviour, considered in the application of market strategy might point to the link between these factors, the SCA aspects considered and the way in which firm 2 achieved focus. It could thus be inferred that firm 2's focus strategy might be founded on the SCA aspects considered. The same type of argument applied in the instances of firms 4 and 6.

In the case of firm 4, it was maintained that focus was achieved by concentrating efforts in the right areas. The SCA aspects considered by firm 4 encompassed availability of raw materials, production technologies, human capital expertise and brand image, which might all have a bearing on "concentrating efforts on the right markets". Furthermore, factors from the macro-environment considered in the application of market strategy included innovation and customer preferences which might support the SCA aspects considered by firm 4 as well as the way of focusing. It could therefore be argued that in this instance it was conceivable that firm 4 based its focus strategy on the SCA aspects considered in the application of market strategy.

In the case of firm 6, the way of achieving focus was indicated as identifying core markets and core brands where investments and time would be focused. The SCA aspects that firm 6 considered included RONA objectives, cost of goods sold, raw material supply and protecting brands/trademarks, which might indicate a link with the way in which it achieved focus. Therefore, it could be inferred that firm 6 might have based its focus strategy on the SCA aspects it considered.

In the case of firms 5, 1 and 3, however, it seemed uncertain whether they based their focus strategies on the SCA aspects they considered. In the case of firm 5, the way of achieving focus was cited as "specific market segment". The SCA aspects considered in market strategy application denoted nothing in common with "specific market segment. However, the factors from the macro-environment considered in market strategy application seemed to suggest that consumer preferences might have been considered, which might support a focus strategy. The same kind of reasoning applied in the instances of firms 1 and 3.

In firm 1, focus was achieved by "fast food". The SCA aspects firm 1 considered included raw material, feed conversion, processing equipment. These appeared to have no links with "fast food". However, taking into account the factors from the macro-environment considered by firm 1, notably consumption patterns and convenience, it did seem that these might support the way of focusing. However, the latter were no guarantee that the SCA aspects firm 1 considered were the base for the focus strategy in this example. Consequently, it was doubtful whether firm 1 could have based its focus strategy on the SCA aspects considered.

In the instance of firm 3, focus was achieved through catering for specific needs in the market. The SCA aspects considered by firm 3, however, did not appear to show any link with the way of achieving focus. Thus it could be deduced that firm 3 could not have based its focus strategy on the SCA aspects it considered.

The above discussion indicated that not all the responding firms appeared to view/apply focus as intended in the literature. This might explain (at least to a degree) why the firms in question could improve their performance.

(4) First mover decision

The ways in which first mover decisions were made by the firms in question as provided in table 6.16 (ie, first to brand certain meat products in the SA market, producing innovative products or using innovative production equipment, first into the market and new product introductions and innovations) seemed to correspond to those suggested in the theory (see chapter 4, section 4.2.1.4). A comparison of these ways of achieving first mover and the SCA aspects considered by the firms in question indicated that firm 4 might have based its first mover strategy on the SCA aspects it considered. Firm 4 achieved a first mover strategy by producing innovative products or using innovative production equipment. The SCA aspects it considered included production technologies and human capital expertise, which might have influenced the realisation of this first mover strategy. Firm 4 could possibly have based its first mover decision on the SCA aspects it considered.

In the case of firms 2, 3 and 6, however, it was doubtful whether they had based their first mover decision on the SCA aspects they considered. In the case of firm 2, the way of achieving the strategy was cited as "first to brand meat products in the SA market". However, the SCA aspects considered did not relate to brands/trademarks. Thus it was inferred that this first mover strategy might not have been based on the SCA aspects considered by firm 2. The same kind of contention applied in the case of firms 3 and 6. In the case of firm 3, the first mover decision provided in table 6.16 was cited as "first in the market". The SCA aspects that firm 3 considered did not appear to indicate a link to "first in the market". Hence it was inferred that firm 3 might not have based its first mover decision on the SCA aspects considered. In firm 6, first mover strategy was attained by means of "new products introductions and innovations". However, the SCA aspects firm 6 considered seemed vague and unconnected to the decision (though in chapter 4 it was pointed out that first mover is rather a decision than a strategy). Thus it seemed reasonable to infer that firm 6 might not have based its first mover decision on the SCA aspects it considered.

The above discussion suggested that not all the responding firms appeared to view/apply first mover decision as intended in the literature. This could possibly explain (at least to a degree) why the firms in question could improve their performance.

(5) Synergy decision

The ways in which synergy are achieved as illustrated in table 6.16 (ie, to control the whole process from feedlot to fork, full involvement of all functional areas in business planning process and combine activities/departments/brand development, distribution and labels) seemed to correspond more or less to those set out in the theory (see chapter 4, section 4.2.1.5). These ways also seemed to agree with other factors, such as the

SCA aspects considered by the firms and those from the macro-environment, examined in the market strategy formulation and implementation efforts of the respondents. It could thus be inferred that it was possible that these firms might have based their synergy strategy on the SCA aspects considered in the application of market strategy.

(6) Growth strategy

The ways in which these firms achieved growth as summarised in table 6.16, for example expanding product range and entering new markets with existing products, were deemed examples of product development and market penetration strategies. These ways of growth were deemed to form part of the functional level strategies as discussed in chapter 4 (see section 4.2.2.1). Exports as a way of growth were deemed part of SBU level strategies as explained in chapter 4 (see section 4.2.2.1). As such, these responses appeared to be consistent with those proposed in the literature (see chapter 4, section 4.2.2.1). None of the respondents indicated that they employed a diversification option per se, which was also part of growth and applied by some of them as indicted in the literature (see chapter 4, section 4.2.2.1). Thus the responses to this strategic option were deemed partly consistent with the theory. In the case of all the firms, it appeared plausible that their growth strategies might have been based on the SCA aspects they considered. In the case of firm 2, growth was achieved by exports and expanding the product range. The SCA aspects firm 2 considered included raw material availability, labour issues and price, which might have impacted on exports and the expansion of the product range. Thus it could be inferred that in this instance the growth strategy might have been based on the SCA aspects considered by firm 2. The same kind of reasoning was deemed to apply in the cases of firms 4, 5 and 6.

In the case of firm 4, growth was attained by product innovation, line extension and entering new markets. The SCA aspects firm 4 attended to included availability of raw materials, production technologies and brand positioning which might denoted a link to the way in which growth was achieved. Thus it was inferred that firm 4 might have based its growth strategy on the SCA aspects considered.

In the case of firm 5, growth was attained by means of production to a specific market in order to receive the best income. The SCA aspects firm 5 contemplated included labour and trademarks, which might have influenced the way of achieving growth. It was thus inferred that firm 5 might have based its growth strategy on the SCA aspects considered.

In the case of firm 6, growth was achieved by new products, new distribution channels, new markets, new geographic areas and new segments. The SCA aspects considered by firm 6 included RONA objectives, cost of goods sold, raw material supply, protecting brands/trademarks and develop skills in sales and marketing, which were deemed to denote a link to the way in which growth was achieved. Thus it was reasoned that firm number 6 might have based its growth strategy on the SCA aspects considered.

(7) Maintenance strategy

The ways in which the respondents achieved maintenance as listed in table 6.16 (ie, constant updating of products to meet consumer needs, production to specific markets in order to receive best income and depending on range/profitability then look at ways to grow as in growth option) at first glance did not seem to correspond to those indicated in the literature (see chapter 4, section 4.2.2.2). However, upon closer investigation, the examples cited did appear to correspond to maintenance as indicated in the literature. The example of constant updating of products to meet consumer demand seemed to be an example of re-engineering, that formed part of maintenance. The example of production to specific market in order to receive best income was vague and was thus not considered further. The response "depending on range/profitability than look at ways to grow such as new products, distribution" might point to maintenance, as the aim of maintenance is to achieve growth. From a comparison of these ways of achieving maintenance to the SCA aspects considered by the firms in question, it seemed that firms 4 and 6 might have based their maintenance strategies on the SCA aspects they considered. Firm number 4 indicated that maintenance was achieved by the constant updating of products to meet consumer needs. The SCA aspects that firm 4 considered in the application of market strategy included availability of raw materials, production technologies, human capital expertise and brands, which seemed to indicate a link with the way of achieving growth. Thus it was inferred that firm 4 might have founded its growth strategy on the SCA aspects considered. The same kind of reasoning applied to firm 6. In the case of firm 6, it might be implied that the range/profitability would necessitate growth. The SCA aspects considered in this instance included RONA objectives, cost of goods sold, raw material supply and brands/trademarks that might impact on the maintenance strategy applied. It could thus be inferred that in this instance the maintenance strategy might be based on the SCA aspects considered.

However, in the case of firm 5, the information submitted was too vague to make any meaningful comment.

(8) Harvesting strategy

The ways in which harvesting were employed by the respondents as illustrated in table 6.16 (ie, "prices are maximised with the ultimate objective of withdrawing" and "if small and profitable maximise margin, limited brand investment") were not clear. Furthermore, these ways did not seem to match those proposed in the literature that is "bringing in cash as quickly as possible" and "terminate all further investment in the product" (see chapter 4, section 4.2.2.3). The ways the respondents accomplished harvesting were compared to the SCA aspects they considered. In the case of firm 4, the way in which harvesting was employed was cited as "prices are maximised with the ultimate objective of withdrawing". The SCA aspects firm 4 considered included raw materials, production technologies and brands/trademarks, which might have impacted on the harvesting strategy it applied. It could thus be inferred that this strategy might have been based on the SCA aspects considered by firm 4. The same kind of reasoning applied in the case of firm 6.

In the case of firm 6, harvesting was attained by means of maximising the margin of small but profitable (markets) with a limited brand investment. The SCA aspects considered by firm 6 included RONA objectives, cost of goods sold, raw material supply and protecting brands/trademarks. These SCA aspects might point to a link with the means of achieving harvesting. Thus it was reasoned that firm 6 might have based its harvesting strategy on the SCA aspects considered in the application of market strategy.

(10) Divesting strategy

The ways in which the respondents achieved divesting as listed in table 6.16 (ie, sale of unprofitable businesses and discontinue brand/product line) would seem to be consistent with those cited in the theory (see chapter 4, section 4.2.2.4). In the case of firm 4, the way in which divesting was achieved was cited as "sale of unprofitable businesses". The SCA aspects considered by firm 4 included raw materials, production technologies and brands/trademarks, which might have impacted on the divesting strategy it applied. It could thus be inferred that this strategy might have been based on the SCA aspects it considered. The same kind of reasoning applied in the case of firm 6.

In the case of firm 6, divesting was achieved by means of discontinuing brands or products. The SCA aspects firm 6 considered included RONA objectives, cost of goods sold, raw material supply and protecting brands/trademarks. These SCA aspects might point to a link with the means of achieving divesting. Thus it was reasoned that firm 6 might have based its divesting strategy on the SCA aspects considered in the application of market strategy.

Some respondents indicated that they applied warfare, but this could not be established from the secondary sources studied and discussed in chapter 4 (see section 4.2.3), apart from the broadening of a product range.

Finally, the different strategies applied by the firms in question were compared for "compatibility". Table 6.17 summarises the different strategies employed by the firms in question.

Table 6.17 The different strategies employed by the firms in question

Firm	Strategies applied
1	Low cost, focus
2	Differentiation, low cost, focus, first mover, synergy, growth, warfare
3	Differentiation, low cost, focus, first mover,
4	Differentiation, focus, first mover, synergy, growth, maintenance, harvesting, divesting, warfare
5	Differentiation, low cost, focus, growth, maintenance,
6	Differentiation, low cost, focus, first mover, synergy, growth, maintenance, harvesting, divesting, warfare

From table 6.17 all the firms in question seemed to apply more than one of the competitive strategies and decisions. This appeared to be in conflict with the theory (see chapter 4, section 4.3) where it was indicated that firms in a mature industry should preferably apply only either a low cost or a differentiation strategy than both of these competitive strategies. The reason advanced for this was that the firms might get stranded, that is compromise on their performance by being undecided on which one of a low cost or differentiation strategy should be applied. Compromising on performance might be the case in the example of the firms under investigation, and it perhaps explained why some of the firms could improve their performance in terms of achieving above-average industry profits (see chapter 2, section 2.4).

According to table 6.17, four of the responding firms appeared to apply competitive strategies and decisions as well as life cycle strategies as illustrated in figure 4.3 (see chapter 4, section 4.2). These seemed consistent with the theory. However, two of the firms (numbers 1 and 3) appeared to apply only competitive strategies, which seemed to be inconsistent with the theory (see chapter 4 section 4.2). This might indicate that some of the firms in question might not view market strategy as described in the literature. This perhaps (at least to a degree) explained why some of the firms in question could improve their performance.

6.3 SUMMARY

This chapter dealt with the findings of the study into the application of market strategy by the larger firms listed on the JSE, manufacturing food (major group meat, fish, fruit, vegetables, oils and fats) in the period 1996 to 1999. Given the respondents to the questionnaire, the responses were accepted as reliable as all the respondents were involved in the market strategy application of the firms in question as well as the products under investigation. However, not all the respondents were involved with the firms in question and with strategy formulation for the entire period under review. Nevertheless, their responses were accepted as reliable as some the firms in question experienced management problems in the period under review. These firms replaced some of their managers in the period under review, and subsequently their performance improved (see chapter 1, table 1.12 as well as chapter 4 especially sections 4.2.1 and 4.2.2). According to the responses to the questionnaire, it would appear that there were different views on the components of market strategy that did not always correspond entirely with those of Aaker, Thompson and Strickland and Van der Walt et al. It would also seem that the respondents' marketing departments contribute to strategy formulation. Only half of the respondents' firms formulate market strategy continuously, which appears to be consistent with the theory and demands placed on the firms by the volatile environment in which they conduct their business.

It would also appear that the respondents generally consider strengths, weaknesses, opportunities and threats in their market strategy formulation efforts. The most important factors from the macro-environment impacting on market strategy formulation were cited as:

- legislation from the political environment
- processing, packaging technology, new products, processes and procedures from the technological environment
- consumer expenditure trends from the economic environment;
- skills level/training/experience from the physical environment
- nutritional status and health from the social environment and
- exchange rates from the international environment.

These factors appear to be consistent with the factors driving change in this industry, namely technology and consumer patterns (see chapter 2, section 2.3.1). However, customer value seemed to be a major factor that appeared to be neglected by these firms.

Competitor actions would seem to be generally considered by the majority of the respondents in their market strategy application efforts. New products and packaging seem to be main facets of competitor actions considered by the firms in question. Porter's five competitive forces would appear to be taken into account by these firms in their market strategy formulation, efforts, though under different labels to Porter's. Actions of wholesalers and retailers seemed to be generally considered by these firms in their market strategy formulation, notably category management.

It would also seem that the respondents generally considered assets/resources/skills in market strategy formulation, though the classification of the assets/resources/skills do not necessarily coincide with those proposed in the theory. It is also doubtful whether those assets/resources/skills considered represent all of those critical to market strategy, as value to customers was not explicitly mentioned under SCA. Neither was value to customers consistently referred to by the respondents in other questions, such as 15, pertinent to SCA.

The respondents generally seemed to be in agreement with the definitions of strengths, weaknesses, opportunities and threats as cited in the literature. Though it would seem that they did not capitalise on their respective SWOTs. They also seemed to agree that strengths form the basis of SCA. Their responses to SCA showed that they seemed to be of the opinion that assets/resources/skills underlie SCA, which was in agreement with the theory. Their responses to SCA did not seem to be convincing that they apply SCA as intended in the literature, especially since the critical aspect of SCA, namely customer value, was generally omitted. These responses would furthermore seem to indicate that the bases for SCA, as well as the opportunities to advancing the concept of SCA, exist. However, the responses appeared to show that these firms neither exploit the bases nor the opportunities to advance SCA to its fullest consequence.

According to the responses to question 38, it would appear that the respondents all apply the strategic options to a greater or lesser extent. However, on closer scrutiny, it would seem that not all the respondents view and/or apply these options as intended in the literature.

From these findings it is observed that:

- The respondents considered the components of market strategy as proposed by Van der Walt et al to a greater or lesser degree. However, they did not necessarily use the same labels as the literature to identify these components. Neither did they classify these components exactly as the literature. This was evident, inter alia, from their responses to questions relating to factors considered from the macro-environment, definition of competitors, industry variables and assets, resources and skills considered in the application of market strategy.

- From the responses it could not be convincingly determined whether or not the respondents were market orientated. The responses to questions indicating a market orientation were conflicting. For example, responses to questions indicated that the marketing department contributed to market strategy application; actions of wholesalers and retailers were taken into account to ensure that the right products were available; consumer demands such as convenience/HMR were considered; positioning their product and they all considered SCA (ie, offering value to the market) in market strategy application pointed to a market orientation. However, responses such as that market strategy was not continuously formulated; the fact that no one indicated that a unique strength was transformed into an SCA or the critical role of SWOT in SCA; and, above all, the omission of value to the market as part of SCA indicated that the respondents might not be market orientated.
- All the respondents indicated that they employ a focus strategy (question 38) that seemed consistent with the theory (see chapter 4, section 4.2.1.3). Furthermore, it appeared from the responses that the respondents attended to the "arena" of competition that was consistent with one of the aspects of SCA (see chapter 3, section 3.3.1).
- Some respondents indicated that they consider competitors as firms offering similar nutritional value, which indicates that at least intratype competition is applicable as pointed out in chapter 1 (see section 1.2.2).
- Market strategy is thus relevant to all the firms investigated.

Chapter 7 deals with the conclusions and recommendations of the study.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

This study focused on the application of market strategy by the selected larger firms manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats, listed on the JSE, food sector, in the period 1996 to 1999. The period 1996 to 1999 was chosen for two main reasons. The first was that 1996 to 1999 was the most recent meaningful period during which information could be obtained. The second was that this period witnessed considerable changes that significantly shaped the food industry in general and the selected firms in particular; for example, the deregulation of the South African agricultural industry (see chapter 2 section 2.2). The food industry was selected since it forms part of the SIC classification "manufacturing", which, in the period under investigation, contributed the most (±20%, see chapter 1, section 1.1) to the GDP. The food division, in turn, was selected as it was the single most important contributor (14,4% in the 1996 manufacturing census, see chapter 1, section 1.1) to manufacturing in the period under review. The major group meat fish, fruit, vegetables, oils and fats was selected, as it was the most important major group in terms of value of sales (±30%, see chapter 1, table 1.3) and in terms of consumer expenditure (±50%, see chapter 1, table 1.4). The specific firms, namely Tiger Brands, Kolosus, Rainbow, Delfood and I&J were selected because they were:

- considered the major firms manufacturing the products in question - their aggregate "food turnovers" represented more than 50% of the South African food sales (see chapter 1, section 1.2);

- listed on the JSE food sector during the period under review (see chapter 1, section 1.2 table 1.5);
- considered to be competing to some extent (see chapter 1, section 1.2.2, discussion on intratype competition);
- deemed to represent the operating levels of these firms, which are relevant to market strategy (see chapter 1, section 1.2.3, figure 1.6, chapter 5, section 5.2.2.3).

Market strategy is relevant to firms in general, and the selected firms in particular, for four main reasons, namely:

1. It is the vehicle that ensures that a firm arrives at its ultimate destination, namely survival and growth in an ever-changing environment.
2. The oligopolistic market structure of the South African food industry lends itself to (intratype) competition, especially via the application of market strategy (see chapter 1, section 1.2.2).
3. These firms consist of the various management levels, specifically corporate, SBU and functional. The strategy dimensions required for the application of market strategy should also be present at these levels. That is, corporate, which is concerned with marketing as culture and specifically offering value to the market. At the SBU level, the firm is concerned with the strategy dimension as such and specifically issues such as segmenting, targeting, and positioning, and focusing on the necessary assets/resources and skills to be successful. The functional level is concerned with the marketing mix elements, that is, product, price, distribution and promotion (see chapter 1, section 1.2.3 in this regard).

4. From secondary sources studied, it appeared as if these firms applied market strategy, however with differing degrees of success (see chapter 1, section 1.2.4, table 1.12).

The foregoing resulted in the problem formulation that is revisited in the next section.

7.2 THE PROBLEM STATEMENT REVISITED

The problem statement reads as follows:

> To what extent do the market strategies applied by the selected (larger) JSE-listed companies manufacturing food (major group meat, fish, fruit, vegetables oils and fats) in 1996 to 1999 comply with the principles of a sound market strategy as put forward by leading authors in the field such as Aaker (1998), Thompson and Strickland (1998) and Van der Walt (1996)?

Chapter 2 analysed the South African business environment in which these firms operated. This was done according to a model proposed by Strydom et al (2000:40). Various factors in the environment impacted on the performance of the firms in question and subsequently on their market strategy applied. These factors may be present in the external (macro- or market) environment or the internal environment. From the environmental analysis, it appeared that some of the firms in question were more severely affected by some of these factors than others. In the case of the factors present in the macro-environment, it appeared that variables from the technological and social environments were the most important. The reason for this was that these environments presented the drivers of change in the industry as well as the key success factors in the industry (see chapter 2, section 2.2). In the case of the market environment, the most important observation is that it would seem that prospects for above-average profitability seemed disheartening, although there may be pockets of opportunities to this effect (see chapter 2, section 2.3.1 and section 2.4). In the case of the micro-environment, it was revealed that the firms in question focused on different customers with different products. Furthermore, the key internal factors of these firms differed widely as discussed in chapter 2, section 2.4. Management of these firms, as expressed by certain financial ratios (see chapter 2, section 2.4), appeared to be generally problematic.

The environmental analysis served as input for the SWOT analysis, which, in turn, formed the basis for SCA. The SWOT analysis and SCA were the topic of chapter 3. A SWOT analysis is an examination of the firm's strengths and weaknesses and the opportunities and threats in the business environment that may impact on the market strategy applied. The SWOT analysis serves as a means to identify the SCA that underlies market strategy. Ultimately, the basis of an SCA is a customer orientation, which means understanding what the customers value. This is consistent with the information in chapter 1, namely the cultural dimension of market strategy focuses on customer value. According to the SWOT analysis (see chapter 3, figure 3.1), various opportunities, threats, strengths and weaknesses were identified. The most important finding in this regard was that the weaknesses resulted from these firms' management ability as expressed by the (meager) management ratios (see chapter 2, section 2.4), especially the profitability ratios. The main findings regarding sustainable competitive advantage (SCA) include that the unique strengths as identified by the SWOT analysis should be transformed into SCA. SCA is the ability of a firm to offer superior value to the market for a protracted period. The concept of SCA evolved over a long period, but the crux of SCA relates to:

- the arena (product-market) where the firms choose to compete
- the value offered to the customers
- the assets, skills, resources and capabilities required to offer value to the customers in the chosen arena.

SCA is important to market strategy for various reasons, such as the effective use of resources and the transformation of a unique strength to an SCA. Furthermore, SCA forms the basis of an effective market strategy and at the same time the market strategy attempts to shield the SCA from erosion by competitor actions. The purpose of market strategy is to exploit the firm's unique characteristics. This can only be done if SCA is correctly identified. Only those firms that succeed in identifying the SCA correctly will be able to achieve above-average industry profits and outwit the competition. Thus SCA is significant in achieving business success. This is (perhaps) why Van der Walt et al (1996) mention SCA as the departure point in their components of market strategy (see chapter 4, figure 4.3).

Chapter 4 covered market strategy, the vehicle that ensures that the firm arrives at its ultimate destination, namely survival and growth in an ever-changing environment. Market strategy further seems to be an appropriate description of strategy since it focuses attention anew on the market, particularly the customer, and what the customer values. In the end a firm can only survive and grow if it offers value to the market. Market strategy should thus be based on competitive advantage, which distinguishes the firm from rivals and presents its unique and valuable market position. Internal processes (see chapter 4, figure 4.3), such as management information systems, ensure that the strategy can be implemented and that the future destination can be realised. Strategy is encapsulated in the required resources, assets, skills and technology (especially in the new economy) that ensure that the firm arrives at the future destination. Without the required resources, assets and skills, nothing will come of strategy and the firm will fail.

Market strategy components may be classified as either forming part of process or content. Both parts are important in the application of market strategy. The process followed to arrive at strategy is critical - if SCA is incorrectly identified, the firm may apply inappropriate or unfitting strategic options that may result in failure or unsatisfactory (mediocre) results. The process that should be followed to arrive at the appropriate strategy includes that it is an iterative process, proactive in nature, future orientated, externally orientated taking into account the environmental situation, the industry, competitors and above all the needs of the customers. To be able to take advantage of the external focus of market strategy, it is necessary that the firm should have access to a good management information system, the required assets, resources, skills, capabilities, competencies and core competencies. Implementation is the core of the firm's success in the market. The process followed impacts on the strategic option(s) chosen. The strategic options relate to both the competitive approach that the firm should take as well as a suitable option that complements the appropriate life cycle phase of the firm/market/product/ industry. From the secondary sources studied (see chapter 4, section 4.2), it appeared that at one stage or another all the firms employed a differentiation strategy, low cost strategy, focus strategy, pre-emptive move, and synergy (competitive strategies and decisions). According to the sources consulted, it appeared that some of the firms in question applied the focus, low cost and differentiation options simultaneously. Thompson and Strickland (1998) warn that the concurrent application of these strategies, in a mature industry, would jeopardise the results of a firm. This statement seems to hold true for the firms studied (see chapter 6, section 6.2.5). All the firms studied applied a growth strategy and maintenance strategy (life cycle strategy). At least two (Tiger Brands and I&J) employed a harvesting strategy and four employed a divesting strategy (Tiger Brands, Kolosus, Delfood and Rainbow). These strategies are also called life cycle strategies. It could not be clearly established from the secondary sources studied whether these firms applied marketing warfare.

Chapter 5 dealt with the empirical study. The nature of the problem necessitated that this study employed a qualitative research approach. The specific research design employed was exploratory-descriptive research, mainly to diagnose the situation relating to the application of market strategy by the selected firms, which could lead to the formulation of a hypothesis that could be tested (quantitatively) in subsequent research. The method used to obtain the data was a combination of a case study and experience survey. Five firms were selected to participate in this study. This number falls within the parameters as discussed by Eisenhardt (1989) (see chapter 5, section 5.2.2.2 (g)). Experts were approached to obtain data and subsequently an understanding of the topic studied. The experts were not prepared to grant personal interviews but were willing to complete a comprehensive questionnaire that tested the various components of market strategy, as illustrated in figure 4.3. The goal of the research was mainly to explore and, to a limited degree, describe the concept "market strategy" as applied by the firms under investigation. This research strategy was contextual as specific attention was given to the firms under investigation, resulting in the fact that the findings of this study cannot be generalised to the research population. This is considered the main disadvantage of this study as it threatens external validity. This disadvantage is universal to all qualitative research.

Non-probability sampling was used to select the sample, as the study was qualitative in nature. The specific sampling method employed was judgment sampling because expert opinions were sought and significant players could be included, making the sample more reliable. The reasons for selecting the specific firms included:

- These firms were the largest firms in the sample frame in terms of turnover (their aggregate turnover represented more than 50% of sales) (see chapter 1, section 1.2.1 and chapter 5, section 5.2.2.3);
- These firms are related to a number of the other firms/items in the population (see chapter 5, section 5.2.2.3);
- At least one significant competitor in the major group meat, fish, fruit, vegetables and oils and fats was selected for comparison purposes. The oligopolistic nature of the market restricted the selection of relevant competitors. Nevertheless, top management of these firms were deemed to be experts in the field of market strategy who could provide the required information. Insight and understanding could become available on the basis of the information submitted by these experts (see chapter 1, section 1.2.2 and chapter 5, section 5.2.2.3);
- According to Eisenhardt (1989), between four and 10 firms should be included in a case study to balance the volume of information obtained and the complexity of the information;
- These firms, to some extent, represent the operating level of the firm rather than the holding or controlling company (see chapter 1, section 1.2.3);

- These firms represent the corporate and SBU levels, which are relevant in formulating and implementing market strategies (see chapter 1, section 1.2.3).

The questionnaire used to obtain the data was constructed according to the sound principles of a market strategy put forward by Aaker (1998), Thompson and Strickland (1998) and Van der Walt et al (1996) and discussed in chapters 1 to 4 of the study. The questionnaire was also pre-tested to ensure that it was possible to complete the questionnaire as well as that respondents were willing to do so. The Bureau of Market Research of the University of South Africa administered the questionnaire, as the respondents were not willing to participate in a study conducted by an independent student.

The scientific nature of any study is judged by the reliability and validity of the research findings. Reliability requires that the application of a valid measuring instrument to different groups under different circumstances generate the same findings. Validity means that the findings approximate reality as closely as possible. Reliability relates to the data collected while validity refers to the measuring instrument used to collect the data. Validity can be categorised according to internal validity and external validity. This study seems to possess internal validity, but its contextual nature threatens the external validity, as is the case with all qualitative research. The next section deals with the conclusions about the results of this study.

7.3 CONCLUSIONS ABOUT THE RESEARCH

The questionnaire used to obtain the data was divided into several sections. The first section, consisting of questions 1 to 9, covered demographics. This section served two purposes, namely to gain the interest of the respondents and to determine the reliability of the data submitted. This section was followed by a section relating to the different definitions of market strategy, covered by questions 10 to 12. The third section related to strengths, weaknesses, opportunities and threats, covered by questions 13 to 32. The fourth section attended to SCA, covered by questions 33 to 37. The fifth section related to the market strategy options applied covered in question 38. The final section related to the strategy responsibility in the firm, covered by question 39. Question 39 is considered part of the questions establishing the reliability of the data collected. Question 40 contained contact details of the respondent, should it be necessary to contact the respondent. Conclusions on each section are given in the following sections.

7.3.1 Demographics and reliability of the data

Question 1 requested the position held by the respondents. According to the responses to question 1, the respondents represented the corporate, SBU and functional levels of the firms. This study focused on the corporate and SBU levels of the firm (see chapter 1, section 1.2.3). On the face of it, the responses from the respondents representing the functional level should have been rejected. However, question 1 should be read in conjunction with question 39, relating to the person(s) charged with strategy responsibility in the firm. According to the responses to question 39, all the respondents were involved with the strategy responsibility in their firms (see chapter 6, section 6.2.1). Therefore it is concluded that the data collected with this questionnaire may be accepted as reliable. The main implication of the response to question 39 is that it seems as if there is consensus that management on all the hierarchical levels in the firm, whether corporate, SBU or functional, appear to be involved in the strategy formulation and implementation of the firms in question. This implies that although the theory holds that the strategy-making roles vary at the different hierarchical levels (see chapter 1, section 1.2.3), they collaborate, to some extent, in practice. This collaboration seems to be far more significant than the theoretical demarcation of the roles at the different hierarchical levels. Furthermore, one could conclude from this that the theory that each lower level strategy is in accordance with the higher level strategy (see chapter 1, figure 1.6 that indicates a two-way influence between the different hierarchical levels of the firm) may be confirmed, at least for the firms studied.

Questions 3 and 4 tested the period during which the respondents were involved in the food industry and with the firms studied in particular. From the responses to question 3, all the respondents were involved in the food industry in the period under review (see chapter 6, section 6.2.1). However, according to the responses to question 4, two respondents were not involved with the firms in question for the whole of the period under investigation (see chapter 6, section 6.2.1). The latter may impact on the reliability of the data collected. However, as pointed out in chapter 1 (see table 1.12) and chapter 4 (see section 4.2) some of the firms in question experienced management problems. As a consequence, some replaced managers while others altered their management structures. As indicated in chapter 1 (see table 1.12), the performance of some these firms improved after the new management measures were introduced. In view of the improved performance after the appointment of new managers, or introductions of altered management structures, the responses from the respondents who were not involved with the firms in questions for the entire period under review were accepted for the purposes of this study.

Questions 8 and 9 required the respondents to indicate how long they had been involved in strategy formulation in the industry and the firms in particular. Although the respondents were involved in strategy formulation in the industry for the entire period 1996 to 1999, only half were involved in the firms under investigation's strategy formulation for the whole period under review. This affects the reliability of the data for the entire period. The data is accepted as reliable, however, as the respondents were involved in the firms' strategy formulation efforts, though only for a part of the period under review.

Question 5 requested the respondents to indicate which of the products of the major group meat, fish, fruit, vegetables, oils and fats were manufactured. The respondents indicated that they manufactured several of the products of the major group meat, fish, fruit, vegetables, oils and fats. Thus it may be concluded that opinions of firms involved in the manufacture of all of the products of the major group meat, fish, fruit, vegetables, oils and fats are taken into consideration, making the data collected reliable.

Question 6 required the respondents to indicate which one of the products of the major group meat, fish, fruit, vegetables, oils and fats was the most important in terms of turnover. Meat, fish, fruit and vegetables were indicated as the products constituting the major turnovers of the firms in question. According to the responses to question 6, the information obtained is reliable, as the most important products of the major group meat, fish, fruit, vegetables were included in the responses to the question. Oils and fats represent a minor part of the major group and have no listed competition – they were not expected to represent a major turnover (see chapter 1, table 1.4).

Question 7 required the respondents to indicate the turnover category that represented the total turnover of the products in question manufactured. The turnovers of these firms were significant according to these responses. One should not be misled by these turnovers as they will not match with those provided in chapter 1 (tables 1.6 to 1.9). Those in chapter 1 were for all kinds of food manufactured by these firms, as submitted in their annual reports. The turnovers stated in question 6 of the questionnaire related specifically to the foods of the major group meat, fish, fruit, vegetables, oils and fats. The turnovers were useful in comparing the responses of the respondents for example market leaders versus the non-market leaders (eg, in questions 12 – frequency of market strategy formulation and 23(b) – reasons why actions of competitors were not considered). Neither should one try to couple these turnovers with representativeness of the major group studied, as these firms are not representative of the population. Experts were merely selected from the larger companies listed on the JSE, manufacturing food of the major group meat, fish, fruit, vegetables, oils and fats, to participate in exploratory research.

Question 2 required the respondents to indicate what qualifications they held. The purpose of this question was merely for interest sake than anything else. The qualifications of the respondents varied from nothing to BCom/MBA.

Given the responses to questions 1 to 9 and that to question 39, the responses may be accepted as reliable as all the respondents were involved in the strategy processes of the firms in question and the products under investigation.

The next division of the questionnaire dealt with the opinions of the respondents about market strategy. Conclusions to these responses are presented in the next section.

7.3.2 Market strategy

The different definitions of (market) strategy were tested in questions 10 and 11. All the respondents agreed or strongly agreed (see chapter 6, section 6.2.2) with the

- general definition of strategy as put forward in question 10 (a), namely "strategy consists of the actions and approaches employed to achieve the targeted organisational performance"
- definition of corporate strategy in a diversified firm as put forward in question 10 (b), namely "strategy concerns how a diversified firm intends to establish business positions in different industries and the actions and approaches employed by management to improve the group's performance in businesses diversified into"
- SBU level definition of strategy as put forward in question 10 (c), namely "strategy refers to management's managerial game plan for a single business to build a strong long-term competitive position"
- One respondent strongly disagreed with question 11 (a), namely that market strategy refers to the contribution of marketing management to the formulation of strategy (see chapter 6, section 6.2.2, figure 6.10). However, this respondent indicated that his/her marketing department contributes to the firm's strategy formulation efforts. This seems to be a contradiction.
- All the respondents indicated that their marketing departments contributed to the formulation of market strategy. This may indicate that these firms might be market orientated. However, the extent of their market orientation is doubtful, owing to their contradictory responses to, especially, questions 12 (frequency of strategy

formulation that was generally not continuous), 18 (social variables considered indicated that customer value was generally not considered), 35 (the definition of SCA addressed assets, skills and competitors and while value to the market, the crux of SCA, was generally omitted) and question 37 (were generally not convincing in indicating the relevance between SCA and the market strategies applied). (For a comprehensive discussion on each of these questions, refer to the relevant parts in this chapter). Questions 12, 18, 35 and 37 also served as checks on the market orientation of these firms. On the strength of the responses to these questions, it would appear that these firms might pay lip-service to being market orientated. As indicated in chapter 1 (section 1.2.3), one of the strategy dimensions required for the application of market strategy present at the corporate management level concerns marketing as culture, and specifically offering value to the market. It would appear from these conflicting responses that the dimension, marketing as culture, might perhaps not be well established in some of the firms examined. One of the objectives of this study as stated in chapter 1 (see section 1.4), was to determine the market orientation of the firms investigated. It would appear to be not well established. However, given the qualitative nature of this study, this aspect should be further examined in future research.

Question 12 required the respondents to indicate how often they formulated market strategy. According to the respondents, only three of them formulated market strategy continuously. These three were involved in the manufacture of meat products. However, one of the four respondents involved in the manufacture of meat products indicated that market strategy was formulated once per year (see chapter 6, figure 6.12). In this case, the turnover was between R1 000 and R 4 999 million, which indicated that this firm was one of the market leaders. It would seem strange that a market leader did not formulate market strategy continuously. The respondents who indicated that market strategy was continuously formulated represented the three different hierarchical levels in their firms: functional, SBU and corporate. These respondents indicated that the strategy responsibility rested with all the hierarchical levels and the CEO, General Managers and approval by the Board of Directors. On further examination, it appeared that the turnover of one of these firms was more than R1 000 but less than R4 999 million and the turnover of two of the firms were less than R500 million. The former could be considered a market leader, while the latter could be considered followers in the field of meat. There was no apparent trend in comparison to those who formulate market strategy once per year or biannually. The only distinguishing factor was that some firms, mainly involved in meat, formulated market strategy continuously. This perhaps indicated that some of the firms involved in the manufacture of meat were aware of and tried to adapt to the demands of the business environment. The continuous formulation of market strategy, as indicated by some of the respondents, is consistent with the theory and nature of market strategy (see chapter 4, section 4.2). It is, therefore, concluded that these firms who continuously formulated market strategy, acted in accordance with Aaker, Thompson and Strickland and Van der Walt et al, as they formulated market strategy continuously. It is also concluded that the firms who did not formulate market strategy continuously, possibly did not view and/or apply market strategy as intended by Aaker, Thompson and Strickland and Van der Walt et al. It is further concluded that the latter firms formulated strategy at inadequate intervals, given the volatile nature of the South African business environment (see chapter 2, section 2.2) in which they operate, thus rendering their market strategies insufficient to cope with change. This may perhaps be one of the reasons why there is scope for growth especially in achieving above-average industry profits and in so doing improved performance (see chapter 1, table 1.12 and chapter 2, section 2.4, tables 2.22 to 2.26 – none of the firms persisted in achieving above-average industry profits in the entire period under review).

The respondents' views on strategy corresponded, generally, to that proposed in the theory. It would also seem that the respondents' marketing departments contributed to strategy formulation and implementation, which is consistent with the theory on market strategy. However, only half of the respondents' firms formulated strategy continuously. The continuous formulation of market strategy is congruent with the theory. It would appear that some the firms studied might neglect the marketing dimension of strategy, and specifically value to customers. The latter might perhaps impact negatively on these firms' performance. The neglect of the aspect "customer value" receives more attention in the subsequent parts of this chapter.

The next part of the questionnaire addressed opinions on strengths, weaknesses, opportunities and threats, as discussed in the following section.

7.3.3 Strengths, weaknesses, opportunities and threats

The purpose of a SWOT analysis is to determine the variables affecting the firm's survival and growth in an ever-changing environment. Furthermore, the SWOT is the means of identifying an SCA on which the market strategy is based. Effective market strategy presents a good fit between the resources of the firm and the external environment, meaning the firm is in a position to maximise strengths and opportunities and to minimise the impact of weaknesses and threats. It is necessary to analyse strengths as they are based on assets/resources, which ultimately form the foundation of SCA. Question 13 tested whether or not the firms in question take factors that may limit the actions that they may or should take into account in market strategy application. Although three respondents disagreed with this statement, they all completed questions 14 to 32 relating to factors that may hold opportunities or pose threats or present strengths or weaknesses. As pointed out in chapter 6 (section 6.2.3) this may indicate that the instructions in the questionnaire might not be clear, as there was no instruction to the respondents who disagreed with question 13 to skip questions 14 to 32. Given that these respondents, nevertheless, completed questions 14 to 32 and indicated variables considered that may limit the actions that the firm may or should take, it is concluded that the respondents all considered factors that may limit the action that the firms may or should take. The factors that may limit the actions that the firm may or should take are present in the environment, and specifically in the macro-, market and micro-environments.

According to the responses to the questions relating to the factors from the macro-environment which may hold opportunities or pose threats to the firms in question, it is concluded that:

- Factors from the political/legal, technological, and physical sub-environments were considered by all the respondents, while those from the economic, social and international sub-environments were considered by most of the respondents (see chapter 6, section 6.2.3).
- The most important factors from these sub-environments that were considered by the firms investigated included

- Tariffs and health requirements from the political/legal environment. The majority of the respondents manufactured/processed poultry that was troubled by dumped poultry from the USA in the period under review and the responses may possibly be biased towards their views.
- Processing, packaging technology, processes, procedures, new products and innovation were the most important factors considered from the technological environment. It can thus be deduced that these firms considered technology a key success factor in this industry as well as a factor that drove change in the food industry (see chapter 2, sections 2.2 and 2.3). In considering technology in market strategy application, the respondents might stay abreast of changes and adapt proactively to ensure survival and growth.
- Consumer expenditure trends (related to consumption patterns another driver of change in the industry [see chapter 2 sections 2.2 and 2.3]) was the most important factor considered in the economic environment (and social environments).
- Skills levels of workers/training/experience was the most important factor considered in the physical environment. This may perhaps reflect the importance of productivity, which was lacking according to the financial ratios as provided in chapter 2 (see section 2.4).
- Nutritional status and health was the most important factor considered from the social environment, which may impact on innovation. Innovation might impact on new products and/or new processes resulting in nutritious food. Nutritionally enriched foods, especially with vitamins A, B6, E and folic acid (see chapter 2, section 2.2.5 and chapter 3, section 3.2) could assist in alleviating deficiencies in the nutritional status of South Africans. The affordability of the innovative

products is, however, not clear, as only one firm referred to affordability as a factor considered from the macro-environment in market strategy formulation. Affordability could also point to customer value, especially to the lower income groups.

- Exchange rates and opportunities to export to Africa were the most important factors considered in the international environment. This is consistent with the information in chapter 2 (section 2.2.6) that exports to Africa are increasing. Exchange rates might be important as most of the capital equipment were imported. The exchange rates influenced the price of the imported products, and effected eventually the price of products of the respondents. Price is an important factor in competitiveness.
- The above factors considered by the respondents in their market strategy application efforts are deemed to be congruent with those proposed in the theory. Although the above factors are deemed to be consistent with the theory, it needs to be pointed out that the respondents did not consider all the factors mentioned in chapter 2. Notably customer value as indicator of a market orientation, was generally omitted. Customer value is also the cornerstone of SCA and thus effective market strategy. The omission of considering customer value in market strategy application is significant as customer value is the cornerstone of SCA. Effective market strategy, in turn, is based on SCA. Effective market strategy maximises the strengths of the firm and the opportunities in the environment, while it minimises the impact of the firm's weaknesses and the threats in the environment. Thus effective market strategy ensures that a firm can achieve above-average industry profits and outperform the competition. Thus, the omission to consider customer value in the application of market

strategy indicates that the responding firms' market strategies might perhaps not be effective. This could be confirmed by the fact that some of them, occasionally, achieved above-average industry profits (see chapter 2, section 2.4) instead of continuously.

- Value for money was only once indicated as a factor considered in the macro-environment that impacted on market strategy application. Specifically, only one of the respondents indicated that value for money (as indicator of customer value) was considered as a factor considered from the social environment. However, in a later response (see question 35) another firm indicated that customer value forms part of its definition of SCA and yet another showed that SCA is applied in such a way that customer value is created (question 37) (also see chapter 6, section 6.2.4). This would indicate that some of the firms in question considered the crux of SCA, namely customer value, intermittently. However, the periodic consideration of customer value is not sufficient for achieving above-average industry profits and outperforming competition continually.
- One respondent involved in the manufacture/processing of poultry neglected factors from the economic, social and international sub-environments, which is in conflict with the theory. Furthermore, the social environment embodies variables (eg, demand) that drove change in the industry, which are critical for success. Poultry is the only product in question that is not exported, which may contribute to the neglecting of some factors in the macro-environment by this particular firm. The neglect of variables that may be critical to the industry may perhaps explain to some degree why some of the firms could improve their performance (eg, profitability ratios).

These conclusions suggest that at least some of the firms in question did not view and/or apply market strategy as intended in the literature. This perhaps, to some degree, explains why some of the firms in question could improve their performance as expressed by their profitability ratios. Unfortunately, the responses were anonymous, and the specific responses could not be related to the financial results to affirm this possibility.

Questions 14 to 19 required the respondents to indicate which factors from the macro-environment impacted on their market strategy formulation and implementation efforts. Not all the respondents considered all relevant sub-environments (specifically the social environment was omitted). It is doubtful whether all the factors considered from the various sub-environments are, indeed, the critical ones as the critical factor customer value was neglected. For example value for money, as reflection of market orientation on the one hand and cornerstone of SCA on the other, was only considered by three of the respondents. However, these respondents did not mention customer value consistently at appropriate questions. Therefore, it is concluded that, generally, critical and/or relevant factors from the macro-environment seem not to receive the consideration they deserve to render market strategy effective, as set out in the theory. This may perhaps, to some degree explain why some of the firms did not perform as could be expected.

The responses to the question why the firms do not consider factors from the different sub-environments generally were not clear. It should be pointed out that all the sub-environments might house factors that could impact market strategy. Any person who neglects any of these sub-environments may be misguided. The variables in all the sub-environments of the macro-environment proved to be critical, including

- economic variables (see chapter 2, section 2.2.3 especially as South Africa is a small, open economy which is influenced by occurrences in the global economy (eg, the 1998-Asian crisis that negatively impacted the South African economy generally and the food industry in particular)
- social variables (especially nutritional status and health and substitute products, such as soy and genetically modified products that are cheaper, see chapter 2, section 2.2.4) and
- international variables (see chapter 2, section 2.2.6 especially imports and export opportunities).

Should any of these variables from these sub-environments be disregarded, it may be at the firm's peril.

The era of the new economy is the current reality and thus the effect of the global economy can no longer be ignored. Occurrences in the global economy, such as changing consumer demand and technological breakthroughs, may and indeed have influenced what is happening in South Africa. If a firm does not check these variables, it may be to the firm's detriment. The responses that some of the firms did not consider variables of all the sub-environments of the macro-environment are in conflict with the views of Aaker, Thompson and Strickland and Van der Walt et al. Furthermore, these responses may denote why some of the firms' performance could improve, especially profitability ratios (see chapter 2, section 2.4).

Factors in the market environment may also hold opportunities or pose threats to the firms in question (see chapter 2, section 2.3). Therefore these factors should also be considered in market strategy formulation and implementation. Competitors form part of the market environment and, as such, deserve attention. According to the responses, it is clear that competitors were examined by most of the respondents (see chapter 6, figure 6.15). Competitors were considered mainly in terms of the application of "technology". Technology was established as one of the critical factors in the food industry (see chapter 2, sections 2.2 and 2.3). However, according to the theory, more factors relating to competitors are relevant with regard to market strategy application, for example "who is in the strongest and weakest position". However, it would appear from the responses that these factors did not receive attention from the respondents. Thus, some of the relevant factors in market strategy application seemed not to have been considered.

From the responses to question 21, namely the definition of competitors, it would seem that the respondents agreed with the definition of competitors, taking into consideration the different nuances. According to the nuances some of the respondents did not agree with the stated definition (see chapter 6, section 6.2.3).

The industry itself forms part of the market environment and, as such, industry variables should be considered in market strategy formulation and implementation to ensure effective market strategy. Five of the six respondents indicated that they considered industry variables as such. They further indicated the variables considered, namely, convenience/Home Meal Replacement (HMR), quality of assets required, buying power of the Rand, threat of substitute products, imports and new entrants (see chapter 6, figure 6.19). HMR could indicate that consumer demand was considered, implying that one of the driving forces of industry change was considered. The variables attended to by the respondents could be grouped – for example, buying power of the Rand, convenience/HMR and quality of assets could relate to rivalry among firms. Threat of substitute products, imports and new entrants could be related to substitute products and/or new entrants. On the face of it, these variables listed by the respondents did not appear to correspond to those mentioned by Porter as discussed in chapter 2 (see section 2.3, figure 2.3). However, on further examination, they could be related to Porter's, and as follows:

- Buying power of the Rand could possibly be related to the power of buyers and suppliers – only so much could be done with one Rand (R1) and thus the option that provided the best value for money was chosen. The same applied to consumers, and from this perspective the buying power of the Rand could also denote rivalry among firms to provide best value for money to consumers.
- Imports could be related to both threat of new entrants and substitute products as imports could be a source of both.
- Convenience/HMR could be related to consumer demand and thus to buying power of buyers and/or to rivalry among firms.
- Quality of assets could be related to rivalry among firms as it might impact on costs, quality and, ultimately, whether the firm could meet the consumers' demands.

It was contended that the respondents, without using the same labels as Porter, dealt with the competitive forces in market strategy formulation and implementation. It would seem from the responses that the most often considered variable was convenience/HMR, which was related to rivalry among firms. The declining buying power of the Rand (see chapter 2, section 2.2.3) might put pressure on all participants in the industry as well as consumers. It may also denote that these firms implicitly address issues such as value offered. The buying power of the Rand might contribute to innovative products. Innovation was important to sustain SCA and to outperform competitors. As pointed out earlier, innovation may contribute to innovative products, such as vitamin-enriched foods, but the affordability of such innovative foods is not too clear, given the responses to questions checking "customer value". As indicated in questions 15 and 20, innovation was an important variable considered by the firms in question in market strategy formulation and implementation. Though, value to the market did not seem to be a high priority of the respondents (see also responses to questions 14 to 19, 33, 37 and 38 in this regard). Further research would be needed to determine their exact customer orientation, as indicated by value to the market and expressed by, inter alia, value for money. Threat of substitute products could also be related to innovation, given products such as soy stews with the flavour and texture of real meat, that were cheaper than their original counterparts as indicated in chapter 2 (see section 2.2.2). New entrants were not considered a major issue in the literature, given the high entry barriers in the industry as explained in chapter 2 (see section 2.3.2). It was reasoned that new entrants would rather enter this market by way of joint ventures, which might be beneficial to both local and international players. In this instance, it would be invaluable to observe competitor actions in this regard, as such joint ventures could be potentially detrimental to the other players in this industry. Convenience/HMR might indicate that consumer preferences might be taken into account and, as such, the respondents might be market orientated. Convenience/HMR could take the form of either chilled products (for the upper section of the market) or canned products (for the lower section of the market). Furthermore, consumer demands/expenditure patterns were one of the major factors considered in the macro-environment as illustrated in table 6.2 (see chapter 6, section 6.2.3). All the industry variables considered by the responding firms in their market strategy formulation and implementation efforts were deemed to indicate that these firms had a competitive approach to their businesses.

Intermediaries, namely wholesalers and retailers, also form part of the market environment and should be considered in market strategy application to ensure effective market strategy. Only four of the respondents indicated that they considered intermediaries in their market strategy application efforts (see chapter 6, figure 6.20). According to the responses obtained, it may be concluded that some of the respondents consider vital factors concerning intermediaries, such as category management in their market strategy application efforts. This may indicate that some of the respondents might be market orientated by providing the required products to the customers (as implied by category management). These responses are consistent with those to question 18 (a), namely the factors considered in the social environment that point to category management, notably consumption patterns, nutritional status and convenience. Once again, the responses seem, on the one hand, to be consistent with some responses (questions 14 to 19 considering factors from the macro-environment that may impact on the market strategy applied) and on the other hand, conflicting with others (questions 35 the definition of SCA, which generally neglected customer value and 37 the impact of SCA on market strategy – the relevance between SCA and the market strategy applied was not clear) relating to the issue of market orientation of the firms in question. These seeming conflicting responses as to the customer orientation of the respondents needs further investigation in a subsequent study.

Questions 24 to 26 tested the opinion of respondents on assets, resources, skills, and capabilities of the firm, which are critical with regard to creating SCA and offering value to the market (see chapter 3, section 3.3.1). All the respondents indicated that they consider resources and assets in their market strategy application efforts (see chapter 6, figures 6.22 and 6.24). However, two indicated that they did not consider skills in their market strategy application efforts (see chapter 6, figure 6.26). According to the responses to question 24, it would seem that the respondents listed both resources and skills (which are different entities eg, resources represent raw materials, machinery etc, while skills represents proficiencies, processes etc) as resources, which seems to be contrary to the theory. According to the theory (Javidan, see chapter 3, section 3.3), there is a relationship between assets/resources, skills, capabilities, competencies and core competencies, which ultimately impact on the SCA. However, one must be clear on what constitutes the different categories, namely assets/resources, skills, capabilities, competencies and core competencies and how this hierarchy is composed as there are differences between these concepts. From the responses to the questions relating to assets/resources, skills and capabilities, it may be concluded that the respondents do not view assets/resources, skills and capabilities as proposed in the theory as they did not distinguish between resources and skills. It may further be concluded that their contradictory view in this regard may possibly impact negatively on SCA and this may possibly have contributed to their unsatisfactory performance. The same observation may be valid for the responses to questions 25 and 26. It is therefore concluded that it would seem that the respondents did not view and/or apply assets, resources, skills and capabilities as intended by Aaker, Thompson and Strickland and Van der Walt et al. This would need further investigation in a future study.

The responses to questions 24 to 26 created doubt as to whether these firms considered the critical assets, resources, skills capabilities that impacted on SCA and effective market strategy. For example, none listed processes, which are deemed critical in achieving SCA, and yet most of them, according to the secondary sources studies (see chapter 4, section 4.2.2), applied a re-engineering strategy at one stage or another to improve processes. It is thus concluded that the respondents did not view/apply skills (for that matter assets and resources) as intended in the literature. So much more is involved, which may to a degree explain why the firms generally did not perform as could be expected, ie consistently achieve above-average industry profits (see tables 2.22 to 2.26).

Questions 27 to 30 tested the views of the respondents on the definitions of strengths, weaknesses, opportunities and threats. They all agreed or strongly agreed with the definitions proposed. It is thus concluded that the respondents' views on strengths, weaknesses, opportunities and threats correspond to the theory. It should, however, be pointed out that the respondents were not asked to list what they viewed as strengths, weaknesses, opportunities and threats, as such a response was deemed sensitive. There is thus no check on whether the responses to questions 27 to 30, indeed, correspond to the theory.

Question 31 required the respondents to indicate whether SWOT was taken into account in market strategy formulation and implementation. Only one respondent indicated that SWOT was not taken into account in market strategy formulation and implementation, while all the other respondents indicated the contrary (see chapter 6, figure 6.32).

However, looking at the responses to question 32, namely how SWOT was taken into account in market strategy formulation and implementation, it is doubtful whether SWOT is, indeed, applied as intended in the literature (see chapter 6, table 6.14). The reason is that none of the respondents indicated the link between SWOT and SCA (see chapter 3, section 3.1). Furthermore, it was also pointed out in chapter 3 (see section 3.2) that SWOT seems to be a relatively simple tool with powerful application. It would seem that the respondents generally did not apply SWOT powerfully. Most of them responded vaguely to the question as to how they took SWOT into consideration in their market strategy application efforts (see chapter 6, table 6.14). Therefore it is concluded that the respondents did not demonstrate that key strengths and weaknesses were considered in market strategy application. Neither did the responses show that the SWOT analysis determines the direction that the firm should take and indicated the limitations that the firm might face. Above all, a customer orientation was not unequivocally established, though it was hinted at by some.

In conclusion, the respondents indicated that they generally considered factors from the macro-environment in their market formulation and implementation efforts. Legislation, processes, consumer trends, nutritional value and exchange rates were the most often considered variables from the macro-environment. Competitor actions were generally considered by most of the respondents with specific attention to technological factors.

The respondents indicated that they generally considered assets/resources/skills in market strategy formulation and implementation, though the classification of the assets/resources/skills did not necessarily coincide with those referred to in the theory.

It is also doubtful whether those assets/resources/skills considered were, in fact, the ones critical to market strategy application.

The respondents were generally in agreement with the definitions of strengths, weaknesses, opportunities and threats as cited in the literature, though it would seem that they did not capitalise on SWOT. They also agreed that strengths form the basis of SCA. The results of the responses to SCA are addressed in the next section.

7.3.4 SCA

Questions 32 to 37 tested various aspects of SCA, the basis of an effective market strategy. All the respondents indicated that SCA was considered in market strategy formulation and implementation (see chapter 6, figure 6.33). Furthermore, they all agreed that strengths formed the basis of SCA (see chapter 6, figure 6.34). These responses are consistent with the theory, as well as with the response to question 35, namely the definition of SCA. Although the respondents supported different definitions of SCA, they all, explicitly or implicitly, pointed to the fact that SCA was based on assets/resources and skills of the firm (see chapter 3, section 3.4) and doing "something" better than the competition (see chapter 6, table 6.15). However, only one respondent indicated that value was the cornerstone of the definition of SCA. Thus the majority of the responses to the definition of SCA are deemed to be partially inconsistent with the theory, as the respondents did not mention the crux of SCA, namely value to the customers. The definition of SCA was further investigated by question 37, which required the respondents to explain how SCA impacted on their market strategy. The responses to question 37 generally seem to contradict those of the definition of SCA, in the sense that the application showed no relevance to the definition of SCA mentioned by the respondents (see chapter 6, table 6.16). Only one respondent indicated that SCA was used to outwit competition, while another indicated that it was used as a unique selling position to offer value to the market. The former is deemed to be consistent with the theory, while the latter points in the right direction, namely offering value to the market. The other responses to the impact of SCA on market strategy were vague and unconvincing that it contributed in any way to the effectiveness of market strategy and offering value to the market. Hence, it is concluded that although the respondents may have a good idea of the definition of SCA (as responded to in question 35), their interpretation of SCA differed from the literature. This may perhaps be one of the reasons why some of these firms did not get the full/complete benefit of SCA, especially in the form of above-average industry profits (see chapter 2, section 2.4). This furthermore supports the previous conclusions that the firms may perhaps not be (sufficiently) market orientated (see sections 7.3.1 and 7.3.2) as they generally did not consider value offered to the market the crux of SCA. This may perhaps further explain, to some degree, why some of the firms did not perform as could be expected.

These responses can also be linked to those responses related to assets, resources, skills and capabilities that underlie SCA, namely the respondents were not clear on what, according to the literature, constitute assets, resources, skills and capabilities (skills were listed as resources, and processes were not listed). This may furthermore indicate that Javidan's view on the relationship between assets, resources, skills, capabilities, competencies, core competencies and SCA may be valid (see chapter 3, section 3.3.1). From these responses, it is concluded that the majority of respondents generally did not succeed in identifying SCA correctly (see chapter 4, section 4.2). This, in itself, may have contributed to the ineffectiveness of their market strategies applied as portrayed by their financial results (see chapter 2, section 2.4). The foundation for SCA, according to these responses, seems to exist. However, it would appear that the respondents generally did not leverage it to their benefit.

7.3.5 Strategy options

Question 38 required the respondents to indicate which of the strategic options, as set out in figure 4.3, were employed as well as how these options were employed. Most of the respondents indicated that they employed a combination of these options (see chapter 6, section 6.2.5), which is consistent with the theory. However, the way in which these options were employed created doubt as to whether these options were employed as intended in the literature (see chapter 6, section 6.2.5). As pointed out earlier, the interpretation of the responses to question 38 should be approached with care, as six questionnaires were returned, representing the five firms. The results should thus be interpreted against this background. The responses to question 38 versus the theory are summarised in table 7.1 below.

Table 7.1 Responses to strategy applied versus the theory

Strategic option	Responses	Theory
Differentiation	5	5
Low cost	5	5
Focus	6	5
Synergy	4	5
First mover	4	4
Growth	4	5
Maintenance	3	5
Harvest	2	2
Divest	3	4
Warfare	4	unsure

According to the theory, one might have expected more respondents to indicate that they employed differentiation, low cost, synergy, growth, maintenance and divesting strategies. On the strength of this expectation, it is concluded that some of the respondents may perhaps not view and/or apply market strategies as intended in the literature. In the case of first mover and harvesting, one cannot be sure that the firms that indicated they apply these options are indeed those who applied these strategies as indicated in the theory, as the responses were anonymous. Therefore no further comment is justified in this instance.

The respondents were also asked to indicate how they employed these strategic options in an effort to determine whether they view and/or apply them as intended in the literature. These responses were reflected in table 6.17 (see chapter 6, section 6.2.5). According to these responses, the following conclusions can be drawn:

- The ways in which these strategies were applied, are partially consistent with the theory. Specifically:
  - *Differentiation*: The ways in which differentiation was achieved were consistent with those described in the theory (eg, branding, innovation, packaging, quality).
  - *Low cost*: Some of the ways (eg, re-engineering) in which low cost was achieved seemed to be consistent with those indicated in the literature. However, the crux of low cost, namely value to the market, was not mentioned. Therefore, it is concluded that the low-cost strategy may not be viewed and/or applied as intended in the literature.
  - *Focus*: The ways of achieving focus include concentrate on niche markets or specific market segment and specific need. These ways would seem to coincide

with those cited in the literature. Therefore they are deemed to be consistent with the theory.

- *First mover*: The ways in which first mover strategies were achieved by the respondents, such as first to brand meat in the South African market (following the deregulation in the agricultural sector), producing innovative products or using innovative production equipment (see chapter 6, table 6.16), appear to correspond to the theory. Therefore these ways are deemed to be consistent with the theory.
- *Synergy*: The ways in which the respondents achieved synergy, such as to control the whole process from feedlot to fork; full involvement of all functional areas in business planning process and combine activities/departments/brand development/distribution/ labels, as indicated in table 6.16, appear to be congruent with the literature. They are therefore deemed to be consistent with the theory.
- *Growth*: The ways in which the respondents achieved growth as listed in table 6.16 partially coincide with the theory. Growth, as listed in table 6.16, only refers to geographical expansion such as new markets and exports as well as new products and distribution channels. Vertical integration per se, as cited in the literature (see chapter 4, section 4.2.2.1) was not mentioned as a growth option. It is therefore concluded that the respondents did not view and/or apply growth completely as intended in the literature.
- *Maintenance*: At first glance the ways in which the respondents achieved maintenance, such as constant updating of products to meet consumer needs; production to specific market in order to receive best income and depending on range/profitability – then look at ways to grow as in growth options (see table

6.16), did not appear to be congruent with those listed in the literature. However, on closer scrutiny, these ways were deemed to be consistent with the theory. The example of constant updating of products to meet consumer demand seemed to be an example of re-engineering, that formed part of maintenance. The example of production to specific market in order to receive best income was vague and was thus not considered further. The response "depending on range/profitability than look at ways to grow such as new products, distribution" might point to maintenance, as the aim of maintenance is to achieve growth. They are therefore deemed to be congruent with the theory.

- *Harvesting*: The ways in which the respondents achieved harvesting (ie, "prices are maximised with the ultimate objective of withdrawing" and "if small and profitable maximise margin, limited brand investment") were not clear and do not appear to coincide with the theory. Furthermore, these ways do not seem to match those proposed in the literature that is "bringing in cash as quickly as possible" and "terminate all further investment in the product" (see chapter 4, section 4.2.2.3). It is therefore concluded that the respondents did not view and/or apply harvesting as intended in the literature.
- *Divesting*: The ways in which the respondents achieved divesting (ie, sale of unprofitable businesses and discontinue brand/product line) would seem to be consistent with those cited in the theory (see chapter 4, section 4.2.2.4). They are therefore deemed to be consistent with the theory.

The market strategies applied by the respondents were also compared to their views of SCA and how they applied SCA. This was done to determine whether the market strategies applied were based on SCA. These responses are summarised in table 7.2 below.

Table 7.2 Market strategies applied by the firms compared to their views and application of SCA

Strategy	Firm	View and application of SCA
Differentiation	1	Did not apply differentiation
	2	Possibly not based on SCA
	3	Possibly not based on SCA
	4	Possibly partially based on SCA
	5	Possibly partially based on SCA
	6	Possibly partially based on SCA
Low cost	1, 2, 3, 5, 6	None of these firms (ie, 1, 2, 3, 5, 6) that employed the low-cost option indicated that value to the market is a consideration for low cost. Thus none of these strategies is considered to be based on SCA.
	4	Did not employ the low-cost option
Focus	1	Possibly not based on SCA
	2	Possibly partially based on SCA
	3	Possibly not based on SCA
	4	Possibly partially based on SCA
	5	Possibly not based on SCA
	6	Possibly partially based on SCA
First mover	2	Possibly not based on SCA
	3	Possibly not based on SCA
	4	Possibly partially based on SCA
	6	Possibly not based on SCA
	1,5	Did not employ a first mover option
Synergy	2	Possibly partially based on SCA
	4	Possibly partially based on SCA
	6	Possibly partially based on SCA
	1,2,5	Did not employ the synergy option
Growth	2	Possibly partially based on SCA
	4	Possibly partially based on SCA
	5	Possibly partially based on SCA
	6	Possibly partially based on SCA
	1,3	Did not employ the growth option
Maintenance	4	Possibly partially based on SCA
	5	Possibly not based on SCA
	6	Possibly partially based on SCA
	1,2,3	Did not employ a maintenance option
Harvesting	4	Possibly partially based on SCA
	6	Possibly partially based on SCA
	1,2,3,5	Did not employ a harvesting option
Divesting	4	Possibly partially based on SCA
	6	Possibly partially based on SCA
	1,2,3,5	Did not employ a divesting option
Warfare	2	Possibly partially based on SCA
	4	Possibly partially based on SCA
	6	Possibly partially based on SCA
	1,3,5	Did not employ warfare

According to table 7.2, it would seem that firm 4 succeeded in indicating consistently that the market strategies applied are linked to its view and application of SCA. It is therefore concluded that firm 4 might have based its market strategies on its SCA. Firm 4 indicated that SCA was "the things a firm does exceptionally well in comparison to competitors, owing to unique combinations of resources and abilities". Firm 4 indicated that SCA was applied by finding a unique selling proposition that offers value to customers (see chapter 6, section 6.2.4). Firm 4 is involved in the manufacture of fish products and the respondent represented the functional level of strategy. The respondent held a B Tech Marketing qualification and was part of the team charged with the strategy responsibility in the firm. Unfortunately, the responses were anonymous thus the financial results of the firms could not be checked.

Firm 6 succeeded in indicating a link between the market strategy applied and SCA in 7 out of 9 instances. It is therefore concluded that firm 6 based some of its market strategies on its SCA. Firm 6 indicated its definition of SCA to be the ability of a firm to offer superior value to the market that can be sustained for a prolonged period of time. Firm 6 indicated that it used SCA to differentiate its brands. The respondent represented the corporate level of management and held a B Com degree. The respondent was also part of the team charged with the strategy responsibility in the firm. The responses were on an anonymous basis. However, firm 6 was involved in the manufacture of fruit, vegetables and oils. The only listed firm involved in the manufacture of oils is Tiger Brands. It is therefore inferred that firm 6 represented at least some part of Tiger Brands. If one looks at the financial results of Tiger Brands, as illustrated in chapter 2 (see section 2.4), it is clear that Tiger Brands performed better than its rivals, especially with regard to:

- asset turnover that was better than that of the industry throughout the period under review
- ROA that was superior to that of the industry throughout the period under review.

Too little information is available to make really significant conclusions. The unavailability of information that should be available, such as fishing quotas for 1998 and 1999, BFA/McGregors financial ratios of Delfood and Rainbow, makes one wonder about the nature of the South African economy, as information should be in abundance in a free economy.

Firms 2, 3 and 5 occasionally succeeded in indicating the relevance between the market strategy applied and SCA. Therefore, it is concluded that these firms might have based their market strategies occasionally on their SCA. Firms 2 and 3 indicated that their definition of SCA was "the things a firm does exceptionally well in comparison to competitors, owing to unique combinations of resources and abilities". Firm 5 indicated that its definition of SCA was "strategy is supported by assets and skills when it is employed in the competitive arena that values the strategy and competitors are unable to match or neutralise the competitive advantage". Firm 2 and 3 did not indicate how they applied SCA, while firm 5 indicated that SCA was an important part of market strategy. Given the foregoing information, it is concluded that these firms might not have based their market strategies on SCA and that they perhaps did not identify SCA correctly. The respondents held a BA, none and B Home Economics qualifications. They represented the corporate and functional levels of their firms. They were all part of the teams charged with the strategy responsibility in their firms.

Firm 1 did not even once succeed in indicating a link between the market strategies applied and its view of SCA. It is therefore concluded that firm 1 might not have based its market strategies on its SCA. This is particularly concerning as firm 1 indicated that its definition of SCA was "the unique combination of resources/abilities compared to competitors that can be sustained for a prolonged period, thereby giving the company an advantage in the markets". Firm 1 also indicated that SCA should be used to consistently outmanoeuvre competitors. The respondent held an MBA qualification and represented the SBU level of the firm. The respondent was also part of the team charged with the strategy responsibility in the firm.

From the above information, it is possible to arrive at a conclusion that most of these firms did not clearly indicate the relevance between their market strategies and their SCAs. It is thus possible to conclude that most of these firms have failed to demonstrate that their market strategies are based on their respective SCAs. Only two firms succeeded in indicating a link between their market strategies applied and their respective SCAs. Thus it is concluded that only these two firms may have founded their market strategies on their respective SCAs. The latter are the firms who indicated that their SCAs are coupled with value offered to the customers.

Most (four) of these firms indicated that they applied mainly competitive strategies, that is differentiation, low-cost, focus, synergy and first mover (see table 6.18) rather than a combination of competitive and life cycle strategies as suggested by the theory (see chapter 4, section 4.2). It is, however, possible that these firms do apply life cycle strategies (and more extensively than they indicated) but because they do not view it as intended in the literature, they are unaware of it and, as such, they do not receive the full benefit of these strategies.

The final conclusions about SCA and market strategies applied by the firms in question are:

- SCA seemed to be generally incorrectly identified by most of the firms studied.
- The market strategies of the majority of the firms studied appeared not to be based on SCA.
- The market strategy, generally, did not appear to comply with the sound principles of market strategy as put forward in the literature by Aaker, Thompson and Strickland and Van der Walt et al.

According to the responses to question 38, it is concluded that the respondents all applied the strategic options to a greater or lesser extent. However, on closer scrutiny, it would seem that all the respondents did not view and/or apply these options as intended in the literature. The latter may possibly contribute to the fact that the firms generally could improve their performance as portrayed in chapter 2 (see section 2.4). Furthermore, the market strategies appeared, generally, not to be based on SCA as explained in the literature. The notable omission is "customer value", which is the cornerstone of SCA. The two responding firms (ie, firms 4 and 6) that indicated value to the market generally succeeded in showing more often than the others that their market strategy options may be based on their respective SCAs.

The South African food industry is in the mature phase of the life cycle (see chapter 2, section 2.2) and the competitive strategies applied by most of the firms studied seem to be in conflict, according to the theory. The literature studied (see chapter 4, section 4.2) indicated that firms in a mature industry should go for, either, a differentiation or low-cost strategy, rather than a combination of the two to obtain optimum results. The concurrent application of a differentiation and low cost strategy might have contributed to the fact that some of the firms could have bettered their performance as illustrated in achieving above-average industry profits (see chapter 2, section 2.4). However, it should be noted that firm 4 and firm 1 are the only firms who did indicate that they were not trapped by applying a differentiation and low cost strategy, concurrently. In the case of firm 4 this is significant, as it is one of the two firms who succeeded in linking its SCA and market strategy applied. However, as the respondents were anonymous, it is not possible to comment on their success vis-à-vis those who could not link their SCAs and market strategy applied.

All the respondents indicated that they had applied competitive options. However, not all indicated that they had applied suitable options from the "life-cycle" category. Nevertheless, it is granted that they might have applied the latter, without realising it.

Given the observation that most of the firms possibly identify SCA incorrectly, it may be concluded that the process they followed in market strategy application led to the incorrect market strategy option (see chapter 4, section 4.2) selected. These firms should perhaps focus their attention anew on both the process and content of market strategy application, especially as put forward by Aaker, Thompson and Strickland and Van der Walt et al.

In summary the conclusions from this exploratory-descriptive study are:

- Generally respondents neglected a proper mission statement in their annual reports (see chapter 2, section 2.4). The mission statement specifies, inter alia, customer needs catered for and customer groups served. The mission statement is thus considered to be the origin or starting point of customer value.
- The majority of respondents did not seem to develop a customer orientation in the SWOT analysis (see chapter 3, section 3.2).
- The majority of respondents did not view and/or apply assets, resources, skills, capabilities as intended in the literature, which may perhaps impact detrimentally on the identification of SCA (see chapter 3, section 3.3.1). Assets, resources, skills and capabilities are required to support the value offered to the selected arena (product-market), ie SCA.
- Most of the respondents seemed not to identify SCA correctly.
- The firms in question generally did not seem to attend sufficiently to customer value in the application of market strategies.
- Customer value or value to the market, as the cornerstone of SCA did not receive the attention it deserved from most of the firms in question, thus SCA was incorrectly identified and as a consequence market strategy was not ultimately founded on SCA.
- The fact that the firms investigated did not pay sufficient attention to customer value can be coupled with their omission of reporting their mission statements properly in their annual reports (see chapter 2, section 2.4.1). The mission statement reflects the business the firm is in by indicating the needs it is trying to satisfy, the customer groups it is targeting and the technologies used to serve the target market.

- Those firms (4 and 6) who attended to value to the market generally appeared to have based their market strategies on their SCAs.
- Most of the respondents seemed not to exploit the unique characteristics of their firms through the application of market strategies.
- Their responses to questions relating to market orientation (such as questions 11, 18, 33 and 37) sent conflicting messages about the market orientation of these firms.
- Generally, the firms in question formulated and implemented market strategies at inadequate intervals.
- The strategic options seemed commonly not to be applied as intended in the literature.
- All the respondents indicated that they applied a focus strategy (question 38).
- Some respondents indicated that they considered competitors as firms offering similar nutritional value, which indicated that intra-type competition at least is applicable (see chapter 1, section 1.2.2) to the firms in question.
- Market strategy is relevant for the firms in question, as they applied it.
- From the responses to the questionnaire, it appeared that there are different views on the components of market strategy, that did not always fully correspond to established authors.
- The latter may perhaps have contributed to the fact that the firms could improve on their performance as portrayed in chapter 2 (section 2.4), especially in achieving above-average industry profits.
- The potential exists for the firms in question to capitalise on market strategy as put forward by Aaker, Thompson and Strickland and Van der Walt et al.

The above conclusions address the objectives of the study as follows:

- The market strategy applied by the firms investigated complies to some degree with the principles of a sound market strategy as put forward by leading authors such as Aaker, Thompson and Strickland and Van der Walt et al. Specifically, customer value, as the cornerstone of SCA and ultimately the gateway to profitability, seems to be neglected.
- The marketing orientation of the participating firms could not be unequivocally established. From the responses, especially the neglect of customer value, it would appear that the firms in question may not be sufficiently market orientated (eg know who their customers are, what do they value, how the firm can offer value to them while making a profit).
- Possible problem areas that may hinder market strategy application appear to be the SWOT analysis, resources/assets/skills, the concept SCA as well as its identification and the market strategy option itself.
- The model of market strategy tested was validated to some extent.

In summary, the above conclusions can be summarised in one sentence, namely, the firms studied appear to be not sufficiently market orientated, leading to the incorrect identification of SCA, which resulted in the application of ineffective market strategy options. Closer adherence to the tested model could lead to improved performance, especially in achieving above-average industry profits.

7.4 RECOMMENDATIONS

Based on the evidence provided in this study it is recommended that:

- A further study should be done, giving special attention to the following areas:

- ♦ whether all relevant or critical SWOT factors are considered in market strategy application
- ♦ whether relevant assets, resources, skills and capabilities are considered in market strategy application
- ♦ the consideration of customer value, including who the customers are, what they value, would it be possible for the firm to provide the value, while making profit at the same time
- ♦ the strategic options as well as the way in which these options are applied
- ♦ the competitive options, particularly differentiation and low cost, and the resultant outcomes of applying both options
- ♦ the role of all three hierarchical levels of the firm, that is corporate, SBU and functional levels, in market strategy application.

- The firms studied should in particular,
  - ♦ generally, advance their knowledge of market strategy
  - ♦ improve their understanding of SWOT analysis
  - ♦ enhance their information of SCA, and in particular customer value
  - ♦ strengthen their knowledge of the different strategic options
  - ♦ attend to terminology in connection with market strategy (eg, re-engineering and restructuring)
  - ♦ in general, formulate market strategy on a continuous basis.

  Most of the above recommendations, if not all, can be attained via better training and education.

- Academics should endeavour to contribute to clarify matters in connection with market strategy to assist practitioners to benefit from this vehicle that ensures arrival at the firm's ultimate destination, namely survival and growth in an ever-changing environment.

EPILOQUE

This study found that the food manufacturers in question generally were not market orientated. This led to the incorrect identification of SCA that resulted in the application of ineffective market strategies. According to the theory as set out in the study, market orientation is the cornerstone of SCA. SCA in turn is the ultimate foundation of effective market strategy. Effective market strategy ensures that the firm can achieve above-average industry profits.

It is interesting to note that 2 (I&J and Delfood) of the firms studied, delisted after 1999. The performance of the three firms that are still listed on the JSE was tracked, for interest sake. The conditions in the food industry remained more or less unchanged, ie, high feed costs, depressed consumer demand and increased food inflation (*Sake-Beeld* 22/10/2001). According to the information obtained, Kolosus seems to be struggling still (*Sake-Beeld*, 4/12/2001) despite efforts to restore profitability (*Business Day* 26/6/2001; *Business Day* 12/11/2001). Rainbow's performance seems to have improved somewhat (*Business Day* 12/11/2001). Rainbow persists in focussing on improving profitability (*Financial Mail* 16/11/2001). Some of the measures introduced to restore profitability included to move away from a production orientation to a consumer (market) orientation (*Sunday Independent* 20/5/2001). Tiger Brands continues in building a demand-driven business (*Business Report* 23/11/2001). Its focus remains on consumer orientated categories (*PMR* 1/5/2001). To achieve a demand-driven business, Tiger Brands positions its brands according to how customers see their business (*Business Day* 15/1/2002). Tiger Brands' restructuring efforts continue and that has a negative impact on its short-term financial performance. However, Tiger Brands expects to achieve its targets in 2003 (*Business Report* 2002). It takes active steps to ensure the achievement of its improved performance. Some of these steps included the unbundling of the poultry interests that were separately listed on the JSE as Astral Foods (*Financial Mail* 30/11/2001). Further steps include the divesting from non-core businesses (*Business Day* 15/1/2002) and to export globally (*Business Day* 25/1/2002).

The effect of the market strategies applied by these firms in 2000 and 2001 are reflected in their financial ratios, especially the profitability ratios. The profitability ratios net profit margin, return on assets (ROA) and return on equity (ROE) are of specific interest and are illustrated table E.1 below.

Table E.1 Profit ratios for Tiger Brands, Rainbow and Kolosus in 2000 and 2001

Profit ratios	Tiger Brands	Rainbow	Kolosus
2000			
Net profit margin (NPM)	**4,22**	**1,08**	**0,11**
Industry average NPM	5,93	5,93	5,93
ROA	**23,23**	**3,75**	**3,38**
Industry average ROA	14,64	14,64	14,64
ROE	**78,97**	**3,08**	**0,48**
Industry average	16,27	16,27	16,27
2001			
NPM	**6,21**	**3,88**	**-10,27**
Industry average NPM	5,46	5,46	5,46
ROA	**22,12**	**10,73**	**-3,15**
Industry average ROA	14,78	14,78	14,78
ROE	**57,93**	**10,77**	**-77,88**
Industry average 2001	16,91	16,91	16,91

Source: McGregors/BFA information 4 April 2002; *Absa Sectoral Financial Ratios* 1992-2001

The information in table E.1 shows that Tiger Brands is the only firm that generally succeeded in achieving above-average industry profits in 2000 and 2001, as expressed by NPM, ROA and ROE. According to table E.1 the profit ratios of Rainbow improved in 2000 and 2001, while those of Kolosus deteriorated.

This information suggests that Tiger Brands that sharpens its customer focus is still performing better than its rivals in terms of achieving above-average industry profits as expressed by the profitability ratios. It would appear that Rainbow's profitability ratios improved since it started to focus on the customers. This would seem to support the findings of the study.

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ANNEXURE A

Bureau of Market Research • Buro vir Marknavorsing

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BMR

17/06/01

429-3156

MARKET STRATEGIES BY SELECTED FOOD MANUFACTURERS

Dear respondent

The Bureau of Market Research (BMR) at the University of South Africa (Unisa) is conducting a survey to obtain data form food manufacturers. The survey is aimed at:

- Establishing the extent and status of contemporary market stategies applied by food manufacturers
- Identifying the problems faced by managers in applying market strategy
- Determining the market orientation of top managers

The survey depends for its success on the degree of cooperation we receive from you. If you give us poor information, the survey results will be poor. You may rest assured that all information gathered will be treated in the strictest confidence and that no one, except the interviewer and the Bureau's staff will have access to it. Your answers will be processed together with the answers of other respodents on our computer. The result will, among others, be used as input towards training of post graduate students in business management.

Thank you for your cooperation.

Yours faithfully,

Prof JH Martins
DIRECTOR

QUESTIONNAIRE

Instructions to complete questionnaire
Make a cross (x) in the spaces provided for your response(s). For example for a yes/no question, a 'yes' response will be indicated as follows:

Yes	**X**	**No**	

If asked to specify, write your response in the space(s) provided.
(a) electronically: Save to your hard drive; complete; save; return to: tustidh@unisa.ac.za as attachment; or
(b) manually: complete in black ink and fax to (012) 429 3221

A. General

1. What position do you hold? Cross

CEO		Managing Director		Marketing Director		Financial Director	
Other (please specify) ______							

2. What qualifications do you hold?

BSc		B Comm		CA	
Other (please specify) ______					

3. How long have you been in the food industry?

Less than five (5) years		Longer than five (5) years	

4. How long have you been with this company?

Less than five (5) years		Longer than five (5) years	

5. Which of the following products does your company manufacture?

Meat		Fish		Fruit		Vegetables		Oils and fats	

6. Which one of the following products represents your major turnover?

Meat		Fish		Fruit		Vegetables		Oils and fats	

7. Which one of the following turnover categories best represents your total turnover for the food products indicated in question 5?

<500 million		>500 million < 999 million		>1 000 million< 4 999 million		>5 000 million	

8. How long have you been involved in formulating market strategy?

Less than five (5) years		Longer than five (5) years	

9. How long have you been involved in formulating market strategy in this firm?

Less than five (5) years		Longer than five (5) years	

Opinions about market strategy

10. How would you respond if I defined strategy as:

(a) "Strategy consists of the actions and approaches employed to achieve the targeted organisational performance"

Strongly Agree		Agree		Disagree		Strongly Disagree	

(b) "Strategy concerns how a diversified firm intends to establish business positions in different industries and the actions and approaches employed by management to improve the group's performance in businesses diversified into"

Strongly Agree		Agree		Disagree		Strongly Disagree	

(c) "Strategy refers to management's managerial game plan for the single business to build a strong long-term competitive position"

Strongly Agree		Agree		Disagree		Strongly Disagree	

11. How would you respond to a statement such as: "Market strategy refers to the contribution of marketing management to the formulation of strategy"

Strongly Agree		Agree		Disagree		Strongly Disagree	

11(a) If you agree, please indicate if the marketing department of your firm contributes in any way to your strategy formulation efforts

Yes		No	

12. How often do you formulate strategy?

Once per year		Biannually		Quarterly		Continuously	
Other (specify)____________________							

Opinions regarding strengths, weaknesses, opportunities and threats

13. How would you respond to a statement such as "Strategy formulation takes into account factors that may limit the actions that the firm can or should take"?

Strongly Agree		Agree		Disagree		Strongly Disagree	

14. Political/legal factors such as legislation (health regulations, substances used to treat products, labour relations, employment equity, aids, tariffs, etc) and trade agreements (European Union [EU], World Trade Organisation [WTO}, Swaziland, etc); get specific consideration in your firm's strategy formulation and implementation efforts?

Yes		No	

14 (a) If yes, please list the three major political/legal factors that impacted (impact) on the formulation and implementation of your market strategy.

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14 (b) If no, please give reasons why political/legal factors do not impact on the formulation and implementation of your market strategy.

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15. Technological change and requirements such as electronic and automation equipment, processing equipment, processes and procedures get specific consideration in your firm's strategy formulation and implementation efforts?

Yes		No	

15(a) If yes, please list the three major technological changes and requirements that impacted (impact) on your strategy.

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15(b) If no, please give reasons why technological change and requirements do not impact on the formulation and implementation of your market strategy.

16. Economic variables such as economic growth rate, interest rates, private consumer expenditure, get specific consideration in your firm's strategy formulation and implementation efforts?

Yes		No	

16(a) If yes, please list the three major economic variables that impacted (impact) on the formulation and implementation of your market strategy.

16(b) If no, please give reasons why economic variables do not impact on the formulation and implementation of your market strategy.

17. Physical variables such as climatic conditions and capacity constraints (over capacity, skills level of employees) get specific consideration in your firm's strategy formulation and implementation efforts?

Yes		No	

17 (a) If yes, please list the three major physical variables that impacted (impact) on the formulation and implementation of your market strategy.

17(b) If no, please give reasons why physical variables do not impact on the formulation and implementation of your market strategy.

18. Social factors such as consumption patterns, health and nutritional status (e.g. vitamin deficiencies, etc) of consumers are taken into account in the formulation and implementation of your market strategy?

Yes		No	

18(a) If yes, please list the three major social factors that impacted (impact) on the formulation and implementation of your market strategy.

18(b) If no, please give reasons why social factors do not impact on the formulation and implementation of your market strategy.

19. International variables such as export opportunities, economic conditions, legal requirements and developments in the international arena, e.g. as ageing population and consumption patterns, get specific consideration in your firm's strategy formulation and implementation efforts?

Yes		No	

19(a) If yes, please list the three major international variables that impacted (impact) on the formulation and implementation of your market strategy.

19(b) If no, please give reasons why international variables do not impact on the formulation and implementation of your market strategy.

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20. Actions taken by competitors such as new products, new packaging and divesting from a business, get specific consideration in your firm's strategy formulation and implementation efforts?

Yes		No	

20(a) If yes, please name the major actions by competitors that impacted (impact) on the formulation and implementation of your market strategy.

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______

20(b) If no, please give reasons why actions by competitors do not influence the formulation and implementation of your market strategy.

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21. How would you respond to a statement such as "Competitors are companies that manufacture more or less similar products competing for the same customers"

Strongly Agree		Agree		Disagree		Strongly Disagree	

21(a) If you disagree, please give your definition of competitors.

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______

22. The (food) industry in itself (e.g. the nature of the business, key success factors, critical requirements and new entrants) influences the market strategy options and are thus considered in your firm's strategy formulation and implementation efforts?

Yes		No	

22(a) If yes, please list the three major industry variables that impacted (impact) on the formulation and implementation of your market strategy.

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22(b) If no, please give reasons why the industry does not impact on the formulation and implementation of your market strategy.

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23. Actions taken by wholesalers and retailers such as products bought and shelf space allocated get specific consideration in your firm's strategy formulation and implementation efforts?

Yes		No	

23(a) If yes, please list the three major actions taken by wholesalers/retailers that impacted (impact) on the formulation and implementation of your market strategy.

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23(b) If no, please give reasons why actions of wholesalers and retailers do not impact on the formulation and implementation of your market strategy.

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24. Resources of the firm such as capital, labour and raw material position get specific consideration in your firm's strategy formulation and implementation efforts

Yes		No	

24(a) If yes, please list the three major resources of the firm that impacted (impact) on the formulation and implementation of your market strategy.

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_____

24(b) If no, please give reasons why the resources of the firm do not impact on the formulation and implementation of your market strategy.

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____

25. Assets of firm (trade marks; machinery, etc) get specific consideration in your firm's strategy formulation and implementation efforts?

Yes		No	

25(a) If yes, please list the three major assets that impacted (impact) on the formulation and implementation of your market strategy.

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25(b) If no, please give reasons why assets do not impact on the formulation and implementation of your market strategy.

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26. Skills of the firm (employees) get specific consideration in your firm's strategy formulation and implementation efforts?

Yes		No	

26(a) If yes, please list the three major skills that impacted (impact) on the formulation and implementation of your market strategy.

____

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_____

26(b) If no, please give reasons why skills do not impact on the formulation and implementation of your market strategy.

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27. How would you respond to a statement such as: "A strength is a favourable position in the firm compared to competitors"

Strongly Agree		Agree		Disagree		Strongly Disagree	

27(a) If you disagree, please give your definition of strengths.

____

____

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28. How would you respond to a statement such as: "A weakness is an unfavourable position in the firm compared to competitors"

Strongly agree		Agree		Disagree		Strongly Disagree	

28(a) If you disagree, please give your definition of weaknesses.

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29. How would you respond to a statement such as: "An opportunity is a favourable position in the external environment"

Strongly agree		Agree		Disagree		Strongly Disagree	

29(a) If you disagree, please give your definition of an opportunity.

30. How would you respond to a statement such as: "A threat is an unfavourable position in the external environment"

Strongly agree		Agree		Disagree		Strongly Disagree	

30(a) If you disagree, please give your definition of a threat.

31. How would you respond to a statement such as: "SWOT (strengths, weaknesses, opportunities and threats) are taken into account in the formulation and implementation of market strategy"?

Strongly Agree		Agree		Disagree		Strongly Disagree	

32. Describe how your firm takes "SWOT" into account in the formulation and implementation market strategy?

Sustainable competitive advantage

33. How would you respond to a statement such as: "Strategy formulation includes the development of sustainable competitive advantage"?

Strongly Agree		Agree		Disagree		Strongly Disagree	

33(a) If you disagree, please give reasons why.

____

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______

34. How would you respond to a statement such as: "Strengths form the basis of competitive advantage"?

Strongly Agree		Agree		Disagree		Strongly Disagree	

34(a) If you disagree, give reasons why.

____

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35. Indicate which ONE of the listed definitions of sustainable competitive advantage corresponds with your view of the concept.

Cross (x)ONE

(a) The things the firm does exceptionally well in comparison to competitors owing to unique combinations of resources and abilities	
(b) Choosing to compete only in arenas where victories are clearly achievable.	
(c) Competitive advantage grows out of the value that a firm is able to offer to its customers	
(d) The ability to consolidate corporate wide technologies and production skills into competencies that would empower individual businesses to adapt quickly to changing opportunities	
(e) Strategy is supported by assets and skills when it is employed in the competitive arena that values the strategy and competitors are unable to match or neutralise the competitive advantage.	
(f) Resources and capabilities are central in formulating strategy.	
(g) Achieving a position of advantage.	
(h) The ability of a firm to offer superior value to the market that can be sustained for a prolonged period of time.	
(i) A firm has an edge over rivals in attracting customers.	

36. Please give your definition of competitive advantage, if none of the definitions in 35 correspond to your view.

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37. How does competitive advantage impact on your market strategy?

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Strategy options

38. Strategic options employed by your firm include:

(a)	Differentiation (meaning adding value to product by giving it a unique attribute that is valued by customers e.g. packaging, trade mark).	Yes		No
If yes, please give examples of how you employ differentiation.				
(b)	Low cost (meaning supplying product at lower cost than rivals).	Yes		No
If yes, give examples of how you employ low cost.				
(c)	Focus (meaning concentrating on a special market/product).)	Yes		No
If yes, please give examples of how you employ focus.				
(d)	First with a move	Yes		No
If yes, please give examples of how you employ first moves.				

(e)	Synergy (meaning the whole is greater than the sum of the parts).	Yes		No	
If yes, please give examples of how you employ synergy.					
(f)	Growth, e.g. expanding geographically or broadening the product line or integrating either horizontally or vertically.	Yes		No	
If yes, please give examples of how you employ growth.					
(g)	In a low-growth market sector, maintain sufficient investment in business to keep it running (maintenance strategy).	Yes		No	
If yes, please give examples of how you employ maintenance.					
(h)	In a low-growth market sector, withdraw investment orderly to phase out gradually (harvest strategy).	Yes		No	
If yes, please give examples of how you employ harvest strategies.					
(i)	Divest investment (divestment or liquidation strategy) all together from an unprofitable market sector.	Yes		No	
If yes, please give examples of how you employ divestment strategies.					
(j)	Devise moves to attack competitors (warfare).	Yes		No	
(k)	Devise moves to defend against attacks from competitors (warfare).	Yes		No	
If yes, please give examples of how you employ warfare.					

Strategy responsibility

39. How would you respond to a statement such as the following? The primary strategy responsibility rests with:

(a)	The CEO, Managing Director and approval by the Board of Directors	Yes		No	
(b)	General Managers in charge of the business	Yes		No	
(c)	Functional managers	Yes		No	
(d)	Combination of above (please specify which)	Yes		No	

Contact person

40. Please give a name and contact number, should I wish to discuss any aspect of the completed questionnaire

Name:	Telephone number:

Please return to:
Bureau of Market Research, Unisa
tustidh@unisa.ac.za
or fax (012) 429 3221

Should you wish to discuss any aspect of the questionnaire, please contact Deon Tustin (senior researcher) at telephone (012) 429 3156).

Thank you for your participation

ANNEXURE B

INTERVIEW GUIDE/QUESTIONNAIRE

A. General

1. What position do you hold?

CEO	Managing Director	Marketing Director	Financial Director	Other (please specify)

2. What qualifications do you hold?

BSc	B Comm	CA	Other (please specify)

3. How long have you been in the food industry?

Less than five (5) years	Longer than five (5) years

4. How long have you been with this company?

Less than five (5) years	Longer than five (5) years

5. Which of the following products does your company manufacture?

Meat	Fish	Fruit	Vegetables	Oils and fats

6. Which one of the following products represents your major turnover?

Meat	Fish	Fruit	Vegetables	Oils and fats

7. Which one of the following turnover categories best represents your total turnover for the food products indicated in question 5?

<500 million	>500 million <1 000 million	>1 000 million< 5000 million	>5 000 million

8. How long have you been involved in formulating market strategy?

Less than five (5) years	Longer than five (5) years

9. How long have you been involved in formulating market strategy in this firm?

Less than five (5) years	Longer than five (5) years

Opinions about market strategy

10. How would you respond if I defined strategy as:

(a) "Strategy consists of the actions and approaches employed to achieve the targeted organisational performance".

Strongly Agree	Agree	Disagree	Strongly Disagree

(b) "Strategy concerns how a diversified firm intends to establish business positions in different industries and the actions and approaches employed by management to improve the group's performance in businesses diversified into".

Strongly agree	Agree	Disagree	Strongly Disagree

(c) "Strategy refers to management's managerial game plan for the single business to build a strong long-term competitive position."

Strongly agree	Agree	Disagree	Strongly Disagree

11. How do you apply (market) strategy in your firm?

12. How often do you formulate strategy?

Once per year	Biannually	Quarterly	Continuously	Other (specify)

13. How would you respond to a statement such as "The market strategy making activity takes into account factors that may limit the actions that the firm can or should take"?

Strongly Agree	Agree	Disagree	Strongly Disagree

14. Political/legal factors such as legislation (health regulations, substances used to treat products, labour relations, employment equity, aids, etc) and trade agreements (EU, WTO, Swaziland, etc); get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

14 (a) If yes, please list the three major political/legal factors that impacted (impact) on the formulation and implementation of your market strategy.

14 (b) If no, please give reasons why political/legal factors do not impact on the formulation and implementation of your market strategy.

15. Technological change and requirements such as electronic and automation equipment, processing equipment, processes and procedures get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

15(a) If yes, please list the three major technological changes and requirements that impacted (impact) on your strategy.

15(b) If no, please give reasons why technological change and requirements do not impact on the formulation and implementation of your market strategy.

16. Economic variables such as economic growth rate, interest rates, private consumer expenditure, get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

16(a) If yes, please list the three major economic variables that impacted (impact) on the formulation and implementation of your market strategy.

16(b) If no, please give reasons why economic variables do not impact on the formulation and implementation of your market strategy.

17. Physical variables such as climatic conditions and capacity constraints (over capacity, skills level of employees) get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

17 (a) If yes, please list the three major physical variables that impacted (impact) on the formulation and implementation of your market strategy.

17(b) If no, please give reasons why physical variables do not impact on the formulation and implementation of your market strategy.

18. Social factors such as consumption patterns, health and nutritional status (e.g. vitamin deficiencies, etc) of consumers are taken into account in the formulation and implementation of your market strategy?

Yes	No

18(a) If yes, please list the three major social factors that impacted (impact) on the formulation and implementation of your market strategy.

18(b) If no, please give reasons why social factors do not impact on the formulation and implementation of your market strategy.

19. International variables such as export opportunities, economic conditions, legal requirements and developments in the international arena, e.g. as ageing population and consumption patterns, get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

19(a) If yes, please list the three major international variables that impacted (impact) on the formulation and implementation of your market strategy.

19(b) If no, please give reasons why international variables do not impact on the formulation and implementation of your market strategy.

20. Actions taken by competitors such as new products, new packaging and divesting from a business, get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

20(a) If yes, please name the major actions by competitors that impacted (impact) on the formulation and implementation of your market strategy.

20(b) If no, please give reasons why actions by competitors do not influence the formulation and implementation of your market strategy.

21. How do you define competitors?

22. The (food) industry in itself (e.g. the nature of the business, key success factors, critical requirements and new entrants) influences the market strategy options and are thus considered in your firm's strategy formulation and implementation efforts?

Yes	No

22(a) If yes, please list the three major industry variables that impacted (impact) on the formulation and implementation of your market strategy.

22(b) If no, please give reasons why the industry does not impact on the formulation and implementation of your market strategy.

23. Actions taken by wholesalers and retailers such as products bought and shelf space allocated get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

23(a) If yes, please list the three major actions taken by wholesalers/retailers that impacted (impact) on the formulation and implementation of your market strategy.

23(b) If no, please give reasons why actions of wholesalers and retailers do not impact on the formulation and implementation of your market strategy.

24. Resources of the firm such as capital, labour and raw material position get specific consideration in your firm's strategy formulation and implementation efforts

Yes	No

24(a) If yes, please list the three major resources of the firm that impacted (impact) on the formulation and implementation of your market strategy.

24(b) If no, please give reasons why the resources of the firm do not impact on the formulation and implementation of your market strategy.

25. Assets of firm (trade marks; machinery, etc) get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

25(a) If yes, please list the three major assets that impacted (impact) on the formulation and implementation of your market strategy.

25(b) If no, please give reasons why assets do not impact on the formulation and implementation of your market strategy.

26. Skills of the firm (employees) get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

26(a) If yes, please list the three major skills that impacted (impact) on the formulation and implementation of your market strategy.

26(b) If no, please give reasons why skills do not impact on the formulation and implementation of your market strategy.

27. How would you respond to a statement such as: "A strength is a favourable position in the firm compared to competitors"

Strongly Agree	Agree	Disagree	Strongly Disagree

27(a) If you disagree, please give your definition of strengths.

28. How would you respond to a statement such as: "A weakness is an unfavourable position in the firm compared to competitors"

Strongly agree	Agree	Disagree	Strongly Disagree

28(a) If you disagree, please give your definition of weaknesses.

29. How would you respond to a statement such as: "An opportunity is a favourable position in the external environment"

Strongly agree	Agree	Disagree	Strongly Disagree

29(a) If you disagree, please give your definition of an opportunity.

30. How would you respond to a statement such as: "A threat is an unfavourable position in the external environment"

Strongly agree	Agree	Disagree	Strongly Disagree

30(a) If you disagree, please give your definition of a threat.

31. How would you respond to a statement such as: "SWOT (strengths, weaknesses, opportunities and threats) are taken into account in the formulation and implementation of market strategy"?

Strongly Agree	Agree	Disagree	Strongly Disagree

32. Describe how your firm takes "SWOT" into account in the formulation and implementation market strategy?

33. How would you respond to a statement such as: "Theoretically, part of the strategy making effort includes the development of sustainable competitive advantage"?

Strongly Agree	Agree	Disagree	Strongly Disagree

33(a) If you disagree, please give reasons why.

34. How would you respond to a statement such as: "Strengths form the basis of competitive advantage"?

Strongly Agree	Agree	Disagree	Strongly Disagree

34(a) If you disagree, give reasons why.

35. Indicate which ONE of the listed definitions of sustainable competitive advantage corresponds with your view of the concept.

(a) The things the firm does exceptionally well in comparison to competitors owing to unique combinations of resources and abilities	
(b) Choosing to compete only in arenas where victories are clearly achievable.	
(c) Competitive advantage grows out of the value that a firm is able to offer to its customers	
(d) The ability to consolidate corporatewide technologies and production skills into competencies that would empower individual businesses to adapt quickly to changing opportunities	
(e) Strategy is supported by assets and skills when it is employed in the competitive arena that values the strategy and competitors are unable to match or neatralise the competitive advantage.	
(f) Resources and capabilities are central in formulating strategy.	
(g) Achieving a position of advantage.	
(h) The ability of a firm to offer superior value to the market that can be sustained for a prolonged period of time.	
(i) A firm has an edge over rivals in attracting customers.	

36. Please give your definition of competitive advantage.

37. How does competitive advantage impact on your market strategy?

38. Strategic options employed by your firm include:

(a)	Differentiation (meaning adding value to product by giving it a unique attribute that is valued by customers e.g. packaging, trade mark).	Yes	No
If yes, please give examples of how you employ differentiation.			

(b)	Low cost (meaning supplying product at lower cost than rivals).	Yes	No
If yes, give examples of how you employ low cost.			
(c)	Focus (meaning concentrating on a special market/product).)	Yes	No
If yes, please give examples of how you employ focus.			
(d)	First with a move	Yes	No
If yes, please give examples of how you employ first moves.			
(e)	Synergy (meaning the whole is greater than the sum of the parts).	Yes	No
If yes, please give examples of how you employ synergy.			
(f)	Growth, e.g. expanding geographically or broadening the product line or integrating either horisontally or vertically.	Yes	No
If yes, please give examples of how you employ growth.			
(g)	In a low-growth market sector, maintain sufficient investment in business to keep it running (maintenance strategy).	Yes	No
If yes, please give examples of how you employ maintenance.			
(h)	In a low-growth market sector, withdraw investment orderly to phase out gradually (harvest strategy).	Yes	No

If yes, please give examples of how you employ harvest strategies.		
(i) Divest investment (divestment or liquidation strategy) all together from an unprofitable market sector.	Yes	No
If yes, please give examples of how you employ divestment strategies.		
(j) Devise moves to attack competitors (warfare).	Yes	No
(k) Devise moves to defend against attacks from competitors (warfare).	Yes	No
If yes, please give examples of how you employ warfare.		

39. How would you respond to a statement such as the following? The primary strategy responsibility rests with:

(a) The CEO, Managing Director and approval by the Board of Directors	Yes	No
(b) General Managers in charge of the business	Yes	No
(c) Functional managers	Yes	No
(d) Combination of above (please specify which)	Yes	No

40. Please give a name and contact number, should I wish to discuss any aspect of the completed questionnaire

Name:	Telephone number:

Please return to:

Hester Nienaber
spidern@mweb.co.za
or fax 0838-283-1300

Should you wish to discuss any aspect of the questionnaire, please Hester at telephone (011) 350-2058 (office hours) or 083-283-1300 (after hours).

Thank you for your participation

ANNEXURE C

Ons het ooreengestem dat die fokus van die studie soos dit tans is, naamlik die totale voedselbedryf, te omvangryk is. Ons het ooreengekom dat daar slegs op 'n sektor van die voedselbedryf gefokus moet word, aangesien dit meer prakties en hanteerbaar sou wees. Die moontlikheid van Anglovaal Industries is genoem. Ek het ondertussen weer mooi na die voedselbedryf gekyk en wil voorstel dat die studie aangepak word soos hieronder uiteengesit.

Eerstens, wil ek net weer noem dat die voedselbedryf, volgens die Standaard Nywerheidsklassifikasie (SSD/SSA) in vier sektore verdeel word naamlik:
(i) "Meat, fish, fruit, vegetables, oils and fats";
(ii) "Dairy products"
(iii) "Grain-mill products, starches and prepared animal feed" en
(iv) "Other food products (including products not elsewhere classified".
Elk van die vier kategorieë word weer op sy beurt onderverdeel tussen verskillende produkte. Die meeste van die voedselmaatskappye se verkope is vergelykbaar met hierdie kategorieë.

Tweedens kan bogenoemde kategorieë vergelyk word op grond van waarde van verkope soos deur die SSD/SSA verskaf. Die waarde van verkope is soos volg:

Jaar en %	Verkope in R'000			
	Meat etc	Diary etc	Grain mill etc	Other
1996	13 864 821	5 730 463	14 394 003	17 316 736
%	25	9,8	27	33
1997	15 0094 682	6 499 443	16 140 703	17 108 350
%	27,5	11,8	29,4	31
1998	16 579 132	6 719 841	15 891 332	17 974 377
%	28	10,53	26	30
1999 (Jul)	9 846 240	3 763 174	9 273 423	9 882 942
%	30	11	28	30

Indien in ag geneem word dat elk van die vier kategorieë onderverdeel word, en dat "ander" voorsiening maak vir produkte wat nie "behoorlik" geklassifiseer kan word nie, lyk dit asof "meat etc" deurgaans die grootste omset het.

Derdens, kan na verbruiksbesteding gekyk word.

Jaar	Kategorie			
	"meat etc"	Dairy	Grain-mill etc	Other
1996	53	8	22	17
1997	52	9	23	16
1998	54	9	23	14
1999 nog nie beskikbaar nie				

Volgens hierdie syfers blyk dit dat verbruiksbesteding die grootste is op die kategorie "meat etc".

Volgens die beskikbare inligting kom dit dus voor asof "meat etc" die belangrikste sektor in voedselvervaardiging is ten opsigte van waarde van verkope en verbruiksbesteding, daarom fokus die studie dus op hierdie kategorie.

Vierdens kan die maatskappye genoteer op die JEB, voedselsektor beskou word wat produkte in die "meat" etc kategorie vervaardig. Op hierdie stadium kom dit voor asof Tiger Brands (met 'n totale omset van R19 097,8 miljoen) die grootste firma is wat wel voedsel van die "meat etc" kategorie vervaardig. Dit is ook moontlik om die omset wan die "meat etc" kategorie te bepaal (naamlik +-R11 miljoen). Dit word gedoen deur die omset van "branded consumer products (including Beacon, Langeberg, Sea Harvest, Enterprise), poultry (including County Fair, Earlybird, Ross Poultry)" en "meat" bymekaar te tel.

Vyfdens, kan mededingers ook vir Tiger Brands se produkte in die "meat etc" kategorie bepaal word naamlik:
* branded consumer products - Tongaat en Anglovaal Industries
* ingemaakte groente en vrugte - Del Monte
* Poultry - Rainbow en/of Sovood
Dus kan 'n vergelyking getref word tussen die markstrategieë toegepas deur die verskillende ondernemings.

In die lig van die voorafgaande inligting stel ek voor voor dat die titel verander na:
"An investigation into the application of market strategies by selected food manufacturers listed on the JSE, food sector, in the period 1996 to 1999".

U kommentaar op die voorstel word waardeer. Indien u sou saamstem kan ons reëlings tref om die gewysigde titel aan die adminstratiewe owerhede voor te lê vir goedkeuring. Ons moet dit egter asb so gou as moontlik afhandel omdat die goedkeuring van die titel 'n invloed het op my toegang wat ek tot Unisa biblioteek se elektorniese databasis.

Ek sien daarna uit om van u te hoor.

Groete, Hester Nienaber

□

ANNEXURE D

THE APPLICATION OF MARKET STRATEGIES BY SELECTED FOOD MANUFACTURERS IN 1996 TO 1999

1. PURPOSE OF THE STUDY

The purpose of this study is to:

- establish to what extent the market strategies applied by the firms comply with the characteristics of market strategy as found in the literature;
- determine what the problems are that faced the managers in applying market strategy;
- determine the market orientation of the top managers;
- identify new areas for research.

The response to the questionnaires will be used as input towards the training of post graduate students in business management.

2. THE METHOD

The heads of SBU's of the selected firms will be approached to complete the questionnaire. In the case of Del Monte and Rainbow heads could not be identified. It is hoped that the person administering the questionnaires could identify:
(a) the head of the South African operations of Del Monte and
(b) the head of Rainbow.
Telephone number for the companies are provided.

3. CONTACT DETAILS

Should you wish to contact me in connection with the study, please do not hesitate to contact me via e-mail @ spidern@mweb.co.za.

Hester Nienaber

Dear Sir/Madam

RESEARCH PROJECT: THE APPLICATION OF MARKET STRATEGIES IN 1996 TO 1999 BY THE LARGER COMPANIES LISTED ON THE JSE FOOD SECTOR MANUFACTURING PRODUCTS OF THE MAJOR GROUP MEAT, FISH, FRUIT, VEGETABLES, OILS AND FATS

This letter serves to certify that Ms Hester Nienaber is registered for the D Com (Business Management) degree at the Department of Business Management at Unisa. She is currently conducting empirical research for her above-mentioned thesis.

The empirical research is qualitative in nature and aims to establish the opinions of key decision-makers in the selected companies that form part of the study. The opinions of these decision-makers are vital to provide relevant insights in both the practical application of market strategy and the relevance of certain theoretical concepts.

Your company has been selected for this study as it is deemed to be one of the larger companies manufacturing, *inter alia,* the food of the major group meat, fish, fruit, vegetables, oils and fats that was listed on the JSE in the period 1996 to 1999. It would therefore be appreciated if you could indicate who in your company would be a suitable candidate(s) that Ms Nienaber should approach to obtain the information required for purposes of this study. You are also requested to indicate (due date?) of the methods listed below would suit you best to submit the required information:

(a) Complete the questionnaire and return it to Ms Nienaber;
(b) Receive the questionnaire after which you will decide whether to
    (i) complete it on your own or,
    (ii) make an appointment with Ms Nienaber to discuss and complete the questionnaire; or
(c) If you would like to schedule a personal interview with Ms Nienaber during which the questionnaire will be completed.

The information obtained from your company will be treated confidential. The report, which will be based on the information obtained from the empirical study, will be qualitative in nature. Therefore, no one will be able to identify the source of the information. This report will be similar to the BMR report on South Africa's economic and socio-political expectations that is published every year. The information obtained from the empirical study will be used as input in post-graduate studies at the Department of Business Management at Unisa.

Ms Nienaber will make a copy of the report available to you on completion of the project. Should you have any queries regarding the questionnaire, please do not hesitate to contact either Ms Nienaber on (011) 350-2058 or Prof Cant at (012) 429-4456, during office hours.

Thank you in advance for your participation.

H Nienaber Student	MC Cant Study leader

INTERVIEW GUIDE/QUESTIONNAIRE

Instructions to complete questionnaire
(a) electronically: Save to your hard drive; complete; save; return to: spidern@mweb.co.za as attachment; or
(b) manually: complete in black ink and fax to 0838-283-1300

A. General

1. What position do you hold?

CEO	Managing Director	Marketing Director	Financial Director	Other (please specify)

2. What qualifications do you hold?

BSc	B Comm	CA	Other (please specify)

3. How long have you been in the food industry?

Less than five (5) years	Longer than five (5) years

4. How long have you been with this company?

Less than five (5) years	Longer than five (5) years

5. Which of the following products does your company manufacture?

Meat	Fish	Fruit	Vegetables	Oils and fats

6. Which one of the following products represents your major turnover?

Meat	Fish	Fruit	Vegetables	Oils and fats

7. Which one of the following turnover categories best represents your total turnover for the food products indicated in question 5?

<500 million	>500 million <1 000 million	>1 000 million< 5000 million	>5 000 million

8. How long have you been involved in formulating market strategy?

Less than five (5) years	Longer than five (5) years

9. How long have you been involved in formulating market strategy in this firm?

Less than five (5) years	Longer than five (5) years

Opinions about market strategy

10. How would you respond if I defined strategy as:

(a) "Strategy consists of the actions and approaches employed to achieve the targeted organisational performance"

Strongly Agree	Agree	Disagree	Strongly Disagree

(b) "Strategy concerns how a diversified firm intends to establish business positions in different industries and the actions and approaches employed by management to improve the group's performance in businesses diversified into"

Strongly Agree	Agree	Disagree	Strongly Disagree

(c) "Strategy refers to management's managerial game plan for the single business to build a strong long-term competitive position"

Strongly Agree	Agree	Disagree	Strongly Disagree

11. How would you respond to a statement such as: "Market strategy refers to the contribution of marketing management to the formulation of strategy"

Strongly Agree	Agree	Disagree	Strongly Disagree

11(a) If you agree, please indicate if the marketing department of your firm contributes in any way to your strategy formulation efforts

Yes	No

12. How often do you formulate strategy?

Once per year	Biannually	Quarterly	Continuously	Other (specify)

Opinions regarding strengths, weaknesses, opportunities and threats

13. How would you respond to a statement such as "Strategy formulation takes into account factors that may limit the actions that the firm can or should take"?

Strongly Agree	Agree	Disagree	Strongly Disagree

14. Political/legal factors such as legislation (health regulations, substances used to treat products, labour relations, employment equity, aids, tariffs, etc) and trade agreements (European Union [EU], World Trade Organisation [WTO}, Swaziland, etc); get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

14 (a) If yes, please list the three major political/legal factors that impacted (impact) on the formulation and implementation of your market strategy.

14 (b) If no, please give reasons why political/legal factors do not impact on the formulation and implementation of your market strategy.

15. Technological change and requirements such as electronic and automation equipment, processing equipment, processes and procedures get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

15(a) If yes, please list the three major technological changes and requirements that impacted (impact) on your strategy.

15(b) If no, please give reasons why technological change and requirements do not impact on the formulation and implementation of your market strategy.

16. Economic variables such as economic growth rate, interest rates, private consumer expenditure, get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

16(a) If yes, please list the three major economic variables that impacted (impact) on the formulation and implementation of your market strategy.

16(b) If no, please give reasons why economic variables do not impact on the formulation and implementation of your market strategy.

17. Physical variables such as climatic conditions and capacity constraints (over capacity, skills level of employees) get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

17 (a) If yes, please list the three major physical variables that impacted (impact) on the formulation and implementation of your market strategy.

17(b) If no, please give reasons why physical variables do not impact on the formulation and implementation of your market strategy.

18. Social factors such as consumption patterns, health and nutritional status (e.g. vitamin deficiencies, etc) of consumers are taken into account in the formulation and implementation of your market strategy?

Yes	No

18(a) If yes, please list the three major social factors that impacted (impact) on the formulation and implementation of your market strategy.

18(b) If no, please give reasons why social factors do not impact on the formulation and implementation of your market strategy.

19. International variables such as export opportunities, economic conditions, legal requirements and developments in the international arena, e.g. as ageing population and consumption patterns, get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

19(a) If yes, please list the three major international variables that impacted (impact) on the formulation and implementation of your market strategy.

19(b) If no, please give reasons why international variables do not impact on the formulation and implementation of your market strategy.

20. Actions taken by competitors such as new products, new packaging and divesting from a business, get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

20(a) If yes, please name the major actions by competitors that impacted (impact) on the formulation and implementation of your market strategy.

20(b) If no, please give reasons why actions by competitors do not influence the formulation and implementation of your market strategy.

21. How would you respond to a statement such as "Competitors are companies that manufacture more or less similar products competing for the same customers"

Strongly Agree	Agree	Disagree	Strongly Disagree

21(a) If you disagree, please give your definition of competitors.

22. The (food) industry in itself (e.g. the nature of the business, key success factors, critical requirements and new entrants) influences the market strategy options and are thus considered in your firm's strategy formulation and implementation efforts?

Yes	No

22(a) If yes, please list the three major industry variables that impacted (impact) on the formulation and implementation of your market strategy.

22(b) If no, please give reasons why the industry does not impact on the formulation and implementation of your market strategy.

23. Actions taken by wholesalers and retailers such as products bought and shelf space allocated get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

23(a) If yes, please list the three major actions taken by wholesalers/retailers that impacted (impact) on the formulation and implementation of your market strategy.

23(b) If no, please give reasons why actions of wholesalers and retailers do not impact on the formulation and implementation of your market strategy.

24. Resources of the firm such as capital, labour and raw material position get specific consideration in your firm's strategy formulation and implementation efforts

Yes	No

24(a) If yes, please list the three major resources of the firm that impacted (impact) on the formulation and implementation of your market strategy.

24(b) If no, please give reasons why the resources of the firm do not impact on the formulation and implementation of your market strategy.

25. Assets of firm (trade marks; machinery, etc) get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

25(a) If yes, please list the three major assets that impacted (impact) on the formulation and implementation of your market strategy.

25(b) If no, please give reasons why assets do not impact on the formulation and implementation of your market strategy.

26. Skills of the firm (employees) get specific consideration in your firm's strategy formulation and implementation efforts?

Yes	No

26(a) If yes, please list the three major skills that impacted (impact) on the formulation and implementation of your market strategy.

26(b) If no, please give reasons why skills do not impact on the formulation and implementation of your market strategy.

27. How would you respond to a statement such as: "A strength is a favourable position in the firm compared to competitors"

Strongly Agree	Agree	Disagree	Strongly Disagree

27(a) If you disagree, please give your definition of strengths.

28. How would you respond to a statement such as: "A weakness is an unfavourable position in the firm compared to competitors"

Strongly agree	Agree	Disagree	Strongly Disagree

28(a) If you disagree, please give your definition of weaknesses.

29. How would you respond to a statement such as: "An opportunity is a favourable position in the external environment"

Strongly agree	Agree	Disagree	Strongly Disagree

29(a) If you disagree, please give your definition of an opportunity.

30. How would you respond to a statement such as: "A threat is an unfavourable position in the external environment"

Strongly agree	Agree	Disagree	Strongly Disagree

30(a) If you disagree, please give your definition of a threat.

31. How would you respond to a statement such as: "SWOT (strengths, weaknesses, opportunities and threats) are taken into account in the formulation and implementation of market strategy"?

Strongly Agree	Agree	Disagree	Strongly Disagree

32. Describe how your firm takes "SWOT" into account in the formulation and implementation market strategy?

Sustainable competitive advantage

33. How would you respond to a statement such as: "Strategy formulation includes the development of sustainable competitive advantage"?

Strongly Agree	Agree	Disagree	Strongly Disagree

33(a) If you disagree, please give reasons why.

34. How would you respond to a statement such as: "Strengths form the basis of competitive advantage"?

Strongly Agree	Agree	Disagree	Strongly Disagree

34(a) If you disagree, give reasons why.

35. Indicate which ONE of the listed definitions of sustainable competitive advantage corresponds with your view of the concept.

(a) The things the firm does exceptionally well in comparison to competitors owing to unique combinations of resources and abilities	
(b) Choosing to compete only in arenas where victories are clearly achievable.	
(c) Competitive advantage grows out of the value that a firm is able to offer to its customers	
(d) The ability to consolidate corporatewide technologies and production skills into competencies that would empower individual businesses to adapt quickly to changing opportunities	
(e) Strategy is supported by assets and skills when it is employed in the competitive arena that values the strategy and competitors are unable to match or neatralise the competitive advantage.	

(f) Resources and capabilities are central in formulating strategy.	
(g) Achieving a position of advantage.	
(h) The ability of a firm to offer superior value to the market that can be sustained for a prolonged period of time.	
(i) A firm has an edge over rivals in attracting customers.	

36. Please give your definition of competitive advantage, if none of the definitions in 35 correspond to your view.

37. How does competitive advantage impact on your market strategy?

Strategy options

38. Strategic options employed by your firm include:

(a)	Differentiation (meaning adding value to product by giving it a unique attribute that is valued by customers e.g. packaging, trade mark).	Yes	No
If yes, please give examples of how you employ differentiation.			
(b)	Low cost (meaning supplying product at lower cost than rivals).	Yes	No
If yes, give examples of how you employ low cost.			
(c)	Focus (meaning concentrating on a special market/product).)	Yes	No
If yes, please give examples of how you employ focus.			
(d)	First with a move	Yes	No

If yes, please give examples of how you employ first moves.		
(e) Synergy (meaning the whole is greater than the sum of the parts).	Yes	No
If yes, please give examples of how you employ synergy.		
(f) Growth, e.g. expanding geographically or broadening the product line or integrating either horisontally or vertically.	Yes	No
If yes, please give examples of how you employ growth.		
(g) In a low-growth market sector, maintain sufficient investment in business to keep it running (maintenance strategy).	Yes	No
If yes, please give examples of how you employ maintenance.		
(h) In a low-growth market sector, withdraw investment orderly to phase out gradually (harvest strategy).	Yes	No
If yes, please give examples of how you employ harvest strategies.		
(i) Divest investment (divestment or liquidation strategy) all together from an unprofitable market sector.	Yes	No
If yes, please give examples of how you employ divestment strategies.		
(j) Devise moves to attack competitors (warfare).	Yes	No
(k) Devise moves to defend against attacks from competitors (warfare).	Yes	No

If yes, please give examples of how you employ warfare.

Strategy responsibility

39. How would you respond to a statement such as the following? The primary strategy responsibility rests with:

(a)	The CEO, Managing Director and approval by the Board of Directors	Yes	No
(b)	General Managers in charge of the business	Yes	No
(c)	Functional managers	Yes	No
(d)	Combination of above (please specify which)	Yes	No

Contact person

40. Please give a name and contact number, should I wish to discuss any aspect of the completed questionnaire

Name:	Telephone number:

Please return to:
Hester Nienaber
spidern@mweb.co.za
or fax 0838-283-1300

Should you wish to discuss any aspect of the questionnaire, please contact Hester at telephone (011) 350-2058 (office hours) or 083-283-1300 (after hours).

Thank you for your participation

ANNEXURE E

Bureau of Market Research • Buro vir Marknavorsing

392 UNISA 0003 SOUTH AFRICA (012) 429-5666 Int +27+12 429-3566
Email/e-pos: martijh@unisa.ac.za Fax/Faks: (012) 429-3221 Int Fax: +27+12 429-3221

Dear Respondent

MARKET STRATEGIES BY SELECTED FOOD MANUFACTURERS

My letter of 11 October 2000 in the above regard, refers.

The Bureau of Market Research at UNISA is conducting a survey to obtain data from food manufacturers in connection with market strategies applied. A copy of my original letter and the questionnaire are attached for easy reference.

We are extremely disappointed in the marginal response to our request. The success of the project depends on your participation. If your opinion, as a major role player in this industry, is not included in this survey it will not be representative and thus the survey will not be scientifically founded. Your participation is therefore greatly appreciated.

At his point I would like to highlight a few reasons to justify the survey and in so doing hope to convince you to participate. Firstly, information thus obtained would bring information to the fore that is currently not existing in the SA food manufacturing industry. Thus an information gap can be filled. At the same time comparisons can be drawn between the SA food industry and especially the EU food industry. Secondly, the information thus obtained could be considered by corporate executives in the food manufacturing industry in their strategic planning efforts. Finally, this survey will provide valuable inputs to what and how our Department of Business Management teaches certain subjects. This, in turn, will enable our Department of Business Management to deliver what the business community needs and wants.

Should time pressure or any other reason prevent you from completing the questionnaire, you are kindly requested to delegate it to any other competent person in your organisation.

Should you have any queries in this regard, please do not hesitate to contact Deon Tustin of our offices at telephone (012) 429-3156 during office hours.

Thank you in advance for your participation which would enable the Bureau to contribute to your business planning. A copy of the report will as usual be supplied to you on completion of this project.

Yours faithfully

Prof JH Martins

ANNEXURE F

ANNEXURE F

Category	Year:	1996	1997	1998	1999
	In Tons:				
Canned and prepared meats:					
Bacon		9 587	8 717	8 933	8 597
Ham - not tinned					
cooked		4 376	4 623	4 414	4 612
smoked		1 202	1 368	1 308	1 143
Meat loaves and brawn:		5 879	5423	5 570	5 470
Patties		7 491	8 091	8 849	9 477
Polony		39 771	40 448	38 287	39 193
Sausages - not tinned					
vienna type		21 459	21 632	21 789	23 052
pork		2 740	2 371	4 371	4 259
beef		2 061	1 694	1 627	1 173
boerewors		2 151	2 660	1 985	1 796
russians		5 990	6 349	7 005	8 169
frankfurters		758	714	1 680	1 627
other			4 361	3 571	4 222
Tinned sausages		3 964	3 119	1 766	1 838
Other tinned meat		12 537	7 595	6 441	6 147
Canned fruits & vegetables					
apricots		25 598	34 862	34 607	39 232
peaches		64 764	86 687	45 386	63 493
pears		32 992	29 402	20 481	24 858
fruit cocktail		49 076	51 658	27 838	31 792
guavas		2 237	2 713	1 975	1 541
other		37 002	34330	34 314	39 631
Canned vegetables					
beans (baked, grean & other)		41 253	48157	38331	43883
other (peas, corn etc.)		43 070	43344	33249	34311
Frozen vegetables		73 543	91707	92110	111988
Fish products & similar foods					
canned fish		42 829	53 812	53 132	21 192
frozen fish		68 361	67 765	76 623	64 887
frozen crayfish		488	735	834	740
Vegetable & animal oils & fats					
sunflower seed oil		277 532	313 323	297 330	287 831
maize germ & other self produced oils		n.a.	24 796	44 313	46 454
primary products used for further processing?		n.a.	336 097	312 513	308 911
margerine		168 417	174 872	161 092	156 312
blended table, salad & cooking oils		267 097	286 050	302 629	306 729
other vegetable fats (for baking)		n.a.	65 236	67 248	67 665

Source: Statssa Publication P3051.1 dated 8/3/2001 and 11/3/99