An exploratory investigation into the application of market strategies by selected JSE-listed companies in the food sector in the period 1996-1999

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The study was sparked by the observation that similar firms, faced with a similar situation and seemingly applying similar market strategies may achieve very different degrees of success. The question was whether the market strategies applied by these firms adhered to the principles of a sound market strategy put forward in the literature. The study found that the market strategy applied by the firms in question complied with the principles of market strategy, to varying degrees. The firms that adhered to these principles to a greater degree appear to have been more successful than others. It appears that the less successful firms neglected the principle of 'sustainable competitive advantage'. It was concluded that adherence to the principles of a sound market strategy could lead to improved performance.

Introduction

The study was sparked by the observation that similar firms, faced with a similar situation and seemingly applying similar market strategies, may achieve very different degrees of success. All South African firms engaged in the production and processing of poultry were affected by the importation of 'dumped' poultry, high feed prices and depressed consumer prices in the period 1996 to 1999. From newspaper reports (*Business Day* 20/11/96; *Business Report* 18/11/97; *Business Day* 23/7/98), it would appear that all these firms applied, *inter alia*, a 'restructuring' (harvesting) market strategy. Today, some of these firms have disappeared completely, others are struggling, and some appear to be doing well. The reason for the phenomenon described may be, at least in some part, ascribed to the market strategy applied by these firms. Market strategy is the tool a firm's management uses to adapt to changes and thus ensure survival and growth in an ever-changing environment. To be effective, market strategy should comply with sound principles, as manifested in a model of market strategy (Aaker 1998; Thompson & Strickland 1998; Pearce & Robinson 1997; Wheelen & Hunger 1998; Van der Walt, Strydom, Marx, & Jooste 1996).

A model of market strategy

The model of market strategy used in this study is illustrated in Figure 1. In terms of Figure 1, market strategy should be based on 'sustainable competitive advantage'. The literature review (Coase 1937; Selznick 1957; South

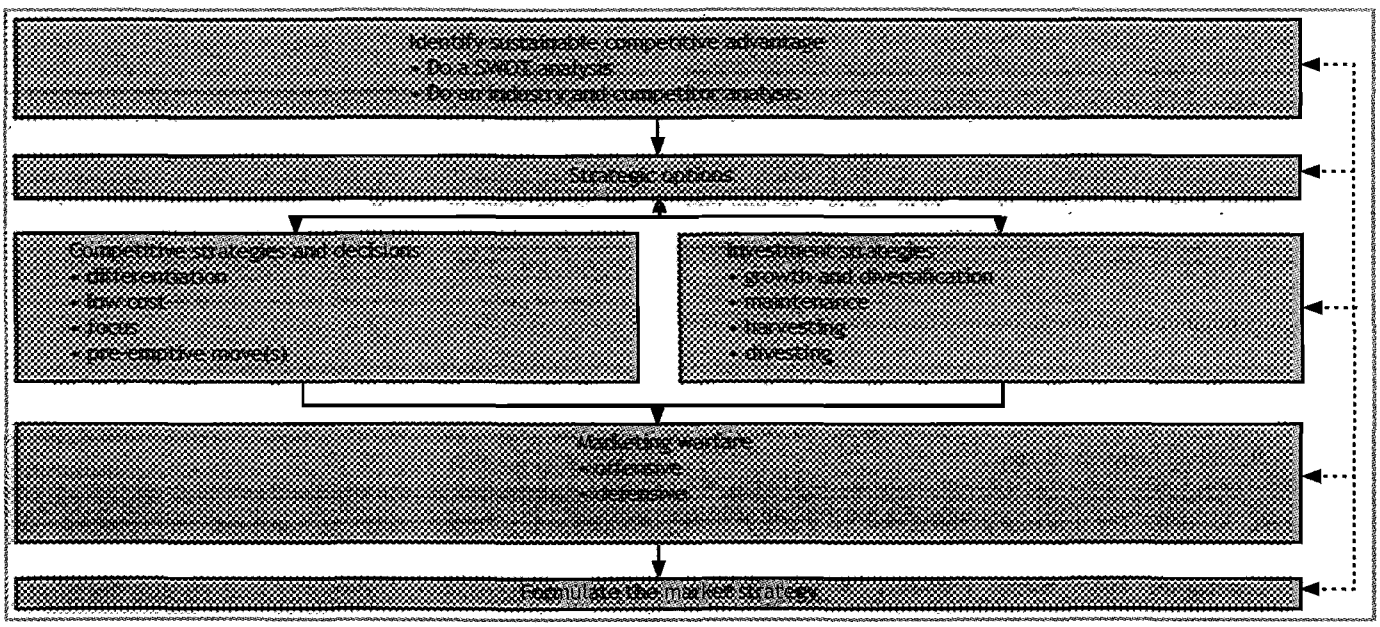

Figure 1. A model of market strategy
Source: Adapted from Van der Walt et al. (1996: 542)

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1981; Porter 1985; Prahalad & Hamel 1990; Aaker 1993 & 1998; Drucker 1994; Grant 1995; Slater 1996; Van der Walt et al. 1996; Thompson & Strickland 1998; Javidan 1998; Hao 1999) established that sustainable competitive advantage (SCA) consists of three facets, namely:

- The product-market served
- What the customers value
- The required assets/resources and skills to sustain customer value in the chosen product-market served.

SCA is determined by doing a SWOT (strength, weakness, opportunity and threat) analysis as well as an industry and competitor analysis. These analyses give the firm a customer orientation - in other words, substantiating what customers value. If a firm's market strategy were to be based on its SCA, it would achieve above-average industry profits (Porter 1985; Thompson & Strickland 1998). The identification of the SCA forms part of the process of deciding on the strategic option, as represented by the dotted lines in Figure 1. The dotted lines represent the facets underpinning market strategy, for example:

- It is an iterative process.
- A change in one component may change one or several other components.
- The process is not necessarily sequential in nature.
- Change may be pro-active - the firm may adapt its market strategy in anticipation of a change in the environment.
- Market strategy is externally orientated, taking into account the demands of the market, competitor actions and occurrences in the external environment.
- Access may be sought to good management information systems to capitalise on the information at its disposal.

The process followed impacts on the strategic option selected, which determines whether the option is effective or not given the prevailing situation. Other factors that may impact on the strategic option selected include the industry format, for example, pure competition, monopolistic competition, oligopoly and monopoly. The market structure of the South African food sector is deemed an oligopoly, in that few large firms dominate the market. The oligopolistic nature of the industry is considered to lend itself ideally to the application of market strategy to ensure that competitors are outwitted in the market place. A further factor that impacts on the application of market strategy is the life cycle of the firm, product or market, for example, growth, mature or declining phase. The mature phase is deemed relevant for the South African food industry. Thompson & Strickland (1998) warn that firms in a mature industry should not apply compromising market strategies (namely, a combination of focus, low cost and differentiation), as this would bring forth mediocre rather than exemplary results.

This study focused on the selected firms manufacturing foods in the major groups of meat, fish, fruit, vegetables, oils and fats, listed on the Johannesburg Stock Exchange (JSE) in the period 1996 to 1999, because:

- In terms of their aggregate food turnover, these firms represented more than 50% of South African food sales.
- Consumer expenditure on the major groups of meat, fish, fruit, vegetables, oils and fats represented more than 50% of total consumer expenditure (National Department of Agriculture 2000).
- Total sales of the major groups of meat, fish, fruit, vegetables, oils and fats increased slightly over this period and represented 30% of total food sales in 1999 (Statistics SA 1999: 23-33).
- Food and food products were the single most important contributor (14.4%) to manufacturing output (Statistics SA 1999: 2).
- Manufacturing contributed most (approximately 20%) to the South African gross domestic product (GDP) in the period 1996 to 1999 (National Department of Agriculture 2000).
- The period 1996 to 1999 was selected because this period witnessed dramatic changes in the food industry and was the most recent meaningful period in which data could be collected.

The purpose of this article is to report on the study and its findings as well as to suggest future research in this area.

Problem investigated

The problem investigated was whether the market strategies applied by the selected firms adhered to the sound principles of market strategy put forward by some of the leading authors in the field, such as Aaker (1998), Thompson & Strickland (1998) and Van der Walt et al. (1996), and depicted in Figure 1. A perusal of the annual financial reports of the manufacturing firms listed on the JSE food sector, in the period 1996 to 1999, indicated that these firms seemed to be performing well. In most cases, turnover and profit increased between 1996 and 1999. However, it appeared that the success achieved by the firms differed and that they did not achieve above average industry profits, which for the purposes of this study were deemed net profit margin, return on assets and return on equity. Table 1 summarises examples of the market strategies applied by these firms (named A to E for the sake of confidentiality) and the resultant performance.

A closer look at Table 1 shows that the firms in question seemed to apply market strategies discussed by these theorists. This is evidenced by market strategies such as 'growth', 'diversification', 'divest', 'low cost', 'harvesting' and 'maintaining'. Firm C seemed to be the only firm that applied market strategies consistently, associated with improved performance, as its share price, headline earnings and operating profit increased. The performance of firms B and D appears to have improved in 1998 and

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Table 1. Summary of selected South African food firms, the apparent market strategies applied, and resultant performance

Firm	Market strategy	Performance
A	Sell 50% of its biscuit and confectionery interest (i.e. divest strategy)	Improved - EPS increased 25% for six months to May 1996
	Turnaround by selling non-core assets overseas (i.e. harvesting strategy)	Disappointing - operating income declined 13.5%
	Restructure - merge or sell certain assets	Disappointing - 30% decline in headline earnings
B	Sell animal food interests (i.e. divest strategy)	Poor - posted R57.2m loss for year end 1996
	Restructure by delisting and liquidation of a holding company (i.e. maintenance or harvesting strategy)	Poor - R128.6 million loss (interim)
	Management change - appoint new chief executive officer	Improved - share price rose 30% and closed at 26c
	Restructure - move head office	Improved - operating profit of R34 million fir year ending March 1999
C	Acquire a major US malt firm - growth by expanding into malt	Share price decreased from R71 to R60
	Restructure - invest in world class manufacturing	Headline earnings improved 25.4% to R561.6 million (year end 1999)
	Joint venture (Heinz SA)	Improved - operating profit rose to R1.1 billion
	Expand (grow) into emerging markets (India, Philippines, Chile)	Improved
	Divest (sell) stake in catering concern	Improved - headline earning improved from R2.33/share to R0.25/share
D	Restructure - close of factories	70% drop in net income (1996); Net income dropped by 46% (1997)
	Restructure	Improved - losses were smaller (R24 million compared to R80 million in previous period)
	Change of control	Unknown
	Restructure - sell unprofitable businesses	Improved - loss of R6.92 versus previous R24 million
E	Introduce value-adding processes (growth)	Unknown
	Joint venture between Australian and US firm	Unknown
	Acquire frozen food interests with divestment of one of its rivals	Unchanged - share price remained at R2.40
	Take steps to restore profitability by selling non-core businesses	Disappointing - 31% decline in headline earnings

1999. The market strategies applied by firm C, (for example, restructuring, acquisition and joint ventures), did not appear to differ from those applied by the other firms. Furthermore, the conditions prevailing in the business environment were the same, including a depressed consumer market, an incidence of dumped poultry from the USA and high feed costs. Despite similar conditions prevailing in the (external) environment, firm C generally appears to have performed better than its rivals. The question was why this occurred if all apparent competitors applied the same, or at least similar, market strategies. From the media coverage, it also appears that the underperforming firms were aware of their poor performance and were addressing the situation. Steps taken by firms A, B, D and E to rectify the situation included applying market strategies such as turnaround, restructuring and rationalisation or harvesting. In the case of firms B and D, this seems to have contributed to improved results. The less successful firms (for example, A and E) appear to have applied similar market strategies, yet achieved less success than firm C, for instance. From Table 1, it would appear that the overall market strategies applied by these firms succeeded to only a limited extent.

The assumption, for the purposes of this study, was that these firms did not understand and apply market strategy in the way described by these theorists (Aaker 1998; Thompson & Strickland 1998; Van der Walt et al. 1996). The conflicting results in Table 1 and the different views in the literature on market strategy pose the problem and reasons for the study as set out at the beginning of this section. Schnaars (1991: 19) points out that there is no consensus on the subject, or on the concept of market strategy, except for the historical origin of the concept of 'strategy'.

It is hypothesised that the firms that understood and applied market strategy, as described in the literature, would perform successfully, while those that did not know about market strategies, or did not adhere to the principles of a sound market strategy, would be less successful.

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Research method

The study was qualitative in nature, while the specific research design was exploratory-descriptive (Malhotra 1996: 87 & 89). The problem investigated necessitated a qualitative approach, more precisely the exploratory-descriptive design. The most important reason was the absence of information on market strategy. Expert opinions were needed to lay the foundation in this regard. There was little information available on this subject in general, or on these firms specifically. Experts in these firms were therefore identified to collect the necessary data. Secondary sources were also used to augment the primary data collected. The population consisted of South African firms manufacturing food in the major groups meat, fish, fruit, vegetables, oils and fats listed on the JSE between 1996 and 1999. The sample selected comprised the larger firms in the population. Non-probability sampling, especially judgement sampling, was used to select the sample. Judgement 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 firms due mainly to the oligopolistic nature of the market. Few of the firms were listed on the JSE food sector, and few were involved in the manufacturing of food of the major groups of meat, fish, fruit, vegetables, oils and fats.

The judgement 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 to be successful firms, given that growth is an objective of the firm and, as such, is measured in terms of turnover, market share and number of employees. Five firms were selected for the purposes of this study:

- The number of firms complies with the norm (between four and 10) required to obtain good information and address the issue of complexity (Eisenhardt 1989: 545).
- Firm C (in Table 1) was the largest of the firms in the sample frame in terms of turnover, namely R20 837.4 million in 1999.
- Firm C was related to a number of the other firms/items in the population via shareholding or joint ventures.
- At least one significant competitor of firm C in the major groups of meat, fish, fruit, vegetables and oils and fats was selected for the purposes of comparison. Firms A, B, D and E were therefore selected. These competitor firms were considered the larger firms (in terms of turnover), with similar activities to firm C (intra-type competition). The oligopolistic nature of the market restricted the selection of relevant competitors. Top management of these firms were furthermore deemed experts in the field of market strategy, who could provide the information required to gain insight into and an understanding of the application of market strategy by these firms.
- These firms represented the corporate and SBU (strategic business unit) levels, which were relevant in the application market strategies.

The questionnaire

A self-administered questionnaire was used to obtain data. The questionnaire was electronically mailed to the respondents. The questions in the questionnaire reflected the principles of a market strategy as reflected in a model of market strategy, depicted in Figure 1. The questionnaire was administered by the University of South Africa's Bureau of Market Research during the period between October 2000 and June 2001, taking into account the closure of businesses between 16 December and the New Year.

Findings

Five firms were selected and seven (including some of these firms' SBUs) returned the questionnaire. However, one questionnaire was rejected because a firm manufacturing products other than meat, fish, fruit, vegetables, oils and fats responded. The responses were accepted as the respondents indicated that they shared the strategy responsibility in the firm, although they represented the corporate, SBU and functional levels of management. Four of the six responding firms were involved in the manufacture of meat products and one each in fish, fruit and vegetables oils and fats. Some of the firms in question were experiencing management problems and therefore appointed new managers (see Table 1), resulting in improved performance. Responses from such firms were accepted for the purposes of the study, although the respondents were not involved in strategy for the entire period under review.

The responses indicated various different views on the required principles of market strategy, which did do not always correspond entirely with those of the literature consulted for the purposes of this study. It was also apparent that the respondents' marketing departments contributed to strategy formulation and implementation, in collaboration with the top structure. Only half of the respondent firms indicated that they were continuously formulating market strategy, which appeared to be consistent with the theory and the demands placed on the firms by the volatile environment in which they were conducting their business.

From the responses, it is doubtful whether they applied SCA as intended in the literature, especially since

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customer value, the critical aspect of SCA, was generally omitted. These responses would furthermore seem to indicate that the basis exists for SCA, as well as the opportunities for advancing the concept. However, the responses indicate that these firms do not exploit either the basis or the opportunities to advance SCA to the fullest. Neglecting customer value can generally be traced to the omission of comprehensive mission statements, including customers served, in their annual reports.

All the respondents appear to have applied the strategic options as mentioned in the literature to a greater or lesser extent. However, on closer scrutiny, not all the respondents seemed to view and/or apply these options as intended in the literature. Generally, the firms did not appear to have based their market strategies on their SCAs. Furthermore, most of the firms appear to have applied compromising strategic options that jeopardised their results. Table 2 summarises the different market strategies applied by the firms surveyed.

Table 2. The various market strategies employed by the firms

Firm[1]	Market strategies applied
1	Low cost, focus
2	Differentation, low cost, focus, first mover, synergy, growth, warfare
3	Differentation, low cost, focus, first mover
4	Differentation, focus, first mover, synergy, growth, maintenance, harvesting, divesting, warfare
5	Differentation, low cost, focus, growth, maintenance
6	Differentation, low cost, focus, first mover, synergy, growth, maintenance, harvesting, divesting, warfare

Table 2 shows that all the firms in question apparently applied a combination of the available strategies (namely, competitive and life cycle strategies). Furthermore, they also applied a combination of the competitive strategies (low cost, differentiation and focus), which appears to be in conflict with Thompson & Strickland's (1998) view that firms in a mature industry should preferably apply only one of the competitive strategies. The reason advanced for this was that the firms might jeopardise their results by applying compromising strategic options. This could perhaps be the case in the example of the firms under investigation, and it might explain why some of the firms did not perform as expected and achieve above-average industry profits.

According to Table 2, four of the responding firms appear to have applied competitive strategies and decisions and life cycle strategies, as illustrated in Figure 1. These seem to have been consistent with the theory. However, two of the firms apparently only applied competitive strategies, which seem to have been inconsistent with the theory. This could indicate that some of the firms surveyed did not view market strategy as intended in the literature and might partly explain why some of the firms did not achieve the expected above-average industry profits.

Conclusions

The conclusions of this study can be summarised as follows:

- The responding firms indicated that they adhered to varying degrees to the principles of sound market strategy.
- Those that indicated that they adhered to a greater extent to these principles appear to have been more successful than the others.
- The firms that indicated that they adhered to a lesser degree to the principles of a sound market strategy neglected SCA. These firms appeared to be insufficiently 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.

Recommendations

Based on the evidence provided in this study, it is recommended that:

- Better training and education is needed on this topic.
- Academics should endeavour to contribute to clarifying matters in connection with market strategy in order to assist practitioners to benefit from this vehicle, which ensures that firm's achieve their ultimate goal of survival and growth in an ever-changing environment.

Limitations of the study

The qualitative nature of the study is considered its major limitation, in that the findings cannot be generalised to the population. Other limitations include the sample frame, the sample and the period in which the data were collected. The study contributed to testing a theoretical model of market strategy in practice. The understanding and insight gained in the application of market strategies should be further tested to validate the findings.

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1. The firms are numbered 1 to 6 as they responded anonymously. Their responses could not be linked to those (A to E) in Table 1.

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