Agricultural retail businesses in South Africa: The higher demand on competition

By

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ABSTRACT

Since the establishment of agricultural co-operatives they have been in a privileged situation of having a captured market in the sense that farmers were shareholders in these stores which ensured some loyalty and commitment. Hardwares trade in the same product ranges as the agricultural retail businesses which imply direct competition. The main concern is seeing the rate in which these non-agricultural stores are growing in the sense of opening new stores and competitiveness compared to the agricultural retail stores.

For the purpose of this paper, Fleener's model for retail success was used as key success factors to measure the agricultural retail business against the hardwares. Fleener's model is based on a combination of three components namely Product, Process and People. By product he means; the type of product to be sold, the price the consumer pays for the products offered and the promotions done. By process he means; financial performance, the organizational structure and the physical site and location management. By people he means; what the customer experiences when doing business with the retailer, what the employee experiences when working for the retailer and the quality of service delivered by the retailer.

Information was gathered with the aid of two questionnaires; the first questionnaire measures the response of the hardwares against the response of the agricultural businesses with the key success factors in mind; the second questionnaire was aimed at suppliers who supply both the hardware industry as well as the agricultural retail industry.

Conclusions reached include the following: To be able to become competitive, agri businesses should focus on their skill levels, not only on retail level but also on management level. They should increase effective training opportunities and get creative in the presentation of their stores and products. They also need to have some strategic vision and plan their product strategies, pricing strategies and marketing strategies to align with their strategic vision. They should further drive marketing campaigns that would build awareness around them as being the preferred suppliers of goods to the DIY, hardware and farming community.

The agricultural retail businesses should investigate ways to strengthen an already well-structured infrastructure of retail outlets to increase the barriers of entry for newcomers through means of co-operations, joint-ventures or franchising. They should guard their market share and aggressively start implementing growth strategies to show the market that they are serious about retailing.

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

1.1.1 The background of co-operatives

All over the world people have come up with different ways to co-operate in the production and distribution of goods and services across different economic areas. According to Philip (2003), the formalising of some of these co-operational agreements was set against the backdrop of the Industrial Revolution in Europe during the nineteenth century. Philip also stated that the introduction to formal co-operatives in South Africa started in white "organised agriculture". Essentially 250 Agricultural co-operatives emerged in South Africa with around 142 000 members, total assets of some R12.7 billion, total turnover of some R22.5 billion and annual pre-tax profits of more than R500 million.

With the initial commitment of their members, the co-operatives started out to be very successful. Finance availability for farmers was limited and mostly done through the co-operative structure which contributed to the loyalty factor of these farmers to their co-operative. This loyalty factor, or rather lack of competition for the business of their members might be the reason for them becoming content with the way they do business unaware of coming changes that could influence these market players to a great extend. Personal finance through the banking sector opened the door for these members to obtain finance somewhere else and more competitors entered the market with credit facilities and other modern attractions that lured these once loyal co-operative customers away from their traditional buying patterns. These changes forced the once content co-operatives into a new playing field with a higher demand on competition and a struggle to survive.

1.1.2 The definition of a co-operative

A universal definition and a set of values and principles for co-operatives have been formally established more than a century ago. The universally accepted definition of co-operatives according to the new Co-operatives Act no. 14 of 2005 and quoted in the Co-operative Development Policy (Gauteng, 2004) is recognised by the national government policy framework, the International Co-operative Alliance and the International Labour Organization and states the following:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Simply said, a co-operative is a business undertaking whereby a group of individuals strive on a voluntary basis to meet their mutual needs in such a way that the economic advantages derived from it are greater than what the individual could achieve on its own.

In South Africa these co-operatives are stand alone entities each managed by a board of directors elected by the members of the co-operative (Competition Commission, 2006).

1.1.3 The values, forms and types of co-operatives

The International Co-operative Alliance (1995) defined the values of a co-operative as follows: Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

The values of co-operatives speak of great integrity but lack aggressiveness in a competitive market. Some of these co-operatives attempted to move away from these values and became companies while continuing their struggle to make up lost ground in their growing competitive market. The main question is whether the values and good intent of the co-operatives can withstand the harsh arena of competition in the retail environment?

1.1.4 Privatization and mergers in the agricultural co-operative market

After the deregulation of the agricultural sector in 1995, a number of co-operatives converted to companies. These conversions involved a change of ownership and have the advantages of an expanded range of products and services offered by companies such as Afgri (Pty) Ltd. and Senwes Ltd. In addition, following deregulation, various mergers and acquisitions have taken places within the agricultural industry responding to the change in market structure and the field of competition. On the level of retail outlets, most of these mergers can be seen as horizontal integration where the core of the business stayed the same.

Table 1.1: South African agricultural retail businesses and their registered status

Co-operatives	Private Companies	Public Companies (mostly not listed)
COASTAL FARMERS CO-OP LTD	AGRI ORANJE (EDMS) BPK	BKB BEPERK
EAST CAPE AGRIC CO-OP LTD	OBARO (MGK BEDRYFSMPY(EDMS)BPK	KAAP AGRI BEDRYF BPK
GRIEKWALAND WES KORP. BPK	SUIDWES LANDBOU (EDMS) BPK	KLK LANDBOU BPK.
KAROO-ORANJE LANDBOU	BNK LANDBOU (EDMS) BPK	NTK LIMPOPO AGRIC BPK

KOOP KAT RIVER CITRUS CO-OPERATIVE LANGKLOOF BOERE KOOP VRYSTAAT KOOP BPK ORANJE KOOP BPK HUMANSDORP KOOP SENTRAAL SUID KOOP BPK KLEIN KAROO KOOP BPK WES KAROO KOOPERASIE BEPERK	MOORREESBURGSE K/BOERE EDMS BP NOORD-BOLAND LANDBOU (EDMS)BPK	NWK BEPERK OVK BEDRYF BPK SENWES BPK TWK LANDBOU BPK CRK LANDBOU BPK KAAP AGRI BEDRYF BPK KLK LANDBOU BPK. OVERBERG AGRI BEDRYWE BPK. TUINROETE AGRI BPK AFGRI OPERATIONS LTD (listed)

(Source: Agrinet, 2007)

Because of these conversions to companies and mergers, this paper will refer to agricultural retail businesses which include the present agricultural co-operative retail outlets, as well as the agricultural companies' retail outlets as shown in table 1.1 above, as the focus point of further discussions. These retail outlets include product ranges such as hardware, irrigation, paint products, building material and outdoor products, but exclude products like agricultural fertilizers, chemical products, crop seeds and fuel. Again a question can be raised whether by converting to a company had any effect on their competitiveness.

These agricultural retail businesses across South Africa could ideally be developed into one of the leading retail outlet networks in the country, but even with such a great infrastructure and representation in every province and almost every town in South Africa as shown in table 1.2, they still struggle to compete on the same level as other competitors in their market.

Table 1.2: Traditional geographic locations of the agricultural retail businesses

Western Cape	Northern Cape	Eastern Cape	Free State	KZN	Mpuma-langa	Limpopo	Gauteng	North West
Overberg Agri	Senwes	Afgri	Afgri	Afgri	Afgri	NTK	Afgri	Afgri
MKB	GWK	ECAC	Senwes	Coastal Farmer	TWK	Obaro	Senwes	Senwes

				s				
Kaap Agri SSK	OVK	OVK BKB	VKB OVK BKB		BKB	Afgri	Obaro	Obaro NWK

1.1.5 Introduction and growth of competitors to the agricultural retail business

Since the establishment of agricultural retail stores, they have been in a privileged situation by having a captured market in the sense that farmers were shareholders in these stores which brought some loyalty and commitment. They also had the advantage of being the only suppliers, especially in the rural areas, of agricultural goods and other complimentary products to the farming community. Hardware stores trade in the same product ranges as the agricultural retail businesses, which imply direct competition if their focus is on the same market segment. Recognising an opportunity, formally city and town located hardware businesses like Builders Warehouse and Mica started moving into the rural areas and thus became competitors to the agricultural businesses. Once loyal customers suddenly had a choice where to buy which left the agricultural businesses in most instances with only the agricultural products to supply. Some of these hardware stores grew into franchises and strong chains and four of these are included in this study because of their aggressive roll-out plans, successful brand names and presence in the same areas as the agricultural businesses. They are Builders Warehouse, Mica Hardware, Build-it and Cashbuild.

a. Builders Warehouse

Builders Warehouse is an Urban DIY home improvement retailer. They focus on high volume, low margin and low cost distribution of mainly branded goods. Their first aim is to have a national footprint in all major metropolitan areas and after that to develop a concept for smaller towns in South Africa called Builders Express Home and Garden Centre. Their slogan reads "Biggest range, Better value, Best advice - Open 7 days a week", which indicates an aggressive competitive strategy (EIG, 2006). They already have 21 Super stores and 14 Express stores in the country (Builders Warehouse, 2007).

b. Mica Hardware

Mica is a DIY and hardware chain and probably the best-known of all the competitors. Their aim is to become the first choice destination for the home improver. They are also embarking on a new store roll-out strategy across the country, both in rural and urban areas. Their slogan "Let us show you how" indicates a personal and more emotional competitive strategy (EIG, 2006). They have 176 stores in and around South Africa (Mica, 2007).

c. Build-it

Build-it is affiliated with the Spar group and they also focus on rural and urban areas. Their aim is to capture the building market with specific focus on the black market. Their representation is well developed in Natal, Gauteng and Mpumalanga with new roll-out plans in other areas as well (EIG, 2006). They have 240 stores with another 150 planned (Build-it, 2007).

d. Cashbuild

Cashbuild is a hardware and builders' store focusing on the business of building contractors. They are very well represented in the urban areas while at present they are busy rolling out their concept in the metropolitan areas as well. According to their website (Cashbuild, 2007), Cashbuild is the largest retailer of building materials and associated products, selling directly to cash paying customers through its 160 (and growing) stores in Southern Africa. Cashbuild carries a focused in-depth quality product range at the most competitive prices, to meet the needs of the local market for home builders, home improvers, contractors, farmers, traders and any persons wanting to purchase quality building materials for cash (EIG, 2006).

Between these four competitors they have a present total of 631 outlets. There are around 400 agricultural retail outlets in South Africa (Agrinet, 2007) which should bring the opportunities of the agricultural retail businesses with their already well-developed infrastructure into perspective.

1.2 PROBLEM STATEMENT

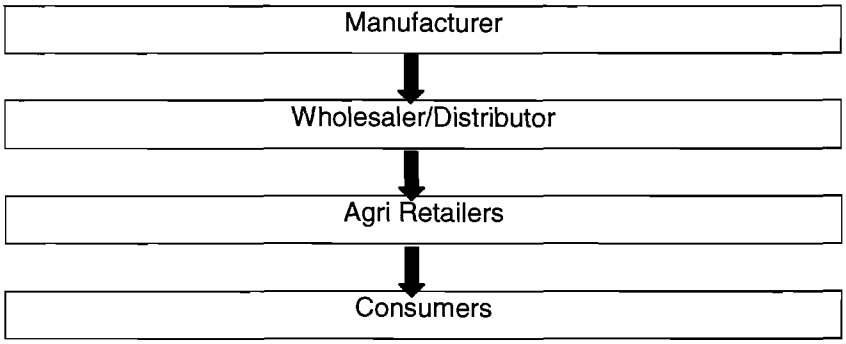
The "Vrystaat en Transvaal Sentrale Aankoops Koöperasie" (Vetsak) was founded in the early 1950's as a secondary co-operative acting as a central buying and distribution centre for the old Free State and Transvaal co-operatives (Agrinet, 2007). Over the years, Vetsak became stronger and acquired Boeresake, a secondary co-operative acting as a central buying and distribution centre for the Cape region, and developed an infrastructure servicing the whole of South Africa's agricultural businesses' retail outlets with product ranges from general farming and hardware to irrigation and outdoor products. Vetsak also converted to a company in 1999 and became Vetsak Ltd. In 2004 Vetsak Ltd. conglomerated and Agrinet Ltd. became a entity on their own still functioning as the wholesaler and distributor of a product range including nearly 30 000 line items. Agrinet's shareholding is made up by some of the traditional co-operatives which now have mostly become companies. Over the past 10 years Agrinet have expanded their supply structure to distribute their products not only to these agricultural business retail outlets, but also to non-agricultural, privately owned hardware stores, bigger groups including Mica Hardware, Build-it, Cashbuild and even to Builders Warehouse's bigger superstores. (Agrinet; 2007).

With Agrinet's involvement in both the agricultural retail market as well as the non-agricultural retail market, the main concern is seeing the rate in which these non-agricultural stores is growing in the

sense of opening new stores, compared to the agricultural retail stores which are even closing some of their outlets. Old, traditional and sometimes even outdated systems and business principals are being utilised which leads to all kinds of handicaps and eventually customer dissatisfaction.

The research will be addressing a growing concern for the supply chain to these agricultural retail outlets shown in table 1.3; and the fact that the increasing level of competition in their market, might harm and eventually disable the once comfortable market share they have had through the agricultural retail businesses. If something or someone threatens this agricultural retail market, it has a direct impact on their distributors and therefore on the whole supply chain connected to these agricultural retail businesses.

Table 1.3: Agricultural retail supply chain



(Source: Agrinet, 2007)

The worldwide trend of the superstore module is increasingly growing in South Africa. These stores, including those of Builders Warehouse, Outdoor Warehouse, etc., are capturing the consumers in terms of the prevailing norm in the specific specialist category, their great product depth within a specific range and unique design, as well as service features. The superstore format is perhaps one of the most powerful retail innovations of this century. Superstores have emerged in both food and non-food retail categories with dramatic impact. Almost every year there is another retail category where a firm pioneers the superstore format for the category, with the format now represented in supermarkets, hardware, furniture, stationery, videos, fabrics, clothing stores and pharmacies.

If this trend continues, which it probably will, it will place great pressure on the agricultural retail businesses to maintain a competitive market share.

Traditionally, these cooperative retail shops keep categories that overlap with the hardware superstore segment in terms of building, hardware, gardening, irrigation, paint and outdoor product ranges. The agricultural retail shops are also more often situated in the rural areas and smaller

towns, while the superstores focus on the highly populated metropolitan areas and cities. As the metropolitan market gets saturated with these retailers, one of the ways to increase their retail market share will be to move into new markets, as they have already started doing, including the rural and urban markets where the agricultural businesses once flourished. Afgri (Pty) Ltd., a traditional agricultural retailer, has for instance developed a concept to expand into the metropolitan areas where they had not been before and for that same reason, superstores endeavor to develop concepts for the smaller towns which will be in direct competition with the agricultural retail outlets.

1.3 OBJECTIVES

- **Main Objective**

Agricultural retail businesses struggle to stay competitive because of their lack of focus on the retail aspects of their businesses which results in an inability to keep up with retail trends and standards.

The main objective of the study is to evaluate the competitive effectiveness of the current agricultural retail business outlets against other retailers in this market using certain key success factors. The objective will be to determine if these agricultural businesses are still competitive if measured against these retailers. The main question to ask is why they struggle to keep up with these competitors while having an ideal infrastructure which can actually help them to become one of the largest retail chains in the agricultural and hardware arena of South Africa.

In order to achieve the above, the secondary objective would be to research the following:

- Perceptions of these traditional agricultural businesses surrounding their brand strength compared with perceived brand strength of their competitors.
- The implementation of key business principals.
- Whether those that opted to become companies are more effective in their struggle for competitiveness regarding some key success factors than the ones which stayed co-operatives.
- To find out which chain suppliers prefer distributing their products through: the agricultural chain, other distribution chains, or direct distribution.

1.4 METHODOLOGY

The study will consider some key success factors for retail businesses and compare how the agricultural retail businesses manage to control these factors in their retail environment. The study will also involve three audit levels starting with the agricultural retail outlets' brand perceptions of their head office management level, then the perceptions of their branch managers and lastly the

perceptions of their customers. These perceptions will be measured against the same sample's perceptions of hardware superstores and other competitors in this market such as Builders Warehouse, Mica Hardware, Built-it and Cashbuild. A differentiation will also be made between agricultural co-operative businesses which have not become companies yet, and those that have.

Primary data will be collected through interviews and questionnaires for research purpose on the perceptions of suppliers and co-operative managers.

A questionnaire aimed at the perceptions of agricultural retail businesses surrounding these success factors will be used. A comparison on the answers is done between the perceptions of suppliers, agricultural retail businesses which have not became companies yet, and those that have.

- **Study population**

The main population for the research include the key players in the agricultural business arena such as their Trade Managers, Buyers and Branch Managers, as they are the closest to the operational side of these retail outlets. The same people connected with retailers including Builders Warehouse, Mica Hardware, Built-it and Cashbuild will also be approached. Also included in the sample population are the comments of suppliers who are connected to both these supply chains such as Wholesale Hardware Distributors, Agrinet, Lasher Tools, Dulux Paints, Afrox, Cadac, etc. to find out which chain they prefer distributing their products through.

1.5 OUTLINE AND STRUCTURE

Chapter 1: Introduction

Chapter 1 will provide an introduction to the history of the retail co-operatives in South Africa, the growth of specific competitors in the agricultural retail business market and the problem at hand.

Chapter 2: Key Success Factors in the Retail Environment

This chapter will concentrate on the theory surrounding the problem. The most important key success factors will be gathered and discussed. These success factors will include general basic principles, as well as industry specific principles to be applied that contributes to greater competitiveness.

Chapter 3: Results and Outcomes

This chapter will contain the questionnaire and a discussion on the findings compared to the success factors discussed in chapter 2.

Chapter 4: Conclusion and Recommendations

Various solutions will be investigated and reported. Conclusions and recommendations will be dealt with.

CHAPTER 2: KEY SUCCESS FACTORS IN THE RETAIL ENVIRONMENT

2.1 INTRODUCTION

According to Burke (2005), the ultimate goal of retailing is to: bring together supply and demand; and to provide consumers with a selection of goods and services that satisfy their needs profitably.

The key success factors are the elements which contribute the most to the success of a retail business. These factors exist in all retail environments and can therefore be used as a benchmark to measure individual- or company performance against the market performance. The factors which make you a successful retailer are basically the same across all spectrums of the retail environment whether they are agricultural retail businesses, the FMCG markets, fashion or the hardware industry. Segel (2006) selected the following success factors: location, merchandising, store image, staffing responsibilities, advertising and promotions, sales techniques and financial evaluation.

The seven cornerstones of retail success are a store in the right location, the appearance of the store, the size of the store, advertising, publicity and marketing, merchandising and management (Anon. 2004:1). Smith (2005) gave four tips on retail success. According to him, location, merchandise, management and customer experience are the key factors to retail success.

According to the British Chamber of Commerce (BCC) (2003), smaller independent retailers must provide special experiences like excellent service, niche products and targeted marketing to appeal to clearly defined customer segments. They stated that achieving such excellence is not always easy, because small stores find it harder to attract and retain the best staff, their managerial resources are limited and training can be neglected. There is light at the end of the tunnel for small businesses, however, as they can learn to emulate the successful larger chains, in that they can track their merchandising techniques, product layouts and promotional tricks and apply the same ideas to their own businesses.

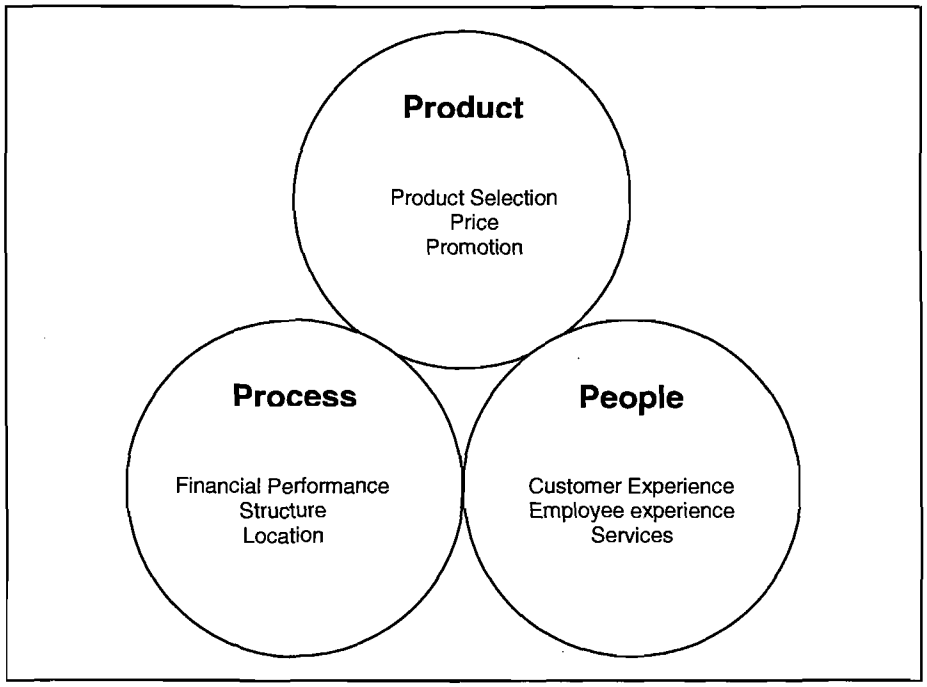
2.2 FLEENER'S MODULE FOR RETAIL SUCCESS

Some writers or retail specialists place more importance on certain key success factors than others, but in general all of them agree upon a few basic factors which need to be in place to survive in the harsh world of retailing. For the purpose of this paper, Fleener's (2007) model for retail success, which basically includes all the above mentioned factors, will be used as a benchmark to measure the agricultural retail business against.

Fleener's (2007) model for retail success depicted by figure 2.1 is based on a combination of three components namely Product, Process and People. By product he means, the type of product to be

sold, the characteristics of the segment, the price the consumer pays for the products offered and the promotions done. By process he means, performance, the organisational structure and the physical site and location management. By people he means what the customer experiences when doing business with the retailer, what the employee experiences when working for the retailer and the quality of service delivered by the retailer.

Figure 2.1: Fleener's module for retail success



(Source: Fleener, 2007)

2.2.1 Product

- Product Selection: Product selection is made up of three elements:
    - Market segment. This determines the type of product to be sold.
    - Scope. The range of the segment.
    - Quality. The characteristics of the segment and scope.
- Price: The price the consumer pays for the goods offered by the retailer.
- Promotion: The way the product is introduced and presented to the market.

2.2.2 Process

- Financial Performance: Includes inventory procurement, inventory management, category management and all necessary administrative activities that lead to financial performance.
- Structure and Management: The organisational structure necessary to operate the retail enterprise.

- Location: The physical location.

2.2.3 People

- The customer experience: What the customer experiences when conducting business with the retailer.
- The employee experience: What the employee does and experience when working for the retailer and interacting with the customer.
- Services: Services are considered a people component as they are most often performed by people and their quality is determined as such.

The key to success, according to Fleener (2007), is that one must always meet the market standards with all the elements of the model. These often changing standards are mostly set by the consumers' expectations as well as the competitors' ability to achieve them.

2.3 KEY SUCCESS FACTORS (KSF's)

2.3.1 Product

KSF 1: Product Selection

Decisions regarding the product, price, promotion and distribution channels are decisions on the elements of the "marketing mix". It can be argued that product decisions are probably the most crucial as the product is the very core of marketing planning, but errors in product decisions are legion (Carter, 1997).

The structure of a product can be distinguished in three layers (Wikipedia, 2007):

- Core product - focus on the benefit and core advantage which determines the product decision. These product decisions need to match up with the basic needs of the target market.
- Actual product - emphasis on 5 physical characteristics of a product: Quality, brand name, features, style and design, and packaging.
- Augmented product - post-purchasing services and additional services provided by the company.

Agricultural retailers are well aware of who their target market is and what products that target market require. It has already been established that times have changed and the question remains if their target market is still the same. If there is a possibility that there might be new markets available then they must ensure that they have the right product for their future market.

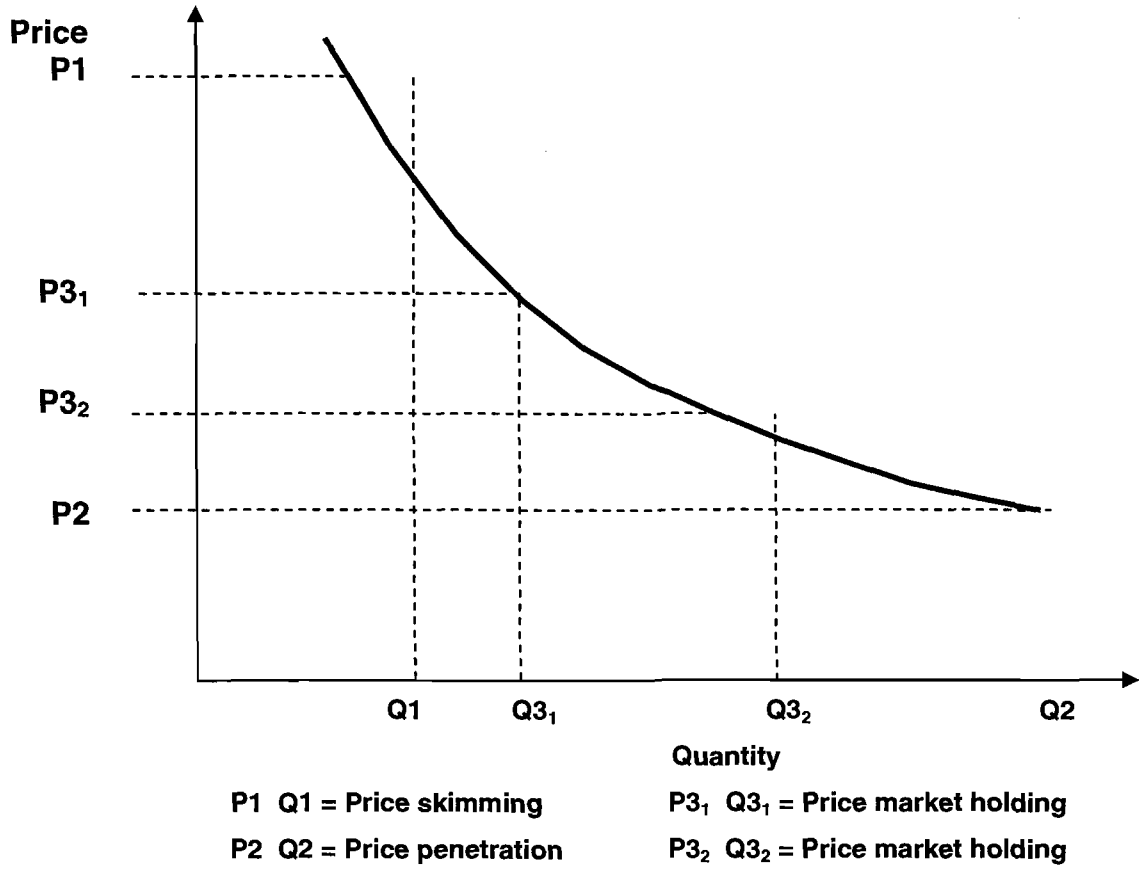
KSF 2: Pricing

The price of any product should be in the range that a customer is willing to pay and is determined by supply and demand. It is the responsibility of any distribution channel to make sure that a product's selling price at the end of the channel is reasonable and competitive. According to Carter (1997), three basic factors determine the boundaries of the pricing decision: the price floor, or minimum price, bounded by product cost, the price ceiling or maximum price, bounded by competition and the market and the optimum price, a function of demand and the cost of supplying the product. Although these factors are the main determinants and the reason that the same product could differ in price per region, other influences on the pricing structure are the cost of raw materials, manufacturing costs, distribution costs and merchandising costs. Any manufacturer or supplier's aim is to get their products to the end user at the lowest possible price with reasonable profit margins.

a. Pricing Strategies

Carter (1997) stated that in setting prices, it must be made clear what the objectives and policy are. There is hardly a sector of industry where competition or potential competition is not prevalent. Three frequently encountered price polices are market penetration, skimming and holding. A low price (penetration) is a volume policy. A high price (skimming) is used if the product is fairly unique, development costs are high and demand is relatively inelastic. Market holding is a strategy intended to hold share. Here products are not based on straight exchange rates at current rates but on what the market can bear. These three price policies are illustrated in figure 2.2 and although the source is relatively old, it is still applicable today.

Figure 2.2: Pricing policies

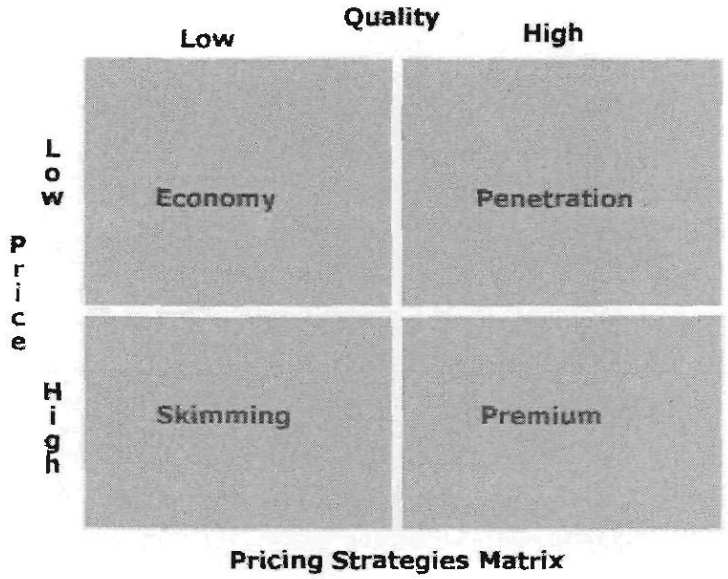


(Source: Carter, 1997)

The assumption behind all three pricing policies is that the underlying conditions governing supply and demand apply. In reality, these do not always do so, if indeed ever.

With the reasonable ease of comparing the prices of products due to the fact that there are more competitors selling the same products, there are different price strategies according to Marketing teacher (2007) that one could use on retail level to sell more products. These different pricing strategies flow from the Pricing Strategy Matrix depicted by figure 2.3 and discussed thereafter.

Figure 2.3: Pricing Strategy Matrix



(Source: Marketingteacher, 2007)

- ***Premium Pricing***

Use a high price where there is uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such high prices are charged for luxuries such as Cunard Cruises and Savoy Hotel rooms. In the hardware industry, this strategy can be applied to decorative products.

- ***Penetration Pricing***

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This is done especially with the introduction of new products.

- ***Economy Pricing***

This is a no frills low price. The cost of manufacture and marketing are kept at a minimum. Hardware manufacturers or stores often have economy brands for their tools, electrical equipment, etc. A retailer can promote itself as being the cheapest and able to better any quote from a competitor. Normally these retailers will be the ones with bulk buying power and a great differentiation of products like some superstores is doing. A good example is Game's policy of beating any price. The disadvantage is obviously less profit, but there is a good chance of a customer buying something else while in the store.

- ***Price Skimming***

Charge a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market and the price inevitably falls due to increased supply.

Premium pricing, penetration pricing, economy pricing and price skimming are the four main pricing policies/strategies and they form the basis for the exercise. There are, however, other important approaches to pricing including the following:

- ***Psychological Pricing***

This approach is used when the marketer wants the consumer to respond on an emotional, rather than a rational basis. For example, price point perspectives of 99 cents not one rand.

- ***Product Line Pricing***

Where there is a range of product or services, the pricing reflects the benefits of parts of the range.

- ***Optional Product Pricing***

Companies will attempt to increase the amount customers spend once they start buying. Optional 'extras' increase the overall price of the product or service. In some sense, hardware groups like Builders Warehouse are masters in this strategy. They manage to create a perception of low prices while they are actually more expensive than their competitors. One way of creating these perceptions is by managing and promoting known value items or KVI's. The prices advertised on these products are so good that it draws the buyer to their stores and while there, there is a good chance of them buying non-advertised products at a premium. Having such a perception connected to a retailer's brand is a great advantage and therefore there is a great responsibility on the management of these KVI's for once the perception of being expensive connects itself to a brand, it starts getting difficult to shake it.

- ***Captive Product Pricing***

Where products have complements, companies will charge a premium price where the consumer is captured. For example, a drill bit manufacturer will charge a low price and recoup its margin (and more) from the sale of the only design of bit which fits the drill.

- ***Product Bundle Pricing***

Here sellers combine several products in the same package. This also serves to move old stock.

- ***Promotional Pricing***

Pricing to promote a product is a very common application. There are many examples of promotional pricing, including approaches such as BOGOF (Buy One Get One Free).

- ***Geographical Pricing***

Geographical pricing is evident where there are variations in price in different parts of the country or world. For example rarity value, or where shipping costs increase price.

- ***Value Pricing***

This approach is used where external factors such as recession or increased competition force companies to provide 'value' products and services to retain sales e.g. the value paint pack from Dulux.

b. Managing Known Value Items (KVI's)

For many retailers, price monitoring and the decision to match or beat a competitor's price are only relevant for a few of the products. These products will mostly fall under the KVI classification of products. KVI's are national brand products, widely available at competitors, whose prices are commonly known to the general shopper and which are used by these shoppers to measure the value-for-money of one retailer against another. The danger of too high prices on these products might result in a general perception that a retailer is expensive. The GartnerG2 (2004) reports that 25% or less items carried in a store are monitored by retailers and that 53% of these retailers monitor these products on a weekly basis.

c. Price Zoning

LeHung (2004:3) stated that price zoning is used by retailers to better match pricing to the distinctiveness and competitive environment of a local market area. If a store chain uses only one price zone, it means the price for the item is the same across the chain – regardless of the location. Naturally, price zoning makes pricing operations more complex, but helps retailers to stay more competitive. The use of multiple price zones usually indicates a highly price competitive environment. Only one price zone is used by 13% of USA retailers while 75% use more than five price zones (GartnerG2, 2004:3).

According to Waters (2007), besides cost, the following more popular pricing strategies can be considered:

- Mark-up on cost is achieved by adding a pre-determined profit margin to the cost of the merchandise. The initial mark-up should be large enough to cover anticipated expenses and reductions and still produce a satisfactory profit. If you have a diverse selection of products, you can use different mark-ups on the product lines with different characteristics.

- Suggested retail price is a common strategy used by smaller retail shops to avoid price wars and still maintain a stable level of profit. Some suppliers have minimum advertised prices but also suggest the retail pricing. By pricing products with the suggested retail prices supplied by the manufacturer, the retailer is out of the decision-making process.

- One problem with using pre-set prices is that it does not give you an advantage over the competition. Another way would be to price your products the same as your competitors. Be sure you are comparing prices with other retailers comparable in size and sales volume.

- Competitive pricing below competition simply means beating the competitor's price. This strategy works well if the retailer follows an inventory plan, buys at the best prices and designs a marketing plan to concentrate on price specials.

- Competitive pricing above competition should only be considered when location, exclusivity or special service considerations can justify higher prices. For example, a retailer may stock merchandise of well-known brand names that are not available at any other location. This would allow the retailer to price above competitors.

- Psychological pricing is a strategy where price is based on popular price points and what the consumer perceives to be fair. The most common method is odd pricing using figures that end in 5, 7 and 9. It is believed that consumers tend to round down a price of R19.95 to R19, rather than R20.

- Multiple pricing is a method which involves selling a number of units for one price, such as three for R1.00. Retailers find this an attractive pricing strategy for encouraging larger commitments. It is also a desirable strategy for clearance sales.

- Discount pricing and price reductions are natural components of retailing. Discounting can include coupons, rebates, buying clubs, markdowns or seasonal prices. The decision of when and what type of discounting will vary greatly with the type of merchandise, the amount of competition and the stock on hand.

d. Pricing Decisions

Pricing decisions could again be made either at store level or at head quarter/corporate level. The most desired solution is a centralized control, as indicated in table 2.1, that can also track local prices and react locally.

Table 2.1: Corporate vs. store control of pricing

Corporate headquarters control pricing	33%
Stores control pricing but follows corporate guidelines	44%
Regional/district store management controls pricing	11%
Stores control pricing with no help	11%

(Source: GartnerG2, 2004)

According to a comparative price study done recently by Eales (Agrinet, 2006) on a selected KVI range of products, the agricultural businesses and Cashbuild came out with the lowest prices while Builders Warehouse was in general, the most expensive. Build-it and Mica Hardware's products were priced in the middle.

KSF 3: Promotion

In the GartnerG2 Report (2005), they started off by stating that retailers need to play the promotions game better, implying a shortage of focus on promotions. LeHung (2005:1) stated that promotional tools and capabilities must be improved and aligned according to the importance they hold in retailers' competitive strategies. Amit (2006) stated that in highly competitive markets, retailers are constantly looking for different ways on how to improve their financial results. This can be done through increased sales levels, enhanced productivity, or reduced costs. To achieve this, according to Amit, they have fully automated their supply chains and have rapidly moved from mass marketing strategies to segment based strategies and customization. Even through these improvements, Amit stated that retail promotions had still been overlooked. Retail promotions can account for up to 30% of sales but have essentially remained unchanged for years.

- **Type of Promotion**

There might be a lack of implementation and differentiation between the different types of promotions, for example, temporary price reductions, buy-one-get-one-free, rebates, etc., where one type of promotion might have outlived its effectiveness and there exists a slag to change to another. According to the GartnerG2 Report (2005) the simple temporary price reduction has been the most common form of price-reducing promotion rover a 12 month period in 2005 (see table 2.2). Although these are again international figures, one could use them for benchmarking. The

Hardline industry which the G2 report refers to in table 2.2 consists of home improvement, building and hardware stores in the USA which co-aligned with the industry being researched.

Table 2.2: Types of promotions used by Hardline stores

Temporary price reductions	100%
Buy-one-get-one-free or buy-X-get-Y-free	56%
Vendor funded mail-in or instant rebates	89%
Buy X units or more and get discount	78%
Buy one item and get the second at a discount	67%
By Y Rand of merchandise and get discount	44%
Storewide sale: everything in the store is on promotion	44%
Scratch card or loyalty card discounts	22%

(Source: GartnerG2, 2005)

- **Promotional Decision Making**

It can be harshly debated about who should be in charge of the decisions concerning what products at what prices need to be put onto which promotion: the marketing department, the merchandising department or the buyers of the products. Although marketing can control the brand image across the chain, they might be out of sync with the day-to-day pricing tactics of the merchants. Therefore the ideal promotion process requires that all three parties take on responsibility and accountability. The question needs to be raised what will happen in the case of a chain where there is decision-making to be made at head office level as well as at branch level. In table 2.3 it shows who will influence the promotional decisions the most.

Table 2.3: Corporate vs. store influence on promotions

Corporate headquarters control promotions	56%
Stores control own promotion, follow corporate events	33%
Regional/district store management control promotions	11%
Stores control own promotions with no other help	0%

(Source: GartnerG2, 2004)

- **Advertising Expenses**

According to Randall (2007), the percentage of revenue that one should be spending on advertising will be influenced by the following factors:

- *Type of business*

It is common for a new or growing business to spend 10 to 15 percent of the year's anticipated revenue on advertising. As the business becomes better known, this percentage could be decreased. But even then revenues should be monitored closely to see whether the reduction in the advertising budget resulted in reduced revenues.

- *Location*

A store in the heart of a busy mall can afford to spend a lower percentage than an out-of-the-way shop. A well located store could spend 1 to 5 percent of revenue on advertising while the same type of store in a bad location might spend 10 to 15 percent.

- *Competition*

If your main competitor showers the newspapers with ads every week, you might look to up your budget. If you enter a new market and want to take business away from competitors, you need to spend more on advertising.

Although these three factors do play a big role in determining advertising expenditure, the most commonly cited method is by percentage of sales which traditionally should be around 1.5 percent of sales (Ranklin, 2007).

Statistics SA (2005) reports average advertising expenditure in the hardware industry on R123 million while they also reported total sales for the same year of R20 315 million. This brings the advertising expenditure for South African hardware stores to a well below the 1.5 percent average, to 0.6 percent of total sales. There is an old saying that 50 percent of your advertising is successful – you just don't know which 50 percent.

- **Advertising Mediums**

Times have changed for the big three advertising media namely print, TV and Radio (Anon. 2006). General magazines made place for specialised magazines and with an assortment of stations to advertise on, one finds it difficult to find the correct medium which will support your specific product. The world is changing to personalised advertising. Retailers are gradually moving from mass-marketing techniques to segmented, more customized marketing approaches which targets customers with messages focussed on their specific needs and tastes. Technology has put a retailer in a position where they can use direct marketing methods aimed to reach the right buyer via the right channel at the right time. The result is a more focussed and mostly cheaper marketing campaign.

In the future prediction of the G2 report (2005), over the next five years, customer-specific promotions will progress as technology enables more one-to-one interaction with store clients. What happens in the USA or Europe normally makes its way to South Africa as well, therefore we will find customer-specific promotions on the rise. With the help of Point-of-Sale systems, cell phones and emails, the use of technology taking giant leaps in South Africa can already be noticed.

- **New Product Introduction**

From a distributor's or supplier's point of view, the ability of a retailer to introduce a new product into the market is of great importance (Manby, 2007). If a great effort is put into a new product regarding research, development and marketing, the supplier would expect the retailer to continue and build on the groundwork being done to get the new products into the market. The effort of a retailer to introduce these products successfully would generate confidence with the supplier and make him the preferred route of distribution.

In the end, one should be able to measure the effectiveness of a promotional or advertising campaign. The top five key performance indicators for measuring promotion effectiveness according to the best-in-class companies used in researched done by the Aberdeen group (2007) shows to be: gross margin (63%), merchandise turn (57%), vendor performance (52%), cannibalization (49%) and trade promotion performance (48%).

2.3.2 Process

KSF 4: Structure and Management

Passion is what keeps you trying, keeps you looking for new ways to delight the customer and to beat your competition (Hammond, 2003:2). Management needs some of this passion to drive a retail business.

Good managers lead and produce good, quality employees (Anon, 2004). Everything rises or falls on leadership (Maxwell, 1998). Managers can take a retail store to its next level or they can manage it to bankruptcy. Although in most cases in the agricultural businesses as well as the non-agricultural hardware retail environment, the network consists of a head office and branches. The branches could be managed by a manager on behalf of the head office, or it can be owner-managed via a franchise system. A branch manager is responsible for the management of a bank branch, a speciality or department store and his responsibilities would include the profits of the branch or store, the costs, stocks, security, administration, the selection, interviewing and training of staff members and staff development. The planning, organising, co-ordinating and control of the branch would be entirely in his hands, but all under guidelines from head office. In both cases the manager should take full responsibility and ownership of the management of the store. According

to Parker (2006), there can be a few elements from management's point of view that can influence the success of a retail store which could be benchmarked against the industry. These elements, are not limited to, but are mostly the following:

- Ownership
- Future Planning
- Use of Technology.

a. Ownership

As briefly mentioned, the ownership of a store plays an important role. Some ownership is at head office level where a manager is appointed to manage the store, while others are at branch level where the owner also manages the store. Table 2.4 gives the management-owner profiles which exist within the companies which form part of the study population.

Table 2.4: Management-Owner Profiles

Head Office Managed (Centralized)	Owner Managed (Franchised) (Decentralized)
Agricultural businesses	Mica Hardware
Builders Warehouse	Build-it
Cashbuild	

(Source: Agrinet, 2007)

One of the great debates about management structures, according to Kaufman (2000), has been over whether management should be highly centralized or decentralized. Both concepts have been in vogue over the years. He also stated that more recently, technology allowed for better centralized management. Decentralization is back in vogue as companies strive to generate new business and adapt to changing market conditions. Those businesses that have them are not scrapping the investment in centralized dispatch centres, but are blending more decentralized management with centralized planning. Although allowing better centralized management, technology also took managers further and further away from customers and from the field people who had to deal with a myriad of things. He further stated that rather than swinging towards either extreme, the pendulum seems to have settled somewhere in between. According to EIRMA (2001) the important drivers of the management level decision are: 1) increasing competitive pressure, 2) need to improve added value, 3) customer orientation, 4) globalization, 5) improving effectiveness and efficiency.

Some advantages of Head Office Management (Parker, 2007)

- It creates consistency through all the branches in the look and feel as well as the pricing structure.
- It is easier to negotiate deals as it can be forced down to the branches.
- It takes some costs out of the system as some activities can be centralized.
- Continuity and lifespan increase as changes to store management will not upset the normal flow of business.
- Successful head office managed retail chains normally include an outstanding training program to assist their store managers perform to the required standard.

Some advantages of owner operating managers (Parker, 2007)

- There is more flexibility and changes can be implemented much faster.
- You have immediate decision making available.
- Owners have a more practical and operational approach to pricing, merchandising etc.
- Owner-managers are closer to the business and know what really works.
- An owner-manager will undoubtedly put all his efforts into the success of the business, otherwise he himself will lose a lot of money – there is therefore more personal commitment.
- Owner operators will increase sales as much as 30% compared to store managers.

The question remains which of these two approaches are more successful? A head office management approach works in the case where it is a strong branded group where all the activities and implementation of ideas is the same at all stores and is given to the managers as in the case of a Builders Warehouse and Cashbuild. No creativity or innovation is necessary from the managers' side to make the business successful. The owner operating manager on the other hand, invested his own money in the business and will go much further in making sure of the success of his business. Losses in this approach directly affect the owner's back pocket. Although the owner operated managers option appears to be the better alternative, successes and failures are recorded under both conditions.

b. Future Planning

In most cases a business began with a vision, a capable team of supporters, good advice and of course, some capital. This was followed by an ongoing commitment to adapt and evolve with the modern world, while always upholding the ideals that made it the great business opportunity in the beginning (Boulder, 2004). If there is no vision for a business, it will surely not stand the tests of time. According to Theunissen (2007), one way of knowing if there is a healthy vision is to evaluate the historic growth in outlets and future roll-out plans of the retail business. Seeing where a retailer comes from, how many stores he has opened until now and how many he still plans to open, tells a

great deal about the retailer growth. Especially if the retailer is part of a dynamic chain or group, it must have positive roll-out plans to penetrate other and new markets. In table 2.5 the planned opening of new stores over the next few years gives us an indication of the vision and aggressive growth strategies these hardware stores, or –groups implement and can be compared to the vision and growth strategies of the agricultural retail businesses in table 2.6.

Table 2.5: Existing quantity of hardware stores in the study population

Hardware stores	Branches at present	Planned new stores
Builders Warehouse/Express	64	15
Mica Hardware	204	30
Build-it	210	55
Cashbuild	156	10

(Source: Agrinet, 2007)

Table 2.6: Existing quantity of Agricultural Retail Businesses

Agricultural retail Businesses	Branches at present	Planned new stores
Afgri	90	5
Senwes	38	2
Noordwes	19	1
Suidwes	20	0
Obaro	14	0
Limpopo Agric	21	1
OVK	41	0
VKB	14	0
TWK	19	1
Kaap Agri	31	0
Tuinroete Agri	8	1

(Source: Agrinet, 2007)

c. Use of Technology

Technology is undeniably the future of any successful business and therefore included. In every leading retailer in their respective market you will find the latest technology being implemented in ordering, stock management, receiving procedures and point-of-sales systems. According to NSW (2007), technology provides the tools for business to increase its productivity and profitability. Key applications of technology include:

- using technology to reduce wastage and resources consumption in the business process;
- through use of computers, the business's performance can be monitored to ensure changes to the process are carried out in a timely fashion;
- using the Internet to access information to ensure the most appropriate decisions are made.

Some of the advantages of information technology include (*Small Business Bible*, 2007):

Globalization - IT has not only brought the world closer together, but it has allowed the world's economy to become a single interdependent system. This means that we can not only share information quickly and efficiently, but also bring down barriers of linguistic and geographic boundaries. The world has developed into a global village due to the help of information technology allowing countries like Chile and Japan, which are not only separated by distance, but also by language, to share ideas and information with each other.

Communication - With the help of information technology, communication has also become cheaper, quicker and more efficient. We can now communicate with anyone around the globe by simply text messaging them or sending them an email for an almost instantaneous response. The internet has also opened up face to face direct communication from different parts of the world thanks to the help of video conferencing.

Cost effectiveness - Information technology has helped to computerize the business process, thus streamlining businesses to make them extremely cost effective money making machines. This in turn increases productivity which ultimately gives rise to profits that means better pay and less strenuous working conditions.

Bridging the cultural gap - Information technology has helped to bridge the cultural gap by helping people from different cultures to communicate with one another and allow for the exchange of views and ideas, thus increasing awareness and reducing prejudice.

More time - IT has made it possible for businesses to be open 24 x 7 all over the globe. This means that a business hours are not subject to local time zones which results in making purchases from different countries easier and more convenient. It also means that you can have your goods delivered right to your doorstep without having to move a single muscle.

Creation of new jobs - The best advantage of information technology is probably the creation of new and interesting jobs. Computer programmers, systems analysers, hardware and software developers and web designers are just some of the many new employment opportunities created with the help of IT.

KSF 5: Financial Performance

To succeed financially is the main object of any business and the heart of all the key success factors discussed here, in the sense that all factors are applied to improve the financial situation. In most cases the financial performance is the easiest and most obvious way to find out if a business is performing or not and how well it compares to similar retailers. The other factors are all strategy and a bit more difficult to measure, while financial information can easily be obtained and compared. If a business is in a financially healthy situation, the other success factors can only contribute to growth, but if not, these success factors can help you get there (Tratensek and Jensen, 2006:29).

Operating-, Productivity- and Profitability Profiles are the key elements of a financial profile (Tratensek and Jensen, 2006:29).

- ***Operating profile***

The difference in the size of the shop will have an effect on quantity of stock you can place in the selling area. More space means more stock, more creativity, more sales and more differentiation, but it also means a need for better management and higher rent. The size of the shop is important when it comes to per square metre figures which you benchmark, target and measure against.

- ***Productivity profile***

The target in the productivity profile is to increase sales with a bigger ratio than the increase in variable expenses. Strategic plans need to be in place to raise sales through better merchandising, sales techniques and shrinkage control which in turn will up the average transaction size.

An increase in inventory per square metre should increase sales and profit per square metre and therefore the reason for the successes of the Home Centre format stores which use shelving of up to 2 metres high, increasing their inventory per square metre and also sales per square metre.

Every business aims towards the highest gross profit, but in order to achieve this, the retail environment's most useful tool for measuring success is sales per square metres. Unless a satisfactory sales per square metre ratio is achieved, all other financial benchmark tools are meaningless (O'Rourke, 2003:1).

There can be many reasons for low sales per square metres (SPM). O'Rourke (2003) described them as follows: (Reason followed by an * means it falls under one of the other nine key success factors and will be discussed in detail).

- The retailer has too much space which results in high fixed costs like excessive rent, higher labour and flooring costs and higher insurance and theft costs.
- Poor product/merchandising mix*.
- Insufficient floor inventory (empty shelves, missing sizes)*.
- Uncompetitive pricing*.
- Poor location*.
- Poor sales and customer service personnel*.
- Non-optimal store hours.
- Poor store layout and design*.
- Insufficient / poor marketing*.
- Fixed consumer perception.

A healthy SPM will prevent you from getting burned in the retail business. See the following real case scenario in table 2.7 as an example where retailer X had an SPM of R2571 and his competitor an SPM of R3085. Retailer X filed for bankruptcy but it could have been avoided and instead of making a loss, could have made a profit of R600 million.

Table 2.7: Example of sales per square metre (SPM)

	Retailer X	If retailer X matched competitors SPM
Sales per m^2	R2 571	R3 058
Total selling area	14 million m^2	14 million m^2
Total sales	R36.2 billion	R42.8 billion
Net income (loss)	R(1.4 billion)	R600 million

The productivity of staff will influence the success of the retail business tremendously. The retail success factors given by PACE (2005) advise to rather increase employee performance than to budget for man hours. Although both methods will achieve the same payroll cost percentage, the first will achieve the same ratio but with a higher gross profit rand value.

- ***Profitability profile***

The main goal of any business is to generate a higher turnover while limiting the cost of sales for each product. This will increase the gross profit margin which will have an effect on nett profit; depending on the variable expenses linked to the business.

Where a retail outlet has more than one department, as in the case of the agricultural retail businesses, each department should be operated as its own profit centre responsible for their own

financial profiles. This makes the management, measurements and evaluations of the shop in total easier.

The most important square metres number is the gross profit rand value, not sales.

To improve your business's financial performance, you must first see how you stack up against similar retailers. The financial profiles given in table 2.8 represent the typical hardware and home improvement centre store in the USA and South Africa

Table 2.8: Financial profiles of hardware stores and Home centres 2006

	USA	USA	South Africa	South Africa
Operating profile	**Hardware Stores**	**Home Centres**	**Hardware Stores**	**Home Centres**
Average size of selling area	795m^2	1300m^2	700m^2	5000m^2
Total sales	R1 320 495	R4 361 500	R 840 682	R15 000 000
Productivity profile				
Sales per square metre	R1661	R3355	R1200	R3000
Average size of transaction	R165	R451	R90	R335

(Sources: Tratensek, D and Jensen, C., 2006; Annual Report, Statistics South Africa, Retail Trade Industry, 2005)

KSF 6: Location

In order to grow a retail business, there must be enough people around your store to support it. An article about the seven cornerstones of retail success (Anon. 2004) stated that the right population in the right location is needed to grow a customer base. In the "10 Insider's tips for retail success", Smith (2005) said that choosing a location is the most important step in making a dream of owning a retail store comes true. What good is it when you have a great staff and awesome merchandise but no one to sell it to? A location with a high traffic count should be chosen. Resources exist that can support a business in the decision on where to place a store and what the potential of that area is, based on income levels, population, age groups, cultures and competitors' locations. According to the BCC (2003), finding the right location may be retailing's Holy Grail, but the same location is not right for every retailer. Retailers focusing on convenience need to be located within easy distance from their target customers. For those aiming at customers wanting to make a specific purchase, a location which draws shoppers from a wide area and already has a good mix of shops can be more appropriate.

Some options they identified include:

- Main shopping street in a major town
- Side streets off the main shopping street
- Neighbourhood locations, e.g. village or near an industrial plant
- Shopping centre – local, regional, specialist, open or covered
- Out-of-town retail park – generally the preserve of superstores

2.3.3 People

KSF 7: The customer experience

As with any new business, the BCC (2003) believes that creating a memorable image is a vital component for success. That image, or brand, is everything the consumer associates with you – quality, style, value, fashion, prestige, innovation, care, concern..., or whatever else is important to your business.

According to Fleener (2007), any retailer who wishes to survive long-term in today's competitive arena must be able to answer the following fundamental question: What makes your store different enough for the consumer to choose to do business with you? Fleener further stated that experiences are how customers act and feel as a result of being engaged with your employees, your products and your physical store. It is to take key in-store activities like selling, merchandising and collateral and use them to better educate your customer and give them the best possible experience. Whalin (2001) stated that customers who receive great experiences are more likely to purchase, be loyal and recommend you to friends and family. Burke (2005) placed the following emphasis on creating a better customer experience: show the products and provide effective navigational aids, simplify presentation and minimise clutter, make the shopping experience enjoyable, convenient and be flexible. Customer experience is more than just customer care and the following elements, according to Fleener (2007), all contribute towards a great customer experience:

- Merchandising.
- Sales analytics.
- General appearance.
- Distinguishable stores.

a. Merchandising

Times have changed. According to Olson (2007:1) consumers will not be dictated to anymore and the smart merchants have realised it. Consumer tastes are more complex than ever before and profitable life-cycles have shortened, requiring all-time quick turnarounds. Olson states that the

"knock-off cycle" has been reduced from years to months and private lable merchandising has commoditised everything. The smart merchants have started to combine the art and science of merchandising to create a new form of merchandising using computer software programs as a resource and support system.

In Olson's 2007 benchmark report about customer-centric merchandising (2007) he reported that more successful retailers utilise advanced integrated packaged software solutions, than the rest by more than a three-to-one margin. Whalin (2001) stated that retailers know that to stand out, they must offer unique merchandise, provide their customers with an environment that is interesting and exciting and always deliver a shopping experience that is pleasant and memorable. He states that a constant changing mix of unique and interesting merchandise should be displayed in creative ways. Using merchandising "hot spots" where traffic flow is concentrated will increase the product consciousness and impulse buy possibilities. When you add terrific presentation and friendly people, you'll get a result that brings loyalty and growth. He says that winning retailers proactively look to meet and beat consumers' expectations, and are concerned with the ability to anticipate customer preferences in their merchandising practices.

Olson (2007) reports an incredible 46% of respondents in the non-winning category indicated that a change in customer preferences had no influence on their merchandising process while 81% of the winners category said that it did had a great influence on their process. Of the successful retailers, 63% believe merchandise management systems to be very valuable compared to 46% of the lesser successful retailers.

b. Sales Analytics

The role of the retail industry is to present the right product to the right consumer, at the right place, at the right time and in the right way to stimulate purchases. The role of the information industry is to provide the right information to the right people, at the right place, at the right time and in the right way to stimulate informed and profitable decisions (Business Objects, 2007). Competitive advantage in retail through analytics, develops insights and creates value. The use of point-of-sale data can assist retailers to better understand customers' shopping habits. Analysing these habits will result in more focused marketing and merchandising efforts. Product sales analyses, most commonly used by retailers, enable the continuous monitoring of point-of-sale data to uncover sales trends, investigate product demand and optimise merchandising strategies (Microstrategy, 2007). Various levels of analyses, from summary reporting to statistical trending, are required by executives, store managers, product managers, marketing analysts, as well as external suppliers who provide materials or finished goods. Business intelligence makes sense of the growing volume of transactional data by identifying trends and opportunities that create competitive advantage for companies that know and understand their sales drivers. Table 2.9 shows the basic reporting and analysis areas which technology makes available.

Table 2.9: Product sales reporting and analysis areas

Product Sales Reporting & Analysis Areas	
Category performance Analysis/Category Management	Fraud Analysis & Loss Prevention
Inventory Analysis	Product Scorecards
Merchandising Analysis	Discounts and Promotions Analysis

(Source: Microstrategy, 2007)

Through point-of-sale data, retailers can better understand their customers, for example, the analysing of the typical market basket. The GartnerG2 Report (2004) identifies the most common uses for market basket analysis as follows:

- **Segmenting customers**

When studying market baskets, one will usually find basket compositions that are more common than others. An example of one such common basket could consist of items found mostly in the paint/hardware/ladder categories. Insight in purchasing patterns could be reached by analysing the frequency and magnitude of spending generated by each basket type. Through this, one can identify the store as a destination store, a one-stop shop, a specialist shop or whatever patterns start to occur over time.

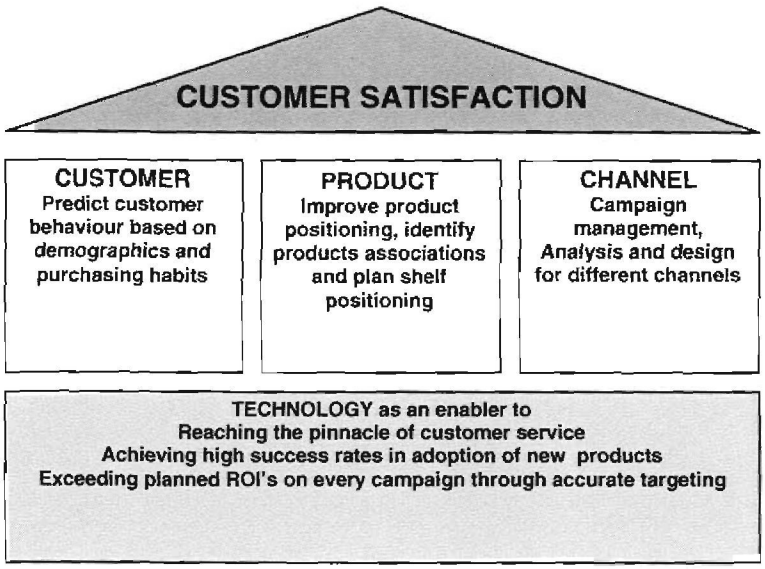
- **Identifying item relationship**

Basket analysis can be helpful in identifying which items are purchased together. This in turn is helpful with promotional planning and whether a customer shops in multiple departments or not. By knowing which items are purchased together, an item can be promoted which in return influences the purchase of related items.

Assessing "cherry picking" and "pantry loading".
"Cherry picking" is the tendency to buy only products on promotion. "Pantry loading" is where customers stock up on promoted items and buy less in future trips. Loyalty cards can be used in conjunction with the point-of-sale data to measure the effect of these to shopping patterns more accurately.

According to Das and Vidyashankar (2006), customer satisfaction is not a logical conclusion of management of the selling process any more; it requires in-depth understanding of customers and products which can be achieved by implementing technology as depicted in figure 2.4.

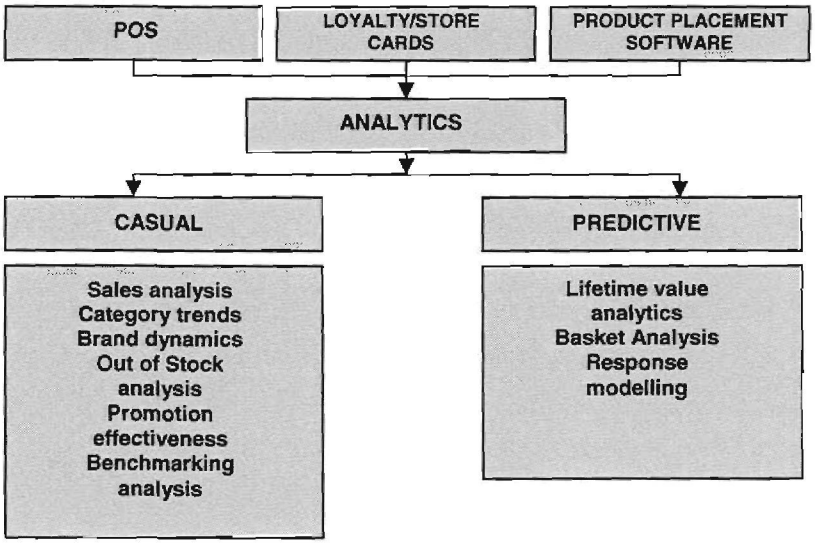
Figure 2.4: Customer satisfaction



(Source: Das and Vidyashankar 2006)

Technology acts as an enabler to provide insights into customer behaviour, product interrelationships and successful promotion types for all the different channels. As data from point-of-sale, credit cards, loyalty cards and store cards are synchronized and mapped along data from other sources, analyses of this integrated data has the power to impact a retailer's bottom line positively whether it is to use as a benchmark tool or as a future prediction tool. Figure 2.5 depicting the power of analytics, explains how the different analysis tools help with different outcomes.

Figure 2.5: Power of analytics



(Source: Das, K and Vidyashankar, D.S., 2006)

c. General appearance

The store appearance influences the experience of the customer even before entering the store. The seven cornerstones of retail success (Anon. 2004) also state that a store with dirty or empty windows will not invite a customer in. The first merchandise seen by the customer should be exciting and attractive and when you get the customer in the store, you dazzle him with an easy layout where they have enough space to walk through the aisles, ample lighting and neat and clean shelves.

d. Distinguishable stores

To be better, you must be different. Fleener (2007) stated that it does not necessarily mean that you have to offer something totally unique, rather that you have to do something to set you apart from your competition and also that you do a better job than them. If you do not add value to you customer, they are simply going to buy on price. Fleener gives the following suggestions to differentiate through experience:

- Educate your customer – Help them obtain information necessary to make an intelligent purchase.
- Focus on benefits – Translate what you sell as benefits for customers rather than focusing on price.
- Be inviting – Make sure customers are welcomed to the store.
- Be a great place to work – Happy employees make happy customers.
- Be a fun place to visit – Entertain customers.
- Keep the focus on the customer – Well-kept stores and replenishment of inventory are not as important as focusing on a customer when entering a store.
- Invest in your people – Find great people and keep them. Invest in training and development.
- Have a retail floor strategy – Define desired outcomes and create tools for employees to engage the customer.

KSF 8: The employee experience

Companies with employees who understand the mission and goals enjoy a 29 percent greater return than other firms (Heathfield, 2007).

- ***Training***

Good management will ensure that well-trained and skilled people are part of their success formula, especially in businesses where management is done through head office must ensure that their staff and store personnel are well trained and capable. The more training, the better the

performance will be to achieve the set standards of the business. Training should be an important part of the business whether it is a head office managed or owner operator managing the store.

- ***Staff motivation***

Much has been said about the different ways of staff motivation with the most common one being incentives. Incentives can also take on different forms but again the most common way is a commission structure where sales people get commission as a percentage of the sales they generate. According to Whalin (2001), most retail businesses have some sort of incentive scheme as part of their sales motivation strategy. Therefore, regardless of which incentive program is implemented, the majority do use them and "if" or "if not" implemented, can be seen as a benchmark against the industry.

KSF 9: Customer Service

Customer service can be seen as the basics of successful retailing. Because of so many elements in the field of technology, customer service in itself evolved into customer experience where the service part is but one factor in the experience realm. By simply thinking back to one's most recent shopping experience, one realises that although customer service is the first answer everybody will give when asked what the top differentiator in retail is, it is the last thing to be implemented and monitored.
Key aspects of good service include (Whalin: 2001):

- ***Product availability***

As a customer one would shop at a store where you know the needed products are in stock. Again market basket analysis plays a role in that one can tailor the store according to the customers who are most likely to visit it.

- ***Easy-to-find products***

Well merchandised and customer friendly merchandised products will increase the ease of shopping and of finding specific products.

- ***Shorter queuing times***

We live in a world of fast food, instant coffee and quicker service. A differentiator of a retail outlet could be the ability of the store to shorten waiting time through better and faster point-of-sale systems, improvement in queuing formats and minimising delays.

- ***Skilled staff and product champions***

Another way of distinguishing a store is with knowledgeable, friendly staff who genuinely cares about servicing customers. Although this message has been spoken about for ages, it still is being ignored by a great many retailers. Fleener (2007) stated that the way to differentiation is through experience. Retailers who are leaders in customer experience are also the leaders in employee experience most of the time. The tell-tale sign is a company's employee turnaround rate and how it compares with the industry average.

2.4 CONCLUSION

It is of utmost importance to all retail businesses to benchmark the performance of the store, or group, or company against the standards in the market place. To know about the standards is one thing but not to use it as a business tool will be a sign of ignorance and soon to be failure. These standards are set as key success factors commonly used throughout the retail industry and indicate whether a retail business is on the right track or not. Nine success factors are mentioned in this document which is common to the hardware industry as well as the agricultural retail businesses in South Africa.

Firstly the right product must be supplied to the customers who have the need for the products in the quantity needed. Not having a satisfactory range of products and decent availability levels will drive customers away. Apart from just having the products, an effort should be made to assure the presentation of the right quality product for the specific market that you're operating in.

Secondly, pricing and the management thereof should be market related and profit driven. This means competitive pricing, but with a sense of category management whereby losses on one product can be played off against good margins of another. To strive towards always being the lowest on price are almost impossible and only achievable by Home Depot type of stores where they have the buying power. The challenge is to create the perception of being a low price store by managing categories and known value items.

Promotions and the implementation thereof are the third success factor. There are many different types of implementation of promotions, but again the challenge is finding the correct combination of the different types of promotions without getting stuck on one type or no type at all. Promotions should be measured to evaluate the success of each type.

Fourthly, structure and management also play an important role. There are certain advantages and disadvantages of head office management strategies and the same for owner-operated strategies. The one most suited to your business should be found and stuck to. The research indicated that on the whole only franchises are owner-operated, whereas the groups are head office managed. The

success and vision of management will flow through to their future roll-out plans for new stores and market growth.

Financial performance, the fifth success factor, is probably the most commonly used benchmark tool for all businesses and the most driven figure should be the sales per square metre. The more sales per square metre, the better the sales, the faster the stock turnover and ultimately better profits should be generated.

Location is the sixth success factor. The best suited locality will be the one with the best visibility, highest traffic flow and the easiest accessible.

The seventh success factor is customer experience. The ability of a store and its staff to create an attractive shopping environment and atmosphere through good merchandising, proper sales analytics and an acceptable general appearance will distinguish the store from its competitors. Good employee experiences will help create good customer experiences and eventually good customer service. Motivated staff will walk the extra mile to be successful for themselves as well as be willing to play a part in the success of the business.

Lastly customer service is probably the most sought after success factor that possibly plays the biggest role in the customer's mindset but are rarely achieved. Product availability, the ease of finding products, waiting times and well trained staff are the highlights of every customer service training session, but for some or other reason the most difficult to implement. Maybe it is because of the personal touch, or lack thereof needed to make it work, while the other success factors do not rely on emotions and continued efforts.

The final conclusion will be in the words of Doug Fleener (2007) who harshly stated that the marketplace is more competitive than ever before with national chains and big box retailers dominating the marketplace and predictions of even tougher competitive conditions ahead. Central to these changes will be the mid-size chains, small stores and any retailer who cannot be a market leader in their primary position. This change may not mean that these retailers will not exist in the future, but if they do exist, they will be faced with no, or reduced growth, small margins and limited profitability.

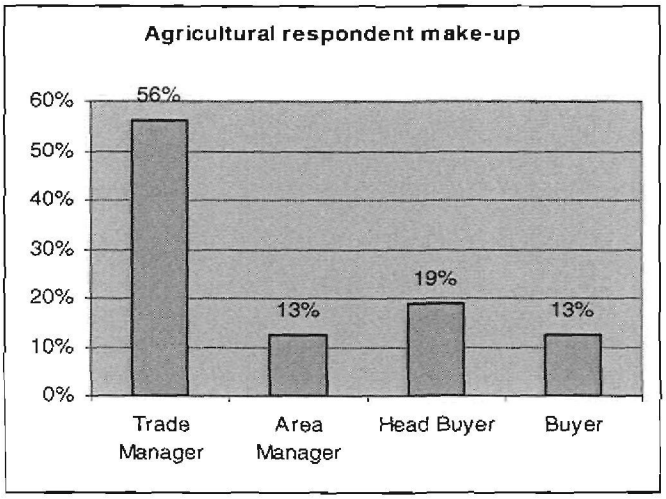
CHAPTER 3: RESULTS

3.1 INTRODUCTION

Benchmarks and industry standards for agricultural retail groups were researched. These are listed and discussed in chapter 2. The data for the study were collected with the aid of two questionnaires; Coming from the assumption that the hardware stores are a threat to the agricultural businesses, they are used as the benchmark and their responses to the first questionnaire was measured against the responses of the agricultural businesses; The second questionnaire was aimed at suppliers who supply both the hardware industry as well as the agricultural retail industry, to find out which of the two distribution channels they prefer to use in getting their products to the consumer. Only suppliers that supply on a national basis were considered for this questionnaire. The questionnaires were sent and responses received by e-mail.

The first questionnaire was sent to 34 agricultural retail groups representing over 400 retail outlets. Responses were received from 56% of the total agricultural hardware retail industry as listed in table 1.1. Of these respondents, 25% are still operating as co-operatives, 50% are privately owned and 64% are publicly owned companies. The worst response was received from co-operative registered agricultural businesses. For this reason comparisons were only made between the agricultural businesses in total against the hardware businesses. These agricultural businesses represent 348 stores which can be compared against the 471 stores represented by the responses from the hardware dealers. From the four hardware groups operating in South Africa and included in this study, 67% of their responses came from their area managers and 33% from head office buyers. No response was received from Cashbuild. The percentage responses received from various staff components in the agricultural businesses are set out in Figure 3.1.

Figure 3.1: Respondents of the agricultural businesses



The following terminology and abbreviations will be used in this chapter.

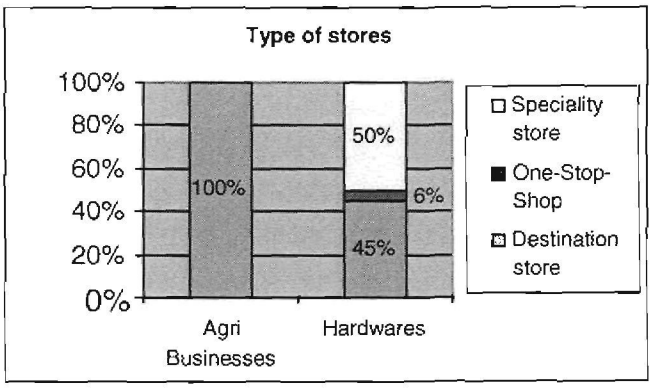
- Agri / Agricultural Businesses - The combination of co-operatives and agricultural companies
- Hardwares - Builders Warehouse, Cashbuild, Mica and Build-it

3.2 RESULTS FROM THE AGRICULTURAL AND HARDWARE RETAIL INDUSTRIES

- **General information**

Figure 3.2 gives a summary of they way in which the two groups of respondents regard their stores.

Figure 3.2: Different types of stores



In the hardware spectrum, Mica, Build-it and Cashbuild described their outlets as a destination while Builders Warehouses' - all under one roof strategy - put them in a bit of a different class than

a one-stop destination. The agricultural retailers also qualify themselves as being destination stores, but then also attempt to provide everything that is hardware related, DIY related and agricultural related under one roof. Although having the space more often than not to do that, in the remote rural areas where they are also represented, they do not have the number of customers to justify a one-stop-shop. Agricultural retail businesses like Afgri Ltd. is developing a concept for the metropolitan areas called the "FarmCity" where they plan to become a destination store which will provide customer experiences rather than the one-stop-shop option.

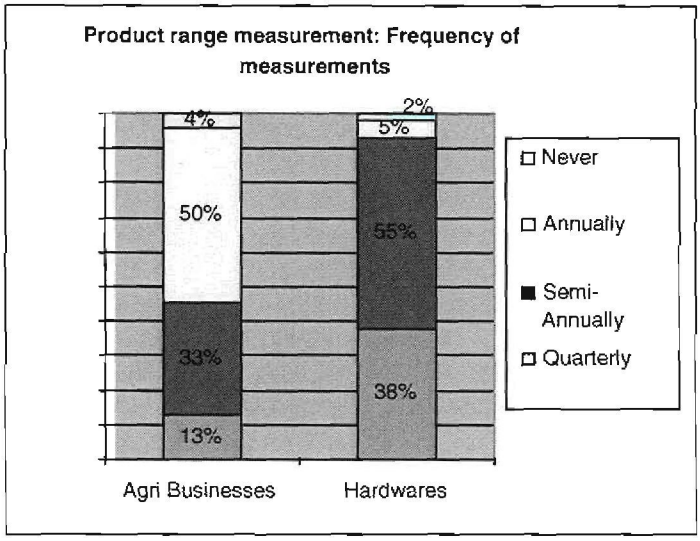
The following results were obtained by comparing the key success factors identified in chapter 2 to the results of the questionnaires.

KSF 1: Product

The hardwares as well as the agricultural businesses seemed confident that the product and product ranges they supply are measuring up to the needs of their customers. Among the agricultural businesses though, the confidence level is a bit lower with 67% of them feeling that they are meeting their customers' needs product wise, compared to 75% of the hardwares. Under this success factor it must be kept in mind how the suppliers responded to the question on which distribution channel they prefer. This will reveal their confidence in these two supply chains and will confirm whether these figures are correct.

In figure 3.3 a comparison between the frequency of measuring the success of a product or product ranges, shows large differences between the agricultural businesses and the hardwares. Less than half the agricultural businesses revisit their product ranges on a quarterly basis, while over 90% of the hardwares do so. Such revisits ensure the correct products and correct quality products on the shelves. This means that the hardwares can be more confident that they are supplying the correct products to their customers.

Figure 3.3: Frequency of product range measurements

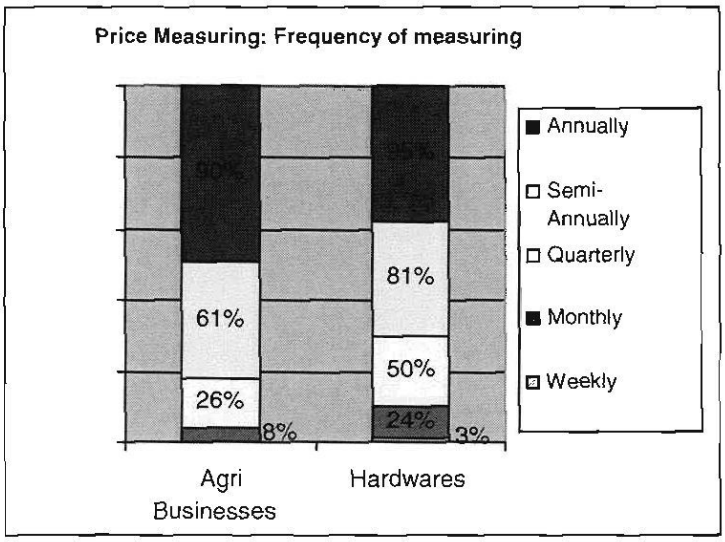


As the theory states, the right products needs to be supplied to the right market. With the few times the agri businesses do measure their product effectiveness, they can not assume that they will stay competitive in that the products they sell currently might be outdated already.

KSF 2: Pricing

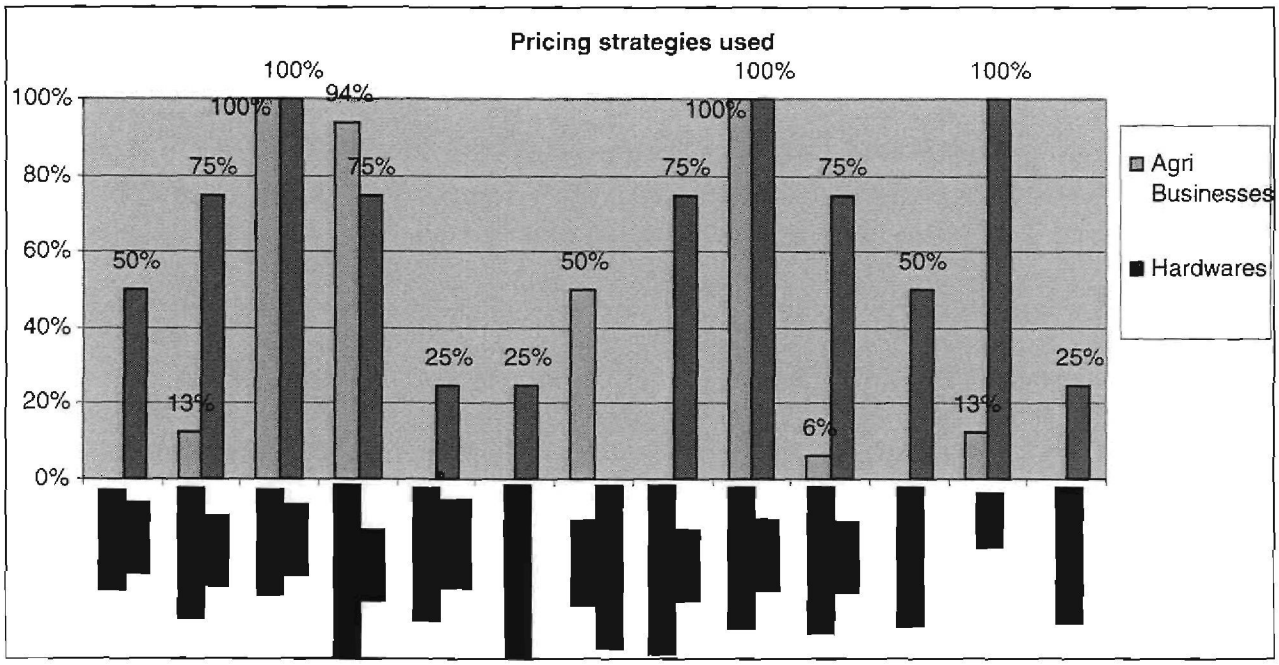
Both agricultural businesses and hardwares use pricing as a competitive tool, but the question needs to be raised on what level this strategy is used and managed. The agricultural businesses do measure pricing, but as indicated in figure 3.4, compared to the hardwares, only 26% of them apply this technique on a quarterly basis, while 50% of the hardwares do. Not measuring their pricing strategies frequently, can put the agricultural business behind in the race for competitiveness as they will not know how competitive their prices are.

Figure 3.4: Frequency of price measuring



Out of the 13 price strategies researched in chapter 2 under KSF 2-Pricing, only 7 are utilised by agricultural businesses and 12 by hardwares. Again assuming that the hardwares are winning ground, figure 3.5 shows that the agricultural businesses need to put in more effort and creativeness into their pricing strategies. Using less price strategies than your competitor does not necessarily mean that you have a competitive disadvantage, but with the lack of price measuring combined with the lack of differentiation in price strategies, one can assume a disadvantage. It seems like the agricultural businesses are more afraid of out pricing their products than really driving different pricing strategies. The fact that they do not utilise premium-, optional-, product bundling-, value pricing and only a few KVI strategies confirms this. This might be because of a lack of price management or know-how. Another strategy which the hardwares use much more often than the agricultural businesses is the penetration pricing strategy. This might also be because of poor management, bad planning or not enough product and price research.

Figure 3.5: Pricing strategies used



Still part of the management function will be the control of pricing, especially on the fast moving products. These products are the drivers of a business and most of the time they also fall into the category of known value items which requires on-hand frequent management. Figure 3.5 shows that at least 50% of hardwares check 10% their fast moving products on a weekly basis, while 75% check at least 25% of their top products' prices monthly. They also manage to check each product at least once a year. Comparing the agricultural businesses to this, where 50% of the hardwares check at least their top 10% products a month, not even 50% of the agricultural businesses check any prices at all on a monthly basis.

Figure 3.5a: Frequency of price monitoring of the top 10% of the products

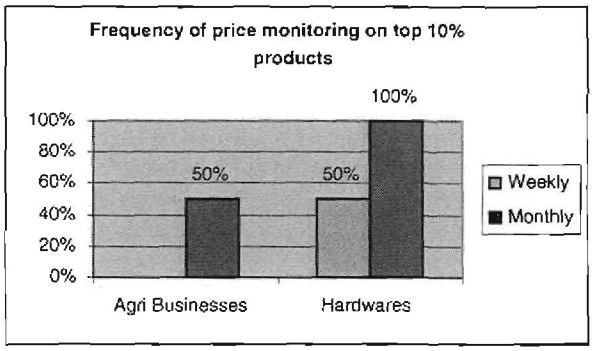


Figure 3.5b: Frequency of price measuring of the top 25% of the products

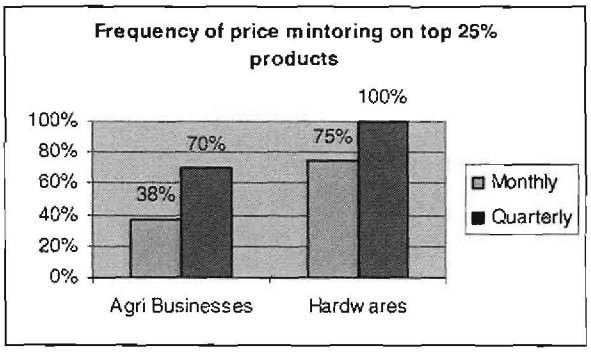


Figure 3.5c: Frequency of price measuring on the top 50% of the products

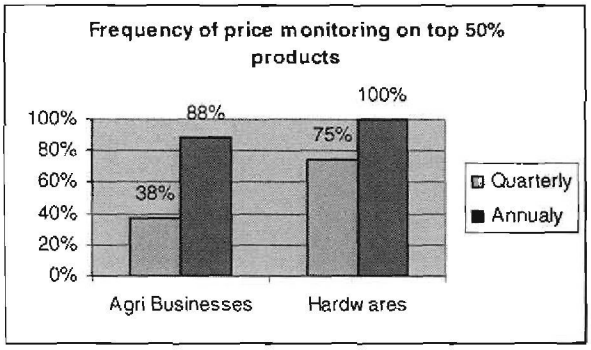
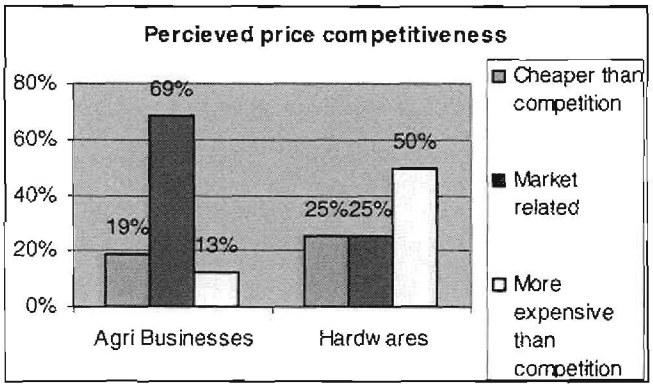


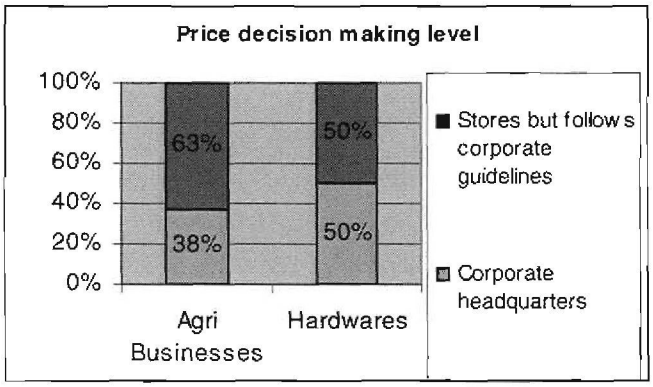
Figure 3.6 gives a summary of the perceived price competitiveness of agricultural businesses versus hardwares. Keeping in mind the results from the previous pricing figures, figure 3.6 is quite interesting. Although previous figures have already established that the agricultural businesses' pricing strategies lack some management, most of them still perceive their pricing strategy as market related. There is nothing wrong with a market related price strategy, but then you need to be absolutely sure that you are market related and not just think that you are. Agricultural businesses are content with their situation and this might come from past co-operative situation where the member or shareholder had the right to a price advantage. Comparing this to the better controlled hardwares proves the point of lack of price management in the agricultural businesses. Half of the hardwares perceive their prices to be more expensive than those of the competitors and while knowing this, whether they do this on purpose or not, they are seen as the danger to the agricultural businesses. This clearly indicates that the hardwares know what their strategies are, they drive it and they are successful. They do not even care that they are not the cheapest around; they simply focus on the different pricing strategies to create a perception to the public that they are price competitive.

Figure 3.6: Perceived price competitiveness



Agricultural businesses place great focus on head office guidelines within which the stores can operate. The only reason why this might differ from the hardwares is that two out of four hardwares under discussion are franchises and therefore owner operated. As far as price decision-making levels are concerned, figure 3.7 show that there is not much difference between the agricultural businesses and the hardware stores in that both implement a combination of head office and store pricing decision levels. Builders Warehouse is the only one that differs in the sense that most pricing decisions are made at head office level and the stores need to comply with those decisions.

Figure 3.7: Price decision-making level



If the current price strategy works for the agri businesses, it's fine but when they perceive themselves as being the cheapest or market related, they should at least evaluate their strategies more often as the theory indicates that the ones doing this will stay more competitive. It also doesn't help being the cheapest but nobody knows about it which brings us to promotions.

KSF 3: Promotions

It is of no use to do a promotion without measuring the effectiveness thereof. It provides an indication of whether the same promotion should be used again and if the return on the promotional investment is satisfying. Again the agricultural businesses trail the hardwares and in figure 3.8 it shows that none of them measure weekly promotional effectiveness compared to 20% of hardwares that do. Only 8% of them are measuring promotional effectiveness on a monthly basis compared to 65% of hardwares, while 51% of them measure it quarterly compared to 100% of the hardwares. The frequency of advertising and promotions plays an important part in the awareness and perception forming campaigns which are carried out exceptionally well by the hardwares. In figure 3.9 it shows that at least 75% of the hardware role players are doing some sort of promotion or advertising once a month while only 1% of the agricultural businesses have a monthly advertising strategy. A problem reveals itself in that 40% of the agricultural businesses do not even do a promotion once in a four month period and 10% of them doing none at all.

Figure 3.8: Frequency of promotional effectiveness measurements

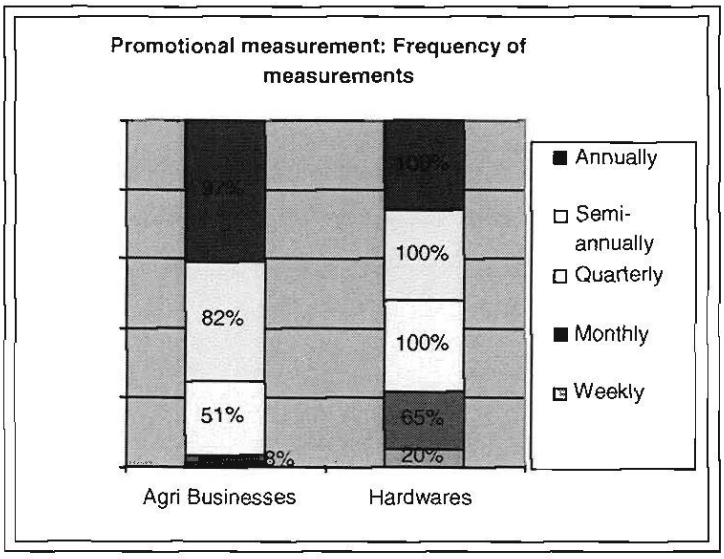
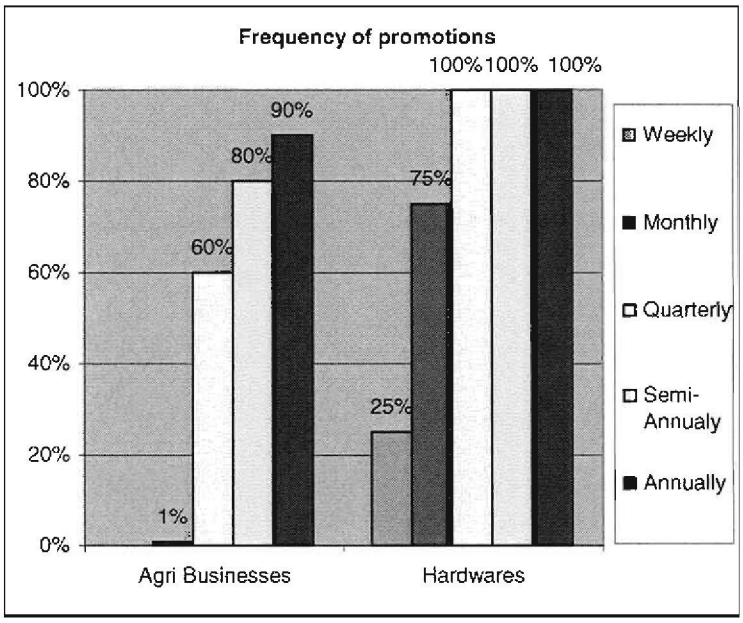
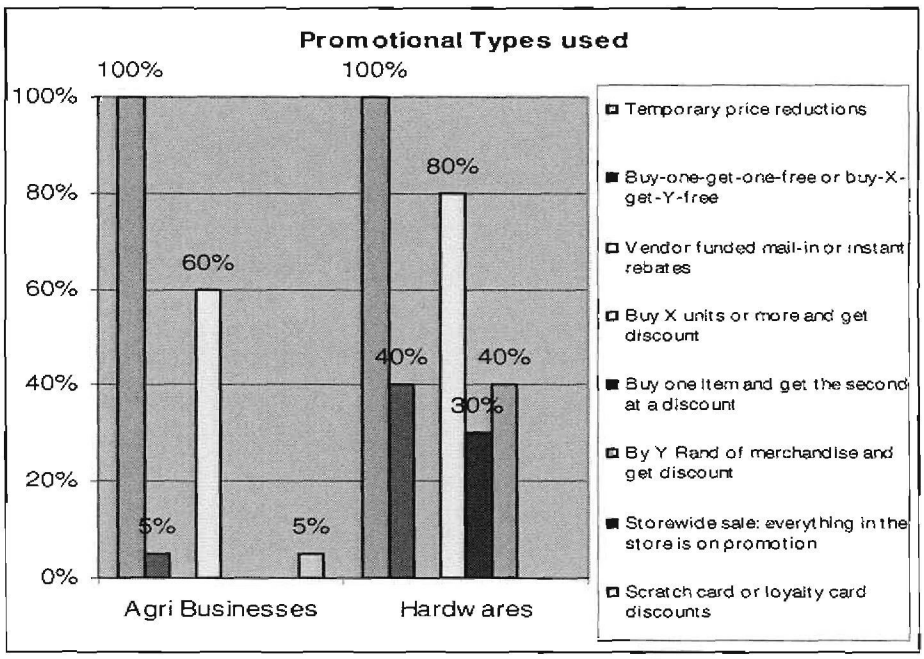


Figure 3.9: Frequency of promotional programs



In the promotional types used, the agricultural businesses again lack some initiative as only 4 of the 8 different types of promotions are used compared to the 5 out of 8 by the hardwares. Using fewer types of promotion does not necessarily give you a disadvantage in your competitive strategies. A certain method might found to be very successful and the need to change therefore unnecessary. The other elements of promotional strategies also need to be looked at to find out whether the promotional type being used is successful, or whether it is again a lack of good management, abilities and innovation. However, looking at the lack of measuring of effectiveness and infrequent promotional efforts of the agricultural businesses, one tends to go for the latter option. Agricultural businesses do not change the type of promotion on a regular basis and they rely on mostly the discounting options to do promotions year in and year out. The hardwares on the other hand are differentiating considerably between the different types of promotions, even running different types of promotions parallel with one another.

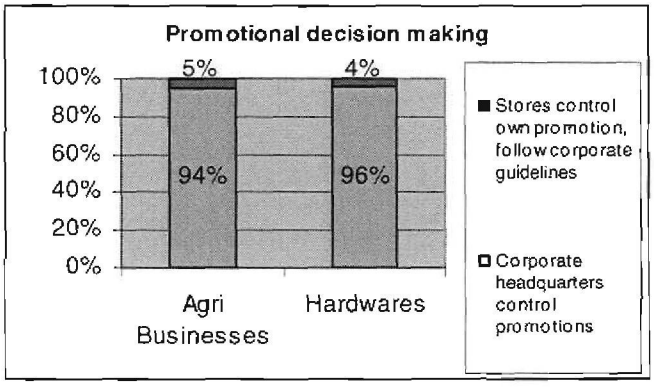
Figure 3.10: Promotional types used



Agricultural businesses should explore the possibilities of buy-one-get-one-free and buy Y rand and get discount options as these strategies seem to be quite successful in hardwares.

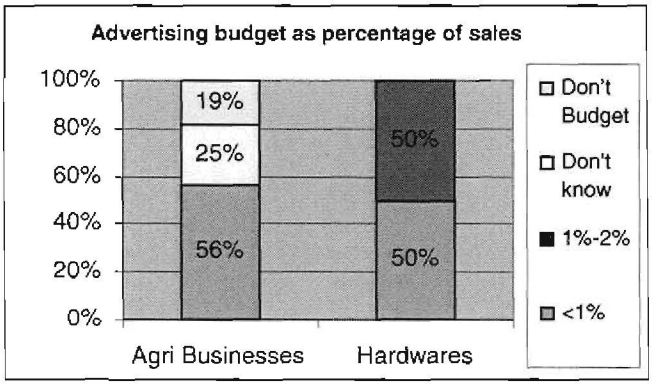
In all instances, the headquarters of the different businesses, whether agricultural or hardware, control the main promotions as indicated in figure 3.11. All of them are allowed to do additional individual store promotions but have to adhere to approval of headquarters. The promotional decision making of agricultural businesses therefore looks on par with the hardwares.

Figure 3.11: Promotional decision making level



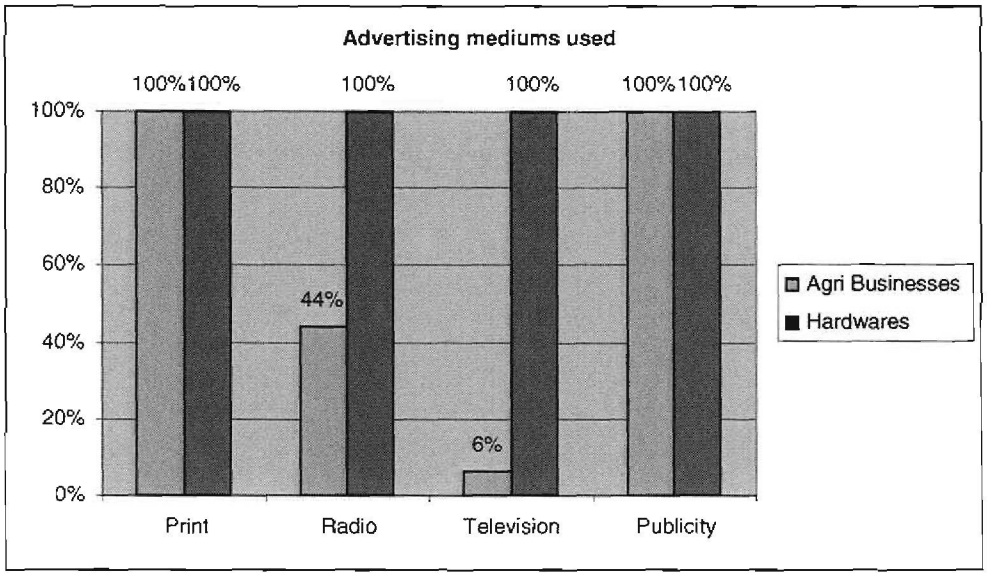
As have already been mentioned, the industry norm for advertising expense should be around 1.5% of turnover. Among the agricultural businesses, the average budget for advertising is less than 0.5% with 25% of them not knowing what it is, while 19% do not budget at all. The hardwares, as indicated in figure 3.12, spend around 1% of their turnover on advertising and promotions, which is also below the standard. This figure is different from the 0.6% figure derived from literature research on advertising expenses for the hardware industry, which might be skew as this study only includes 4 groups in the hardware industry and no independent hardware stores.

Figure 3.12: Advertising budgets



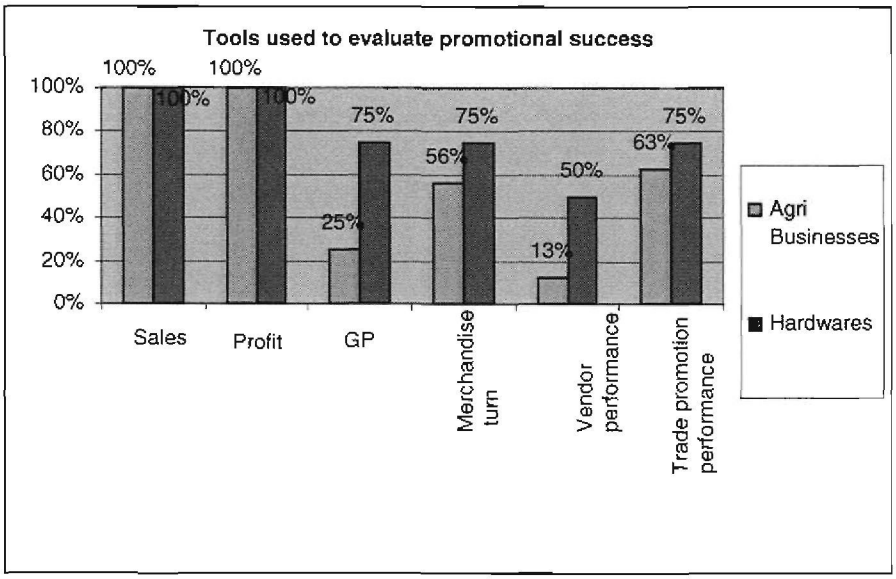
Not budgeting enough for advertising and promotions will obviously limit the mediums which can be used for advertising. Figure 3.13 clearly shows the result of the gap between the agricultural businesses and the hardwares regarding their advertising expenses. Because the hardwares budget more, they are able to make effective use of all the mediums, while the agricultural businesses lack opportunities, especially in utilising radio as a medium. Using television as a medium to advertise is understandably not in the interest of the agricultural businesses because of them not being national, although their customers do watch television, but surely some local radio stations can be utilised. The use of a specific medium does not make a business more competitive, but all the promotional elements should be looked at as a whole.

Figure 3.13: Advertising mediums used



As far as the measuring and evaluating of a promotion's success are concerned, all the businesses use the amount the merchandise has turned as a measurement. The hardwares use gross profit margins as a second measurement tool whereas the agricultural businesses use sales as their second measuring tool. The measuring in itself does not give you the competitive edge, but using the right tools for measuring does help with decision making and that will lead towards the competitive edge. Using sales as one of the top two measuring tools is great but very dangerous if gross profit is not the other tool. Sales look good in the books but you can sell at small margins, at cost or even below cost which will lead to liquidity problems if this is unplanned. As discussed in chapter 2 under KSF 4- Financial performance, gross profit will help the store maintain good cash flow, and also help with the management of buying patterns, quantities and discount levels and should be used as the preferred measuring tool.

Figure 3.14: Promotional measuring tools



Promotions as a key success factor might be the worst implemented factor by the agricultural businesses and therefore the best opportunity for rectifications. If nothing is done to increase competitiveness in these areas, the agricultural retail businesses might be in trouble.

KSF 4: Financial performance

Table 3.1: Financial information

	Agri Businesses	Hardwares
Average size of selling area	750	800
Total sales average	712 500	960 000
Sales/m^2	950	1200
Inventory turn	3.4	5.75
GP	18%	24%

Table 3.1 compares the three most effective tools to measure financial performance, namely, sales per square metre, inventory turn and gross profit margins. Looking at sales per square metre, the agricultural businesses lag behind the hardware benchmark of R1200/m^2. Walking through some of the agricultural retail businesses one does get a feeling that there are many unused spaces above shelves where no sales are generated. The shelves that are there are not always merchandised to maximum capacity which in turn links to the use, or rather lack of use, of merchandising software packages. To create greater sales per square meter figures, higher shelving systems have been installed in Cashbuild and Builders Warehouse, while most agricultural businesses are more afraid of theft and use 1.5m high shelves so that they can have a

clear view over the top of the shelves around the store. The increase in sales per square meter of floor area compared to shrinkage when using higher shelves might be an interesting topic for future research.

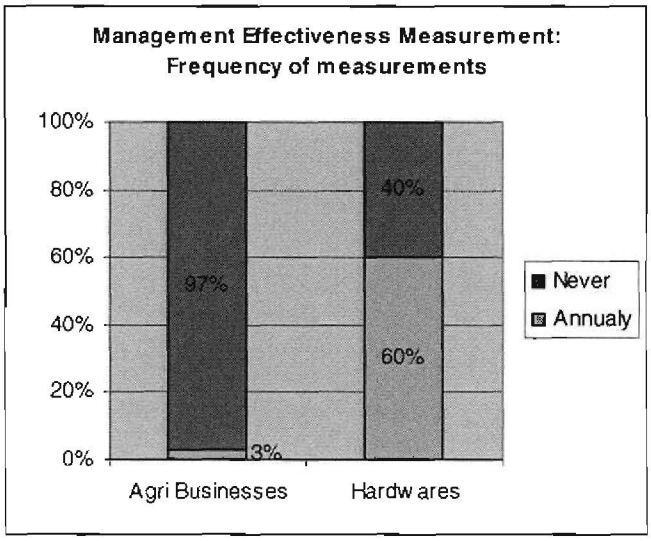
Inventory turn is slower on average in the agricultural businesses. Reasons for this can be anything from ineffective promotions, wrong pricing, bad category management or recruitment, etc. One needs to get this figure as high as possible through the correct application of the above mentioned factors.

Better gross profit margins should become a driving force among agricultural businesses. During the discussion on price strategies it was clear that the agricultural businesses focus on low pricing, while hardwares focus more on management and therefore generate higher gross profits than the agricultural businesses. Some of these agricultural stores even run on gross profit margins as low as 11%. A target benchmark should rather be around 25%. Low gross profits in itself will not make a business less competitive, but there will be less money available for improvements, revamps and upgrades which might influence the customers' preferred choice of retail outlet in terms of experience.

KSF 5: Structure and management

Evaluation of management in hardware and agricultural businesses should happen on two levels. The first is more difficult and includes the evaluation of head office management and structures including, sales managers, buyers, area managers and trade managers. As most of the pricing, product and management decisions are made at this level, their skill levels should be on par with the industry's standards. A failure at this level will have disastrous effects. The second level is the evaluation of store and branch managers. Build-it and Mica are franchises and therefore owner operated. The rest, including the agricultural businesses, have branch managers. The danger of having a strong head office structure is that a branch manager is able to hide his incompetence which makes effective branch manager evaluations even more important. These evaluations should be done frequently to keep the business healthy. To never do management evaluation might be a misrepresentation and this should rather be seen as evaluation done in longer than one year periods. Not doing manager evaluation at least once a year might on the other hand be just as good as never doing it. Figure 3.15 reveals that only 3% of agricultural businesses do evaluations on a yearly basis in contrast to 60% of hardwares, again the franchise factor must be kept in mind. The question might be asked whether there is so much confidence in the agricultural retail store managers that they do not need to be evaluated. This will be reflected in the branch performance and using the information gathered so far, it is not the case. The problem might lie with the first level of management namely, the head office.

Figure 3.15: Frequency of management evaluations



Whereas Mica and Build-it are franchises and therefore managed by the owners, Builders Warehouse and Cashbuild are strictly head office operated. The agricultural businesses are almost all head office managed with respect to buying, negotiations and debtors as shown in figure 3.16, while in hardwares there is more of a co-managed structure in place. In figure 3.17 it shows that 75% of the hardwares have some form of incentive scheme for managers which results in them taking ownership of their stores. The franchises (Mica and Build-it) are owner operated, while only 30% of the agricultural businesses have an incentive scheme in place for their branch managers to motivate them to perform and develop a kind of store ownership. Research has established that incentives and ownership definitely contribute towards the effectiveness of a store and will therefore also contribute to the competitiveness of the store.

Figure 3.16: Management levels

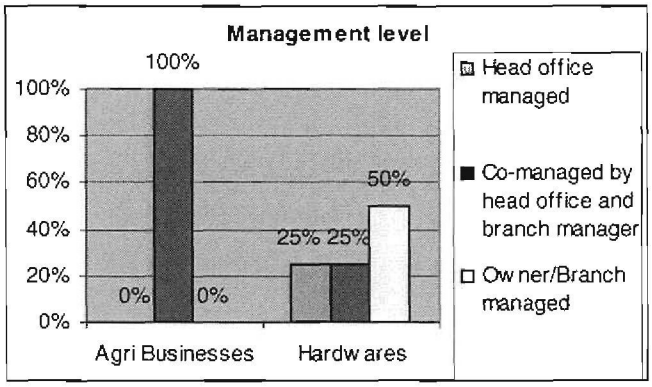
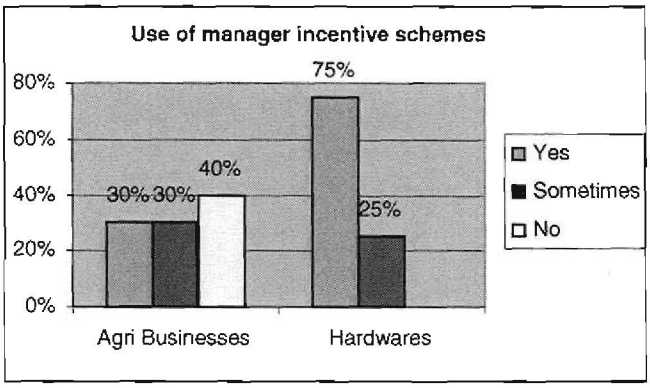


Figure 3.17: Use of manager incentive schemes



It is necessary to have updated in-time IT systems available to assure good and effective management. It is therefore of great importance to keep up with technology and IT systems to contribute towards management and decision making processes. To stay competitive, managers need up to date and as far as possible real-time information to base management decisions on. Without this type of information, it is impossible to make the best possible decisions for the business and it will therefore start lagging behind those who do use up-to-date information and have the opportunities to make informed decisions. Updating the IT systems are directly related to better management as discussed in chapter 2 and also shows the seriousness management places on staying competitive. In chapter two it shows that the heart of any business today is the effectiveness of the support systems available which can give a competitive advantage if used to its ful potential. From figure 3.18 it is clear that not much importance is placed on up-to-date IT systems that support retail by agricultural businesses, where more than 50% of them have not received an update in the last 5 years, while all of the hardwares have. The implications are quite clear.

Figure 3.18: Update of IT systems

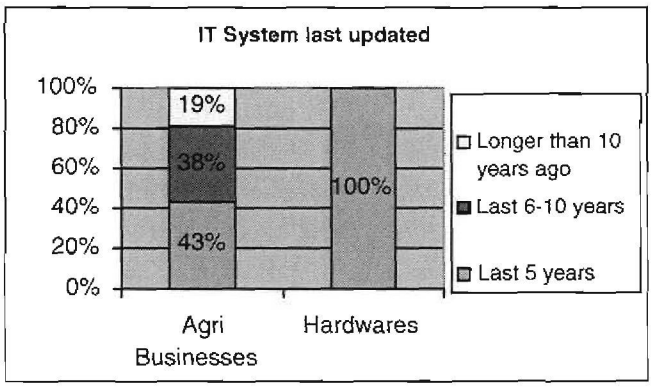


Table 3.2 compares the opening and roll-out plans of the agricultural businesses with those of the hardwares. If opening and roll-out plans of new stores are an indication of success, then the

agricultural retail businesses look like a sector heading for extinction. Opening of new stores does necessarily mean that you are not competitive, however. It can simply mean that you are content with market share and not afraid of any new entries into the market that can be a threat to your market share. The regional boundaries which the agricultural businesses traditionally used to have might be another reason for not opening new stores. Both of these reasons have become irrelevant because if the agricultural businesses were content with their market share, a study like this would not have been necessary, while regional boundaries are also something of the past. Opening new stores is indicative of aggressive competitive intentions on the side of the hardwares, something which is almost non-existing in agricultural businesses.

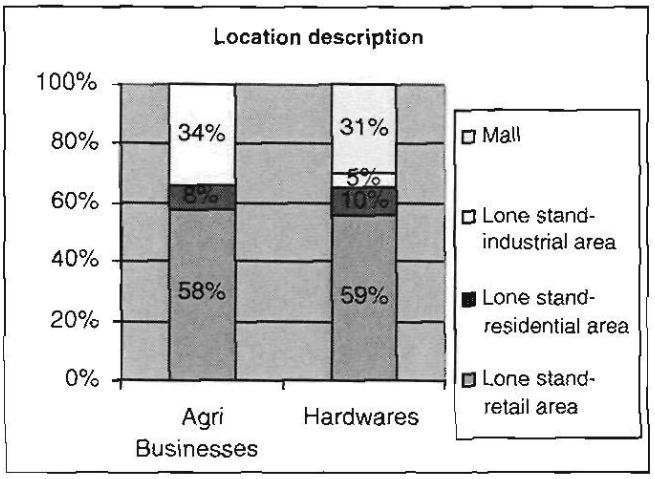
Table 3.2: Roll-out plans for new stores

	Agri businesses	Hardwares
Stores opened in the last 5 years	2	180
Stores planned for the next 5 years	5	240

KSF 6: Location

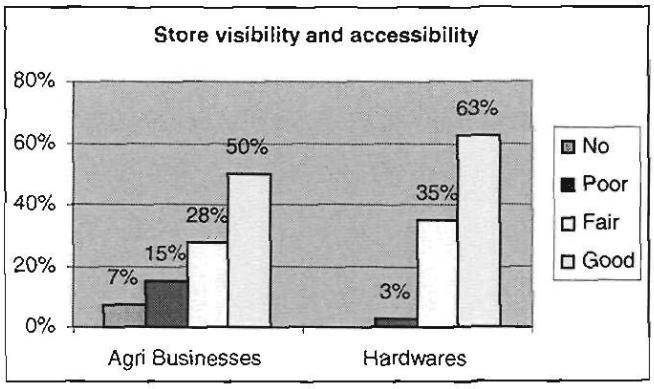
The agricultural businesses have a problem in that most of their buildings are old and they have been established between 15 and 50 years ago focusing on the agricultural markets. They are therefore not in the best locations as indicated in figure 3.19 and they are also not present in new developing areas. There are many factors which play a roll when it comes to location. Poor location can in parts be overcome by exceptional service or differentiation, but good locations make it much easier. With all other elements set apart, the store with the better location should be more successful. When it comes to store visibility and accessibility, the agricultural businesses in distant rural areas do not have a problem because most of the time there is only one road going through the town and the business is normally in that road. In bigger towns and cities, hardwares are situated in better locations more often, with better accessibility and visibility than agricultural businesses. Figure 3.20 shows that of the lone standing agricultural retailers in industrial areas, only 30% are visible from the main road with good access points, whereas 93% of all hardwares are visible from the main roads. This also plays a roll in off the head awareness and buying patterns. From a competitive point of view, the agricultural businesses in the small towns are still fine, but their locations in the bigger towns and metropolitan areas lack visibility, accessibility and comfort compared to the hardwares.

Figure 3.19: Location of stores



As location is the retailers holy grail as stated in chapter two, agri businesses should focus more on the possibilities of moving poorly placed stores to better locations to increase awareness and possible customers.

Figure 3.20: Store visibility and accessibility

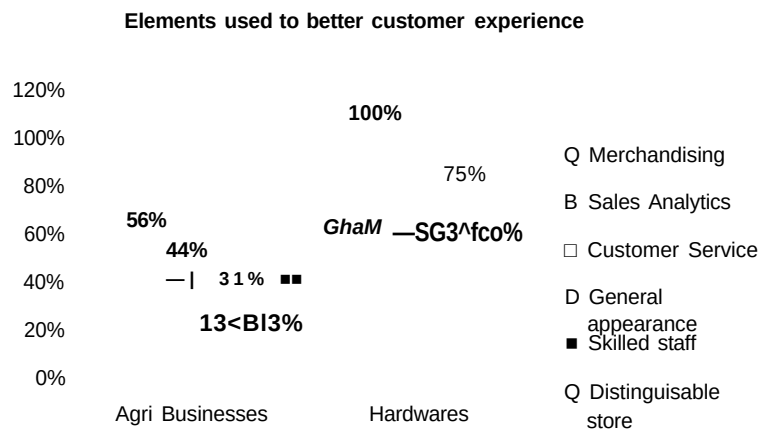


The research has shown that location plays a big role in business competitiveness and bad locations will make you less competitive. The agricultural businesses do have a problem with too many of their stores being in industrial areas where they lack visibility and accessibility. This will influence their overall brand awareness which in turn will influence their competitiveness negatively. Although malls charge high rent, they also draw the customers and awareness for the brand can be build this way. Agricultural businesses should investigate this option.

KSF 7: Customer experience

The use of elements to better the customer experience as depicted in figure 3.21 seems to generally lack enthusiasm. Although the hardwares are performing better, even their figures are not impressive. The agricultural businesses definitely fall short on sales analytics, general appearance and the merchandising elements of customer experience where their efforts are almost half of those of the hardwares.

Figure 3.21: Elements used to create better customer experience



In figure 3.22 it can be seen that only a few agricultural businesses and hardwares are utilising advanced integrated packaged software solutions to support their merchandising, which put South African businesses somewhat behind the USA hardwares. The utilisation of "hotspots" and gondola ends to increase sales in the agricultural business is not really taking place, as only 8% of them use gondola ends as a sales tool, while 92% of them use it as normal shelve space, rarely changing what is displayed on them. Compare this to the 100% of Builders Warehouses that use gondola ends as sales increasing tools and 69% use of gondola ends by the other hardwares. The use of merchandising software in both cases are low and it can therefore not be seen as an element that provides hardwares with a competitive edge at this time. It will, however, provide the edge to the ones utilising it the best, first.