

**A MARKETING STRATEGY FOR THE AGRICULTURAL  
BANK OF THE NORTH WEST PROVINCE**

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## ABSTRACT

In this report the marketing strategy of the rural and agricultural financial services, to the resource limited entrepreneurs in the North West Province, by the North West Agricultural Bank is examined.

This specialized agricultural financing institution was created with the objective of supplying, the short, medium or long-term credit that the commercial banks were not willing to risk. Clientele targeted for this credit were primarily the resource limited inhabitants of the homeland, who lacked adequate access to the financial services of the traditional banking sector, but who were considered to be a priority by the government.

Unlike most banking institutions which obtain their funds from the financial markets, Agribank have received the largest share of its administrative and on-lending funds from the government. The funds that are destined for Agribank are usually limited by the availability of public funds as opposed to other banking institutions that can acquire funds from multiple money and financial markets.

Given the current changing rural environment, the financial requirements of the entrepreneurs are not only determined by the political powers but also by the basic needs of the individuals. The provisioning of financial services according to the needs of the farming communities requires further investigations into the nature of the market segments, and the ability to be ahead of competition through competencies and not through legislation.

The attainment of competitive advantage requires a fundamental change in the administration of the organization, which will result in the gradual withdrawal of state intervention, and the establishment of appropriate functional marketing strategies.

The need to implement transformation with emphasis on marketing initiatives is one ingredient for institutional sustainability.

## OPSOMMING

In hierdie verslag word die bemarkingstrategie van die plattelandse finansiële dienste ten opsigte van die beperkte hulpbronne aan die entrepreneurs in die Noord-Wes Provinsie deur die North West Agricultural Bank ondersoek.

Hierdie gespesialiseerde landbou finansieringsinstansie was geskep met die doel om kort, medium, of langtermynkrediet te voorsien wat die handelbanke nie bereid was om te onderneem nie. Kliënte wat vir hierdie krediet geïdentifiseer was, hoofsaaklik die inwoners van tuislande met beperkte hulpbronne en wat gebrek aan voldoende toegang tot die finansiële dienste van die tradisionele banksektor gehad het, maar wat deur die regering as 'n prioriteit beskou was.

In teenstelling met die meeste bankinstelling wat hulle fondse op die finansiële markte verkry, is Agribank vir die grootse gedeelte vandy administratiewe- en leningsfondse van die regering afhanklik. Die fondse ge-oormerk vir die organisasie, word gewoonlik beperk deur die beskikbaarheid van regeringsfondse, terwyl ander finansiële instellings onbeperkte toegang tot die ope- en geldmarkte het.

Gegewe die huidige veranderende plattelandse omgewing, word die finansiële behoeftes van die entrepreneurs nie alleen deur politieke kragte bepaal nie, maar ook deur die basiese behoeftes van die individu. Die voorsiening van finansiële dienste ooreenkomstig behoeftes van die plaasgemeenskappe vereis verdere ondersoek in die vorm van marksegmente en die vermoë om kompetensie vooruit te wees deur kompetend op te tree en nie deur wetgewing nie.

Die bereiking van mededingende voordeel vereis fundamentele verandering in die administrasie van die organisasie wat tot 'n geleidelike onttrekking van die staat sal lei en tot die vasstelling van toepaslike funksionele markstrategie. Die behoefte om transformasie te implementeer met die klem op markinsentiewe is een bestaandeel van instusionele selfonderhoud.

# CHAPTER ONE

## AN OVERVIEW OF THE STUDY

### 1.1 INTRODUCTION

This research presumes that rural agricultural entrepreneurs in arrears formerly known as Bophuthatswana were and are not appropriately serviced by both the formal commercial institutions and the government supported Agricultural Bank of the North West Province.

The logic behind the intervention of the state in rural financing is grounded on the following three leading principles. Firstly the western commercial world regulated by market forces have dismally failed to create a self sustaining agricultural sector and an improvement in the economic well being of the rural inhabitants.

Secondly the rural entrepreneurs especially farmers, cannot afford market related interest charges, therefore they require cheap and government subsidised credit to induce them to produce. Thirdly, the proponents of government intervention maintains that rural inhabitants due to their resource disadvantaged position or the lack of understanding for modern economies do not save, and will not respond to the incentives schemes because they are too poor to save (Spio, 1996:3).

The modern financial intermediaries' inability to service the rural entrepreneurs can be ascribed to a host of marketing factors, such as the lack of information on matters such as financial security or collateral position of the lender. There is lack of information about the concentration of entrepreneurs as they are believed to be distributed over a wide geographic location which makes the service marketing, and the delivery costs to escalate, resulting in a higher product price, (Coetzee *at al*, 1994:1).

It can be said that the lack of correct information about the customer as well as the limited range of communication medium places the rural entrepreneur in a worse-off situation.

The urban competitor is supplemented by a host of supportive marketing infrastructure such as telecommunication, transportation system, and other technological inventions required to enhance the client's credit worthiness and therefore reduce the transaction costs.

The state intervention mechanisms adopted previously in the provisioning of agricultural financing (agricultural credit) in rural areas, were prompted by various factors. Coetzee *et al* (1994:2), maintains that the following factors, played a pivotal role in paving state intervention mechanisms than the institutional financial viability indicators:

- the political agenda of forced removals and tribal self governance;
- low production yields associated with resource scarcity;
- rural poverty associated lack of food security;
- insecurity of tenure due to communal ownership; and
- the resource imbalances that exists between the urban and rural communities.

Most agricultural financing institutions in the developing countries pursued these state state intervention strategies and tailored their product offering with the purpose of minimising the risk exposure and generate capital base. As a consequence of this approach, the production models are designed by the institutions for the rural entrepreneur without chronologically exploring the financial felt needs or requirements of the rural entrepreneur.

Recent research indicates that product prices, input prices, input costs, low yields and risk were more important factors limiting entrepreneurial development and it can be said that financing programmes were applied to solve non financing problems (Spio, 1996:1).

This lack of correlation in the implementation of strategies and the expected results can be ascribed to one basic principle: the need towards understanding consumer needs and behaviour.

The institutional viability of specialised financial institutions was not regarded as a prime objective and all practices and operational procedures were geared towards the interest of the borrower. For any lending institution to survive it must create a contract that creates a strong likelihood that the borrower will honour the obligation to repay the loan.

To do this the institution must first overcome information problems that limit knowledge about the borrower's honesty and entrepreneurial ability. Finally the lender must create an incentive environment that ensures loan repayment as well as the maximum utilisation of products and services provided (Graham, 1996:17 - 20).

In an attempt to bring about an end to the non-sustainability of the agricultural financing institution, it is imperative that Agribank should consider the adoption of strategic marketing principles. The use of the strategic marketing intent will lead to the discovery of the needs and desires of the consumers, and shape the products services that both satisfy the needs of consumers and create an opportunity to make a profit.

Finally the crafting of the marketing strategy and its implementation must contribute towards satisfying the unmet customer needs and enhancing the accomplishment of organisational goals attained through sustainable competitive edge.

## 1.2 PROBLEM STATEMENT

The North West Agricultural Bank (which will be referred to as Agribank), like other agricultural development banks was primarily established by the previous Bophuthatswana government to solve agricultural production related problems.

During that time the agricultural related production problems were addressed by supplying or extending subsidised and supervised credit programmes to the resource poor rural farmers. Spio (1996:2), points out that this financing approach created a scenario whereby institutional performance is measured by number of loans disbursed to the targeted clientele, the amount of inputs financed, the rate of technology adoption and the increase in employment and output. Little or no emphasis was laid on issues that relates to institutional viability such as corporate marketing strategy.

Since the product has been designed according to the desires of government as opposed to consumers, the product's capacity to maximise the client's benefits is unknown and it was never tested. It is imperative that service providers must have an understanding that all products that are being offered in the market are perceived differently by the customers from that of competitors.

Constant product differentiation strategy is not only limited to private organisations, public funded institutions like Agribank are required to reduce their state or donor financial dependency. The management of Agribank requires to approach the rural market, which is so large, into two distinct groups namely the high-risk farming ventures and moderate to low risk non-farm enterprises.

The above distinction will enable management to identify and accept the existence of non – government assisted competitors that have differentiated their product offering with the purpose of gaining competitive advantage within the same market segment (Cravens, 1991:166).

Since its establishment, Agribank has enjoyed the status of monopolising agricultural finance to an extent that almost all farmers in the region either in the form of body corporate or individual basis were the Bank's clients and no attention was given to market segmentation or pricing policy.

One of the challenges facing this institution, is the intention of the state as outlined in a White paper is the withdrawal of state subsidies and the need to allocate costs and revenues of products on market related prices (White Paper On Agriculture, 1995:15). The value of pricing policies within institutions goes beyond just tagging the product, but work as a package of product offering that retains good customers and as well as creating a disincentive for customers from pursuing other competitors (Lovelock, 1996:362).

The supply led credit and financing programmes did not reach their intended targeted customers, and furthermore did not yield the intended results Spio (1996:1). The failure of the past policies in reaching the target clientele might have been influenced by a host of several factors, such as the political and social requirement of the donors.

It can be deduced from the previous paragraph that there is an urgent requirement for Agribank, to assess the value of borrowing the some inherent qualities of the market segmentation policies. This concept of market segmentation is defined by Kotler & Armstrong (1996: 43), as a process of identifying and profiling distinct groups of customers who respond in a similar way to a given set of marketing stimuli into pockets according to their requirements.

Research findings and current views held by experts in this field, is that most agricultural financing institutions particularly those that rely on government funding, lacks the prospects of being self sustainable when government support is withdrawn.

### **1.3 THE RESEARCH OBJECTIVES.**

The problem statement outlined above gives an over view and problems facing the supply led agricultural financing institutions. These institutions need to adapt quickly to the rapidly changing environment by supplying products and services that are determined by the market. Therefore the research objectives are as follows:

- outlining a market strategy to be adopted by management of the North West Agricultural Bank in determining the market segment, designing and pricing the product mix in keeping with demands of customers and environmental limitations;
- designing a positioning strategy that will indicate how management would like the target market to view the Agribank's product mix;
- show the relevance of product portfolio management and its application on services that are rendered in Agribank;
- recommending workable market strategies that are relevant to the resource poor farmers and communities.

### **1.4 METHOD OF STUDY**

An extensive literature research was conducted. Books on strategic marketing management, government policy proposals, presidential reports and unpublished papers were studied. In addition, empirical research was undertaken to determine the extent to which the agricultural bank of the North - West can apply marketing strategies in order to be competitive and remains financially sound and minimise its reliance on government subsidies.

### **1.4.1 Literature Study**

Numerous books on the strategic marketing management, marketing of services , strategic management were read, as was literature regarding the provision of rural financial services. Because the field of agricultural financing and the provision of rural financial services are relatively contemporary, an endeavour was made to steer away from sources that are no recent.

### **1.4.2 Empirical Research**

Empirical research was conducted amongst customers of Agribank, in order to determine the extent to which they perceive the quality of products provided or to be provided by Agribank, as the organisation is to undergoes fundamental changes.

Trips were undertaken to interview farmers as well as those farmers coming to the bank for services were interviewed and those who are literate were asked to complete the questionnaire.

As a result of the research methodology adopted the sample size of the study has been limited to a sample of the customers of Mmabatho branch. The questionnaire focussed primarily on the following topics:

- institutional accessibility;
- product development and product quality;
- customer's satisfaction; and
- institutional communication .

The purpose of the survey was to determine the role, relevance and strategic implications of marketing management in the provision of agricultural financing.

### **1.5 PROBLEMS ENCOUNTERED DURING THE STUDY**

A shortage of literature pertaining to strategic marketing management in the provision of agricultural and rural financial services industry posed a problem. However, this issue was overcome by consulting professional publications by leading authors in rural financing, and text books covering marketing and strategic management and applying the basic principles to the agricultural and rural financial services industry.

A further obstacle encountered centres on the basic purpose of the study, namely the dynamics of the agricultural financing industry. During the course of the study the organisation entered the philosophical transformation with all managerial positions being occupied by people including the author, on acting capacity and I completed this document having resigned from the organisation.

The objective was to conclude this study so that the results hereof could be used when drafting the restructuring document.

### **1.6 OUTLINE OF THE STUDY**

This report consists of four chapters. A brief description of each of these chapters is outlined below.

Chapter 1 serves as an introduction to the study, stating the problem statement definition, objectives of the study, method of research and problems encountered during the study.

Chapter 2 deals with literature theory as well its application in unfolding a market strategy for

a service institution like Agribank that never pursued marketing as a managerial instrument. The emphasis revolves around key issues such as the definition of marketing strategy, segmentation and targeting of the customers, designing product attributes that allows the products to occupy a clear and distinctive place relative to competing products in the minds of the target clientele. Finally product portfolio management is viewed as tool to gain competitive advantage.

Chapter 3, will provide a short description about the organization. The empirical research undertaken and its findings will be discussed. The results are presented in terms of an analysis of the responses, and conclusions are formulated from them. Finally the relationship between the theoretical background studied in Chapter 2 will be collated with the findings of the survey.

Chapter 4 presents the final summary and recommendations of the study. The logical conclusions and guidelines suggested by the literature, and the relevant aspects of the practical situations determined by empirical study, will form the basis of the formulation of actions to be taken in designing a marketing strategy for Agribank.

## **1.7 SUMMARY OF CHAPTER ONE**

The approach that has been outlined in this chapter will be followed to arrive at an appropriate marketing strategy that can be followed by Agribank in designing and delivering a product mix for the resource limited rural farming communities in the North West Province.

## CHAPTER TWO

### **THE MARKETING STRATEGY OF AGRICULTURAL FINANCIAL SERVICES.**

#### **2.1 INTRODUCTION**

The market strategy issues that will be discussed in this chapter are akin to those that are followed by people-based, or equipment-based service rendering firms. Agribank is an agricultural financing institution and its people based operations are more tilted towards a medium presence of clients.

Technological advances in the banking industry, are of such a nature that banking transactions can be executed without the client being physically present, the client of Agribank are still expected to visit the nearest branch in person (Lovelock, 1996:50). The level of clients' involvement in the delivery of services at the Bank can be classified to be of medium contact because they only approach the nearest branch in person to define their problem such as loan application, loan repayment or even collecting a purchasing order.

Agricultural financing, like most services (Lovelock, 1996:57), is not limited to the disbursement of funds from one party to the other, but it is essentially a bundle of activities. These activities consist of the core product, offering of agricultural advice, being accessible to most of the clients, approving loans timeously, and sending accurate intelligible billing statements.

The value attached by customers to the supplementary or augmented products is increasingly becoming more important than the core product. Kotler & Armstrong (1996:253), maintain that the core product of any business becomes a commodity as competition increases and the industry matures. As a result, competitive advantage usually emphasises performance on the supplementary service elements.

It is important that management should perform also exceptionally well in these generic core

products as well as in its supplementary products before being perceived to be incompetent and uncaring.

Management of Agribank is also advised that one interesting point, however, is that many supplementary services are not industry specific and they transcend the industrial barriers.

## 2.2 DEFINITIONS

The deliberation that will be made in this document will revolve around the thorough understanding of the following two central main issues namely marketing and strategy. Kotler *et al*, (1996:5-9), defines the concept of marketing as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

This process is carried out both by the providers of services and the consumers of services. The providers of services such as Agribank are expected to search for clients, identify their needs, design excellent services package, ensure that these products reach the clientele, price them at a level that will at least satisfy the optimal requirements of the organisational sustainability, and promote them.

From the above definition it is evident that the long-term survival of Agribank, will largely be dependent on management's commitment to product development, research to identify the customers and their needs.

It is also worth mentioning that the consumers including the rural inhabitants, who have limited resources, do marketing when they search for goods that satisfy their needs at prices that they can afford. Coetzee & Vink (1991:153), found that most people in rural areas when they apply for finance thought that the financiers will provide some sought of compensation during crop failure and some potential farmers are too scared to be involved in agricultural loan financing due to bad experiences associated with recoveries. These findings suggest that farmers will really shop

around for service providers who will offer an attractive package that will provide a cushion during difficulties.

The other portions of this document leans strongly on the concept of strategy, this concept acquired its origins from the Greek military vocabulary “*strategos*” which means the art of the General. Grant (1991:1) defines strategy as a unifying theme that gives coherence and direction to the various decisions within an organisation.

Strategic initiatives in an organisation are all about winning, and well formulated strategies helps to marshal and allocate resources into a unique, viable internal core competencies that will withstand any shortcomings, anticipated changes in the environment and contingent moves by the intelligent opponents.

When the above two concepts are merged, a new concept called marketing strategy emerges. Market strategy is defined by Jain (1993:23), as an endeavour by an organisation to differentiate itself positively from its competitors, using its corporate strengths to better satisfy customer needs in a given environmental setting.

### **2.3 CHARACTERISTICS OF A MARKETING STRATEGY**

Strategic thinking represent an important function in the marketing arena and at the same time holds different perspectives from those of marketing management which entails organising, controlling ( Jain 1993:35 ). A well-defined marketing strategy will entail the following features:

#### **□ Emphasis on Long Term Implications**

In designing a marketing strategy, emphasis is more on the commitment and implications of marketing initiatives in environmental changes that are more probable in the long run than in the short run.

Environmental changes such as the new political dispensation, international research findings

and deregulation in the financial industries, are all capable of ruining the organisational profits and thus rendering the institution less competitive.

#### □ **Organisational or Corporate Inputs**

The successful implementation of a marketing strategy requires some essential ingredients such as an organisational culture that can be accepted to be intrinsic to the organisation, a clearly defined customer base (stakeholders) as well as the resources of the organisation. The front line personnel have an important operational responsibility in terms of helping to manufacture the service output. At the same time, they may be used as a resource that can be used for marketing the product.

Agribank has a leverage over the opposition because the majority of its employees have been unintentionally recruited from the communities leaving in the rural areas. The personnel speak the same language and have the same culture as the potential clientele. Glyn *et al*, (1995:211) maintain that many firms in the services industry recognises that nurturing skills and motivation of their people can create a source of competitive advantage.

#### □ **Varying Roles For Different Products / Markets**

Traditionally it has been held that all products exert effort to maximise profitability and this view is in contrast to the premise that different products have varying roles in the organisation. Some products may be in the growth stage of the product life cycle, some in the maturity stage others in the introduction stage, with each stage requiring a different strategy and affords different marketing expectations.

#### □ **Organisational Level**

Strategic marketing functions are set at the corporate strategy level and primarily conducted at business unit level in the organisation and to some extent some flexibility in organisational policies may be necessary to properly motivate the employees and to motivate them to

execute strategies with a high probability of success.

□ **Market Driven**

The development and adoption of a marketing strategy leads to the strengthening of the organisational competitive advantage by combining the customer - influencing strategies into an integrated array of market focussed actions.

Further than this strategic marketing provides an institution with a link with the environment and emphasises marketing as an integrated responsibility of the whole organisation rather than a specialised function of the business unit and it requires to be tackled continuously on a team basis or where necessary on a project basis (Cravens, 1991:209).

□ **Relation of Marketing Strategy to Finance.**

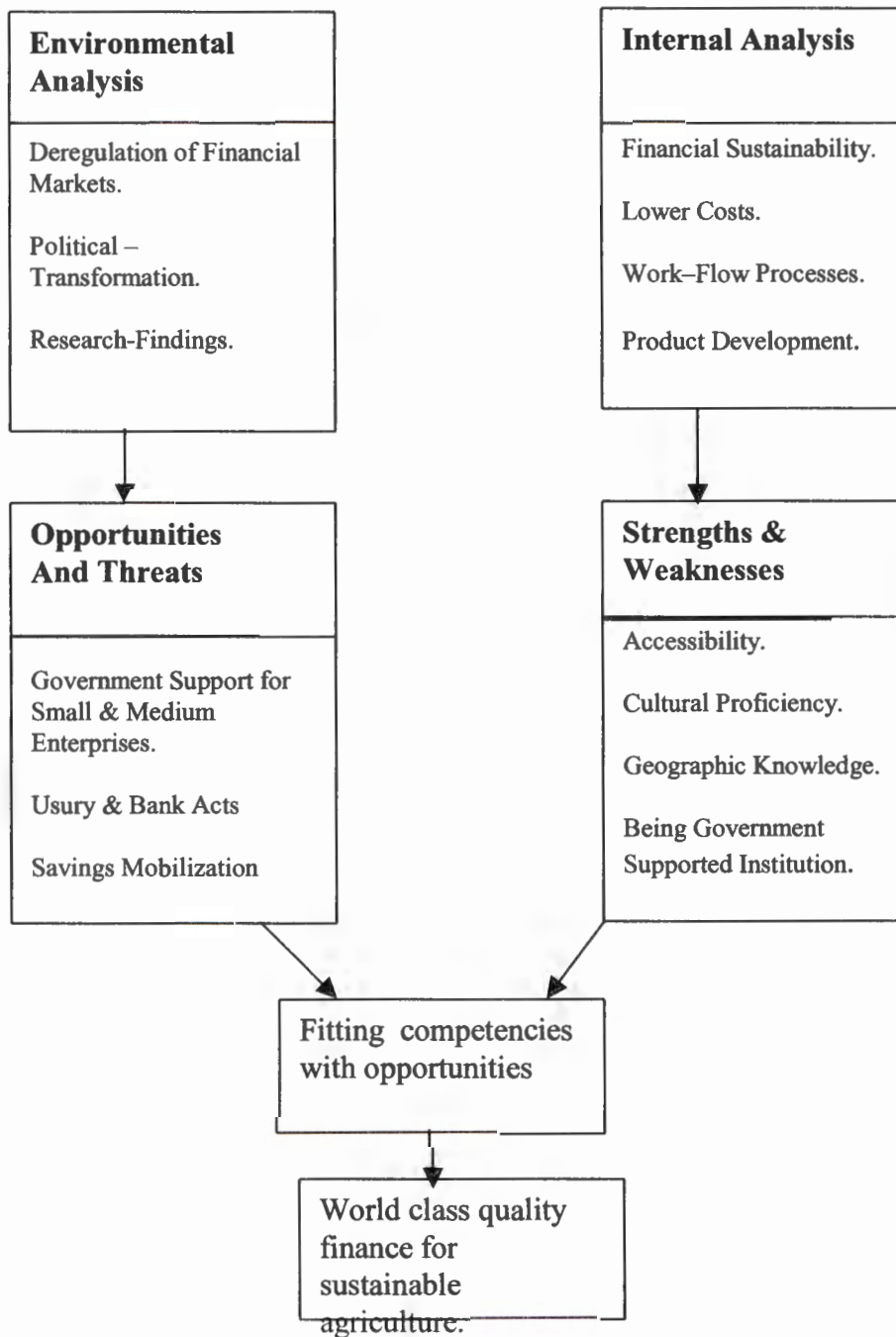
The focus of strategic marketing has shifted from the tradition of increasing the organisational sales or number of loans disbursed, to a more constructive role of reflecting the contribution of marketing decisions to the financial performance (such as the return on investments) of the organisation.

## **2.4 DEVELOPING AND DESIGNING AN ORGANISATIONAL MARKETING STRATEGY**

Although the intention of this document is aiming at developing a marketing strategy and not a strategic analysis, it important that certain fundamentals of strategic thinking be introduced to bring a better understanding and inter relation of the two concepts.

Anthony *et al* (1996:264) simplifies the concept of strategy as a process by which company strengths and weaknesses are evaluated in the light of opportunities or threats present in the environment and decide on a product market strategy that fits the competencies with environmental opportunities. This concept can be summarised by the following diagram.

**Figure 2.1: The Concept of Strategy**



Adapted from: Anthony *et al* (1995:265)

The development and implementation of a successful marketing strategy is one of the functional responsibilities required to blend the strategic goals or vision of an organization and the implementation phase of the strategic objectives at operational level. It is understandable that before one can think of a marketing strategy, a brief picture be painted about the issues that relate to strategy and its development.

#### **2.4.1 The Development of Strategic Vision And Mission**

The management's view concerning activities that need to be pursued in the medium to long term course entails the following: the summation of what will be provided to the customer, who is to be serviced, and how will the product offering be made available and satisfy the unmet needs of the customer (Thompson *et al*, 1996:3-4).

The views of management that entails the building of the product market share, the protection of the market share and maximising earnings, are communicated in the form of a mission statement (Agribank Prospectus:1996),as follows :

- to provide financial facilities to financially viable agricultural and rural activities in the province;
- to provide financing at competitive prices; and
- to provide financing according to sound values and principles.

Thompson *et al* (1996:5), emphasises that a mission statement that is brief and well conceived such as the one reflected in the prospectus crystallises senior management's views about the firm's medium to long term direction and helps the Bank to prepare for the future.

#### **2.4.2 The Setting of the Bank's Objectives.**

For the Bank's strategic intent to be realised, it is important that the mission statement be translated into attainable measurable performance targets to avoid the window dressing effect. The performance objectives must not only be stated in quantifiable and measurable to avoid generalities but must also be related to long term financial and strategic intent.

As explained in the previous chapter, the Bank was established through legislative procedures and profit maximisation was never one of its goals, (Act No.8, 1995:5). From this provision the Bank can be classified as a non-profit organisation that does not have profitability as a goal. Similar organisation like the Bank does have a financial goal, which correspond to, different to profitability in a business.

The current expectations of the political share holding is that over a period, the Bank should do a little better than breaking even in order to ease the Province from its financial subsidies. This action will enable the Bank to have other source of funds for it assets as well as additional working capital and certain fixed assets that cannot be financed through borrowings.

It is common course that if the Bank continue to experience losses the government will discontinue its support and bankruptcy will follow just like in a normal business, (Anthony & Govindarajan, 1995:52 - 106).

Finally it is worth noting that, realisable targets substitutes purposeful strategic decision making for aimless actions and provides a set of benchmarks for judging the Agribank's performance, (Thompson *et al*: 1996:51).

### 2.4.3 Crafting An Organisational Strategy

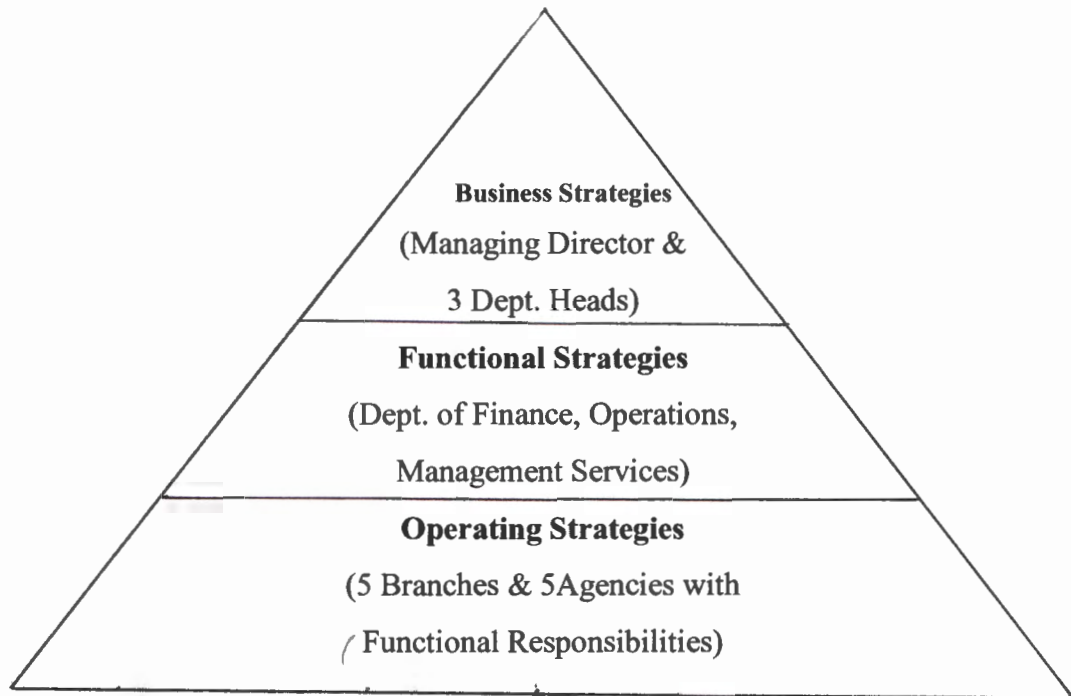
The design of an organisational strategy evolves over time because the unpredictable character of competition, and market changes make it impossible to anticipate and plan every thing in advance.

This evolutionary process is mainly guided by management's quest for profits and the desire to uphold the values of quality, customer satisfaction, enshrined in the mission statement of the organisation by achieving performance targets, out compete rivals, and to continue to strive to maintain and seek competitive advantage objectives as set out in the mission statement.

Furthermore, when forming a strategy, organisational management hopes to forge responses to market changes, seeks new opportunities, and synthesises different approaches taken at various times in various parts of the organisation.

In single business enterprises or an organisation that is committed in one industry such as Agribank, strategies are initiated at three distinct managerial levels namely the business strategy for the company, the functional strategy for each unit e.g. marketing, finance or human resources, and finally the operating strategy for basic operating units such as branches. The levels of the hierachial strategies are depicted in the following pyramid suggested by Kotze (1996: 11).

**Figure 2.2: The Levels of Strategy Making**



Source: Adapted from Kotze, (1996:11).

#### **2.4.4 What Does Business Strategy Entails**

The concept of business strategy engulfs any initiative that senior management deem essential in relation to the prevailing competitive forces, economic fluctuations, market developments, user demographics, the effect of legislative changes as well as regulatory and other broad external factors.

In the case of Agribank this strategic unit is performed by the Managing Director supported by the three General Managers namely (Operations, Finance, and Management Services). The Managing Director serves as the executive member on the Board of Directors that ratifies all envisaged business philosophies.

The carving of business philosophies is the responsibility of the strategic management, with the Board of Directors representing the views of the shareholders namely the government through the office of the Member of the Executive Council responsible for Agriculture.

The difference between a successful business strategy and an unsuccessful business strategy is the ability to forge a series of moves and approaches capable of producing sustainable competitive advantage through:

- ❑ forming responses to changes underway in the industry, the economy at large, the regulatory and political arena, and other relevant areas,
- ❑ crafting competitive moves and market approaches that can lead to sustainable competitive advantage;
- ❑ counter competitive moves of rival companies;
- ❑ uniting strategic initiatives of functional departments by creating distinctive competence as a basis for competitive advantage; and
- ❑ addressing company specific strategic issues and operating problems facing business.

#### **2.4.5 What Does Functional Strategy Entails**

This is a strategic arena executed by various divisional heads within an organisation to successfully manage a game plan for running the operational, financial and management services of Agribank, their functions entails the following aspects: -

- Pursue specific approaches such as loan policies, financial control and management issues crafted by the Managing Director, with the overall intention of supporting the overall business strategy;
- This strategic unit designs every major activity within Agribank;
- It provides role is to support the overall business strategy and specify how managers plan to achieve performance objectives.

#### **2.4.6 Strategic Fit**

The thrust or strategic initiatives is to gain competitive advantage through product differentiation and least cost production that will result in yielding synergy for the shareholder's value.

The current shareholders of Agribank are of the view that the Bank should continue to serve the needs of the limited resource based rural micro – entrepreneur within the confines of the institutional sustainability. Institutional synergy between developmental functions as well the delivery of good and services can be attained through extensive branch networking, and product diversification (Graham, 1995:20).

### **2.5 THE STRATEGIC MARKETING PLANNING PROCESS**

In planning a market strategy for an organisation such as Agribank, it is vital that factors that constitute a market map (market, price, product, and place) be viewed broadly. This is done in a four phased planning process that includes the analysis of the market situation, design of strategy, development of strategic programmes and the completion of the whole exercise by implementing and managing this well thought plan (Cravens, 1991:67-68).

### **2.5.1 Defining And Analysing Markets**

Market analysis refers to the monitoring of key environment forces that will either present the business unit with an area of need in which a company can perform profitably or a challenge posed by an unfavourable trend that would lead in the absence of a defensive marketing action to profit deterioration (Kotler, 1994:205 - 220).

#### **□ Government Regulations And Deregulation**

The North West Agricultural Bank was established under special parliamentary regulations that implicitly protected the continued existence of the institution. The state played an important obligatory role to both the lender and the borrower by providing overhead costs as well as the working capital state subsidies and grants.

Governments throughout the world have become increasingly aware of over regulation, which protects inefficiencies, restricts entry by new competitors, and creates inflationary pressures. On the other hand the deregulation of functions such as a move from a state controlled marketing body to a free marketing channel means that this institution need to exercise strict loan default management as customers are no longer obliged to sell their produce to legislated marketing agencies.

#### **□ Political Risk**

It is correct to assume that the conception of the idea of the agricultural bank was initiated largely by the political wisdom rather than the demand for a better product. Since the dawn of the new political arena the past political requirements are in conflict with the philosophies of the reconstruction and development of the economy based on minimal intervention of the state in the production circles.

### □ **The Physical Environment**

An obvious but frequently overlooked factor in the marketing environment is a market's physical location. Initially this Bank's geographic influence was limited to the areas of the former homeland, which is no longer the case since the new legislation requires that the whole province must be serviced. Servicing the whole province means an increase in the unit cost of delivering financial services to the organisation.

### □ **The Demographic Environment**

Servicing the province broadens the socio - cultural environment such as values, attitudes, and general behaviour of individuals in a given society that this institution used to serve. These components can represent opportunities or threats to the organisation.

When analysing product–markets and forecasting how they will change in the future is an essential aspect of business and marketing planning that cannot be ignored even by a government supported institution like Agribank (Cravens, 1991:67-125).

Some critical decisions like whether to enter the new product market, how to serve existing markets and when to exit from unattractive product markets are all critical marketing choices that management have to consider on a day to day basis.

These choices can best be known if through the adoption of product–market researches, interpreting the strategic consequences of each and every result and finally choosing the appropriate strategies for serving the research findings.

When management of an institution analyses products markets, the following issues are worth consideration:

- locating and defining new product markets that offers opportunities;
- evaluation of existing product markets to determine strategic priorities; and
- scanning the environment and forecasting future trends in product markets.

### **2.5.2 Market Segmentation**

Market segmentation as defined by Walker *et al* (1996:158 - 161), is the process by which the business divides a market into distinct customer subsets of people with similar needs and characteristics that lead them to respond in similar ways to a particular service offering and strategic marketing program.

McDonald *et al* (1995:10) refers to market segmentation as a creative and iterative process which aims at satisfying customer needs more closely and, in so doing, create competitive advantage for an institution. This process is defined by the customers' needs, not the company's, and should be re-visited periodically, as these needs are dynamic.

Prior to the implementation of this process (McDonald, 1995:15), maintain rules must be followed: -

- management of Agribank must be able to distinguish between the various segments that are available in a given environment, and these segments must be in a position to be served by an equally unique marketing strategy. Within the context of rural financing it is possible to delineate customers according to gender, the size of the financial requirements, and even the level of security;

- each identified segment should have sufficient potential size to justify the time and effort involved in planning specifically for this business opportunity;
- each identified segment should be capable of being described or measured by a set of descriptors, such that the customers in that segment can be communicated with by means of a distinctive promotion, selling and advertising strategy;
- each identified segment should have relevance to its purchase situation, (in other words it is a decision – making factor or affects the processes of buying behaviour);
- Agribank must be capable of making the necessary changes to its structure, information and decision making systems so that they become focussed on the new segments.

The above definition requires Agribank (or organisation that have been in existence for some time without the presence of any defined market segmentation due to monopolistic support that they enjoyed from the government), to study the heterogeneous characteristics of the rural North West Province's rural market. This market consists of customers with diverse, needs, wants, and behaviour.

The strategic intelligence that will be paved by this exercise will enable Agribank management to craft this heterogeneous potential market into more homogeneous markets that are made up of individuals or entrepreneurial groupings with similar behavioural tendencies.

The objective of segmenting the whole market for Agribank is to arrive at various groups of prospective users of products and attain the following benefits:

#### □ **Efficient Use Resources**

By using market segmentation business resources can be deployed efficiently to create variations of the marketing mix that fit only the most attractive groupings. This implies that promotional initiatives are not applied blanketly over the whole market spectrum of the province, but only the few selected customers who are interested in that particular service will be targeted.

Since the previous political boundaries are no longer valid, it is empirical that Agribank should separate its customers from the total available potential customers.

The emphasis can be placed on emerging commercial farmers rather than the commercial farmers, as the competitors are more technologically resources endowed than Agribank.

#### □ **Better Understanding Of Customer Needs**

It will be a futile exercise to provide a service to the if one do not understand their needs, hence the relevance of market segmentation. If management understand the desires and aspirations of the people they are serving it will be easier to design a package of benefits and services that fulfils the customers needs.

The needs of the small-scale farmers or the emerging commercial farmers have been extensively researched as testified in the study of, (Vink, 1992:5). The main limitation is the inflexible approach of the leading competitors on collateral requirements and the size of the loans.

The recent research (Strauss, 1996:79), reveals that successful financing strategies for rural financing institutions will be based on the acceptance and development of alternative modes of collateral such as trust and repayment ability.

### □ **Better Understanding Of The Competitive Situation**

With the application of the market segmentation principle the organisation is in a better situation to know from its clients the presence and the strategies of competitors already or encroaching the market environment. By having this information the organisation will be in an advantaged position to compete successfully because it understands the needs of the market segment.

Since the abolition of the homeland system, institutions such as the commercial Banks, former “whites” Agricultural Co-operatives and the Land Bank, which were statutorily or philosophically not permitted to provide agricultural financing, aggressively encroached the market of Agribank. It is important that, strategic knowledge pertaining to the operations of this institution be acquired and that defensive tactics be adopted.

### □ **Accurate Measurement Of Goals and Performance**

Once the organisation have analysed a market and identified its natural divisions, it is easy to pick out the segments that are more likely to lead to marketing success. This process may take a little longer than just rushing out with a product but the rewards are worth the extra time.

## **2.5.3 Analysing Competition and striving For Competitive Advantage**

Competition as described by (Jain 1993:25), has been and it is still basic to free enterprise system which governs most if not all of the financing institutions. Agribank since its inception has not been exposed to the free enterprise market mechanisms due to the protection gained from the government. This protection will no longer be as strong as it used to be in the past due to the government's position of deregulation of state controlled agricultural institutions.

The competition that is prescribed for the Bank is the one that encompasses the strategic objectives of the organisation, and not the natural one that occurs as an evolutionary process which weeds out the weaker of the two rivals in the market environment. Strategic competition is a new phenomenon in the agricultural financing world and can be defined as the studied deployment of resources based on a high degree of insight into the systematic cause and effect in the business ecological system.

This competition within the rural and agricultural fraternities, like in other economic sectors will be observed also by phenomena such as the price at which the services are exchanged, the kinds and qualities of products offered, the quantities or package exchanged, the manner employed to distribute the service, as well as the manner employed to make the customers aware of the product offering (Jain 1993:48).

Current thinking within government circles suggests that, government should limit its direct involvement in matters that can be handled by private institutions. The government white paper spells out that institutions like Agribank should move towards financing their products at market related prices in order to strengthen the believe held by most authors of economic development that the markets are one instruments that can allocate resources optimally.

In sectors such as the one Agribank is in, the quality of service rendered is intangible and multifaceted and it is the result of an evaluation process in which both the customers and the provider of service compare their perceptions of service delivery and its outcome against what they expect (Lovelock, 1996:335).

In its findings the commission of enquiry into the provision of rural financial services recommends that the quality and effectiveness of the services need to be monitored and evaluated regularly (Strauss 1996:90 – 98).

Pitt *et al* (1995:257) suggests that the measurement of the service quality can have a profound and substantial impact on the financial and strategic performance of organisations like Agribank.

If customers perceive quality to be poor, they will take their business elsewhere. Improving quality in the eyes of the customer and therefore gaining quality advantage will lead to higher profits.

An organisation that realises profits has an advantage over others in the sense that they add value to the owners of capital and other stakeholders. To institutions that have been funded by the state to help farmers to generate own capital, offset risk of new technologies and improve productivity by supplying credit to overcome these problems, product quality measurements have been viewed only from the part of the service provider.

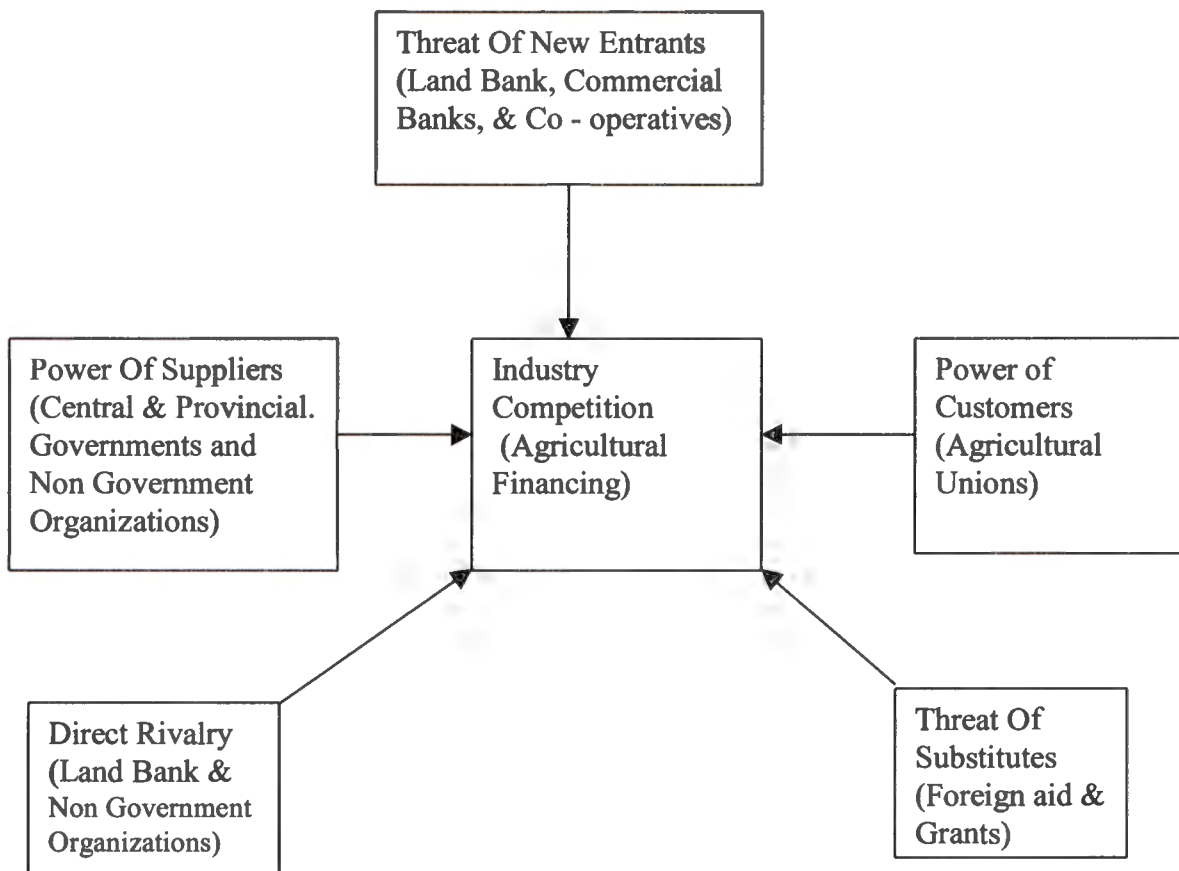
#### □ **The Concept Of Competitive Advantage**

Grant (1991:75) defines competitive advantage as the ability of the firm to outperform on what is believed to be the firm's primary performance goal. Even though this has not been the case with the Bank, the prevailing changing environment initiated by the industry and customer preferences requires that a competitive response be framed to maintain organisational profitability.

The challenge to any institution is to analyse the industry or industries in which it is competing and to design ways in which it can respond to the opportunities in the external environment and develop a competitive advantage.

Anthony *et al* (1996:276) revealed through the following diagram, that the industry should be appraised in terms of the collective strength of five competitive forces and that the industry's profitability is by far the most significant predictor of firm performance.

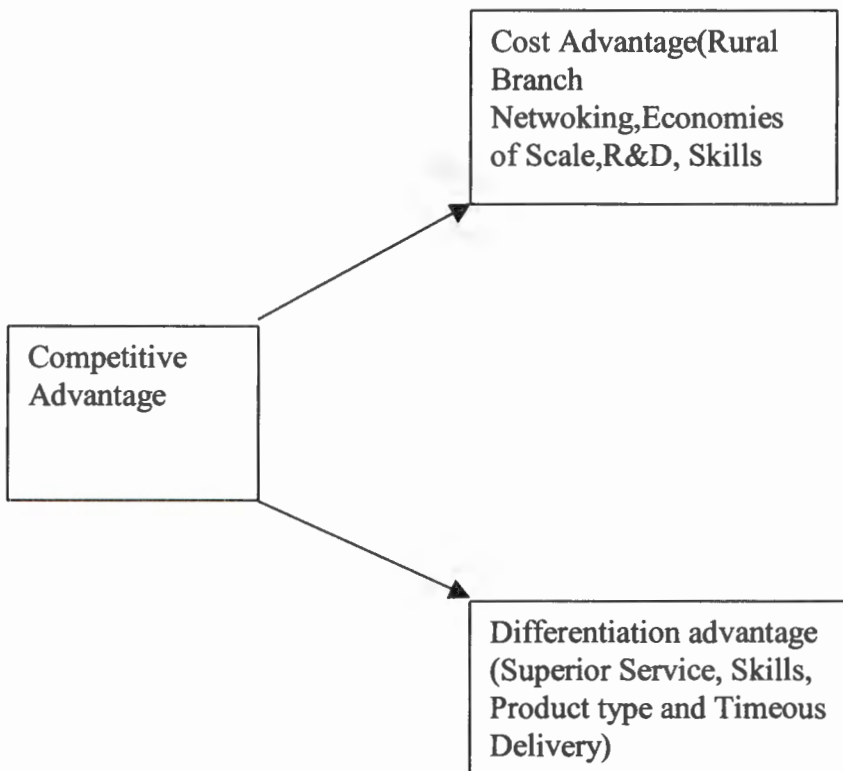
**Figure 2.3: Business Unit Competitive Advantage: Analysing the Structure of Industries**



Source: Adapted from Anthony *et al*,(1995:278)

The five forces analysis that is depicted by the above give a clear guidance on how Agribank can start to develop a competitive advantage strategy. Furthermore, Figure 2.3 can be summarised by the following Figure 2.4 which suggests that there are two generic ways in which management of Agribank can attain higher profits or increase the organisational values and attain objectives.

**Figure 2.4: Source of Competitive Advantage**



Source: Adapted from Walker *et al* (1996:71)

The first of the two ways being either the provision of the same product or service in greater quantities that will justify the minimal cost approach. The other strategy that can be adopted is the supply of products or services that are differentiated in such a way that most customers will be willing to pay a price premium that exceeds the additional cost of differentiation.

In the former case, Agribank will possess a cost advantage if it maximises the benefits of the experience it has already acquired in servicing the poor rural clientele when it was protected by the homeland's statutes as well as the previous business policies.

The past experiences coupled with an increase in the number of clientele currently serviced, are the measures that can be easily attained without necessarily increasing the operational costs.

Mcdonald *et al* (1995:142) maintains that the experience effect is a recognition of the fact that the more we do something, the better we are at doing it. This effect includes items such as better productivity from process innovations, labour efficiency, and work specialisation.

In addition to the experience effect, and not necessarily mutually exclusive, are the economies of scale that come with growth. Capital costs do not increase in direct proportion to capacity, which result in lower depreciation charges per unit of output, lower operating costs in the form of the number of operations.

Hooker *et al* (1995: 206) has cited a number of cases on how Agribank can attain both the cost leadership as well as product differentiation.

#### □ **The Creation of Cost Leadership**

##### ▪ **The Economies of Scale**

Economies of scale is perhaps the single most effective cost driver that can help in creating purchasing leverage and doing things more efficiently or differently in volume. Graham (1995:11), suggests that the targeting of a higher amount of loan accounts per loan officer will lead to the containment of administrative costs by the time the internal re-organization of Agribank is completed.

##### ▪ **Experience and Learning Effects**

An institution like Agribank can still attain competitive leverage if it uses the experience it acquired when servicing the deep rural poor communities when no other institutions were available.

Gaining an experience will also be complemented by the increases in efficiencies that are possible at a given level of scale through having performed the necessary tasks many times before.

- **Linkages**

One of the recommendations of the Strauss Inquest (1996:75), is that in order for the institutions to be sustainable external linkages with suppliers of factor inputs or distributors of the firm's services can result in cost reduction.

The merits of linkages cannot only be limited to cost reduction but also to an interchange of information that is vital in service deliveries but so much lacking about the rural poor.

- **Timing**

Timing though not always controllable, can lead to cost advantage since there are only certain times of the production season that strategic windows are open while at other time they are shut. The late procurement of funds for farming ventures has been one of the drawbacks of Agribank that leads to late planting dates that are more risky.

The adoption of this strategy will enable Agribank to command a minimal cost advantage, this position can lead towards to the building of the attainment of cost leadership in the rural financing industry or segment within the province. Given the technological and logistical positioning of the opposition, Agribank will benefit by adopting this strategy. Cost leadership is a unique position in the industry that requires that the firm must find and exploit all sources of cost advantage.

## □ **The Creation of Product or Service Differentiation**

When pursuing the latter strategy of product differentiation, Agribank will have to provide products or services that are packaged in such a way that customers will be willing to pay a premium price that exceeds the additional cost of differentiation.

Strauss (1996:75) recommends that agricultural financial institution need to investigate the possibility of providing ancillary products such as deposits mobilisation and even insurance coverage.

The benefits of product differentiation from the competition can only be attained when Agribank provides products and services that are unique but still valuable to customers beyond simply offering a low price product.

Walker, *et al* (1996:70 - 73), suggest that the Bank can seek a competitive advantage by differentiating its products and services from the competition and by developing marketing programs along the core competencies of the Bank, such as along a wide variety of selected segment or narrowly focused differentiation.

Some of the four factors listed above in cost differentiation, as the mechanisms that Agribank can adopt to attain comparative advantage, can also be used as “uniqueness drivers” of total product differentiation. The concept of product differentiation seeks to increase the value of the product on offer and this can be attained through one of the following measures:

### ▪ **The Core and Expected Products**

This strategy offers a different way of satisfying the same basic want or need. A step change in technology and the application of innovation typically create it. The use of computers that reduces the work flow process.

In the last years Agribank was involved in massive information technology upgrading exercise, which was geared towards providing a better service to the customers.

- **Augmenting the Product**

The value of the existing products can be differentiated from the opposition by factors such as the quality of service. Providing a superior service as way of creating a stronger link between the supplier and customer can have a wide - reaching consequences. In particular, it makes it less likely that the customer will look for alternative supply sources and hence act as a barrier to competitor entry.

To ensure and enhance customer service, it is recommended that management of Agribank should regularly conduct customer satisfaction studies to gauge how well it is meeting customers' expectations and to seek ways in which it can improve on customer service.

Hooley *et al* (1993:215) suggests that in deciding which of the possible elements to use in differentiating the product, the following three considerations are important:

- The first consideration is what do the customers expect in addition to the generic product of the institution? The relevance of this question to Agribank is what more can be offered to clients above the normal agricultural loans.
- The second consideration is what the customers would value over and above what is expected.
- The third and last consideration is the ease with which the differentiation can be copied. This implies that management need to differentiate their products with attributes that are inexpensive to Agribank and these attributes should act as entry barriers that cannot be easily copied by the competitors.

- When adopting any of the above strategies of competitive advantage, it is necessary that management of Agribank must not lose sight of the position of service differentiation advantage cannot be oblivious to cost since the least cost advantage is associated with low overheads.

Grant (1991) recommends that one of the challenges that management is faced with is to seek reconciliation between the differentiation and least cost strategies. This reconciliation can best be attained by harvesting the benefits of the economies of scale through the attainment of a high market share that will result in low promotional or production cost per service transaction.

By being the only agricultural financial institution that was promulgated to service the deep rural areas of the former state of Bophuthatswana, Agribank enjoys the geographic advantage of being physically servicing the market that the competitors view to be too far away from economic mainstream.

#### □ **The Concept Of Service Quality**

The process of aligning high differentiation with low cost is one of the greatest strategic challenges that management will have to overcome by outperforming the existing competition and in preparing for the coming competition. Pitt *et al* (1995:265) and Grant (1991), believe that one of the recent findings in organisational performances has been to explode the myth of the quality versus cost trade-off.

While high market share can still result in high returns for the Bank, sustainable market share can only be attained when the quality of product and services compared to competitors as perceived by the customer.

Furthermore, Pitt *et al* (1995:257 - 264) asserts that an organisation like Agribank can attain a position of competitive advantage in the rural financing market share.

This advantage can be without necessarily gaining a larger market share but by adopting an effective differentiation through some value added activities that are performed in way that leads to perceived superiority along the dimensions that are coveted by customers, particularly that of superior service.

The measurement of the quality of service is usually a perception held by both the providers of service and the consumer. It is essential that Agribank should endeavour to develop and build adequate measures of service quality and to implement these, for by doing this it will come to grips with one of the fundamental predictors of superior performance.

When customers evaluates the service quality, they consider the following points:-

- **Tangibles**

The agricultural financial services that are provided by Agribank to its customers are in fact deeds and intangible as opposed to objects. The customers subject the tangible aspects such as the sitting arrangement in the waiting area or in the consulting room, the provision of social amenities to an evaluation. The perceptions held by the customers of these tangibles are either negatively or positively linked with the product.

- **Reliability**

Agribank must strive to perform and keep to the promised service dependably and accurately. An up to date, accurate and simple statements of account that are send regularly to the customers is an example.

- **Responsiveness**

Customers subject the willingness of the employees to help to an evaluation that is finally linked to the intangible product that is rendered.

Management of Agribank can score high points in this field by training personnel in public relations and problem solving techniques. The other option might be to keep a separate help desk manned by trained personnel.

- **Assurance**

Agribank is endowed with employees that are loyal and have the necessary expertise and courtesy that is necessary to inspire and build confidence in the customers about services that are rendered.

- **Empathy**

Most of the customers will prefer to have an individual attention and special caring during the period of production failure such as natural calamities. Agribank can craft a special product portfolio that includes a crop failure premium or an insurance premium for individuals.

The non-availability of these amenities will yield a lower customer satisfaction level that might easily lead Agribank vulnerable to the forces of competition.

It is worth noting that the concept of service quality has a different meaning to both the customers and management of an institution, therefore it is vital that congruency between these sectors be attained at a great effort particularly by management, (Pitt *et al*,1995:257 - 266), by lowering the gap between what the expectations and perceptions of the customers.

#### 2.5.4 Market Targeting and Positioning

The crucial strategic decision is which product market(s) to select, and serve. With specific reference to Agribank, these two questions have already been identified and selected. The provincial government being the main shareholder have implicitly, through an act of parliament, spelled out that this institution should play an important role in the promotion of the agricultural, pastoral, agro economic and the promotion and structuring of related enterprises, (Act No.8 of 1995: 15).

Although the provincial government has cleared the geographic marketing sphere, it is not a forgone conclusion that there are no competitors and no need to gain competitive advantage.

Despite the inheritance role that the provincial government have played in legislating the organisation, some key strategic marketing decisions emanating from market segmentation which need to be considered along the lines of which customers to target and how to position the business' products for each market target (Cravens, 1992: 255).

From the market segmentation process, it is important that management has to evaluate the various segments and determine their attractiveness. The attractiveness of the segments needs to be determined by one of the following means:

##### □ Size and Growth

The size and growth characteristics of each segment require to be ascertained as these have implications in the allocation of business resources. The growth and size of the segment is important since this will determine the profitability of the business and expose ~~there~~ at which the competitors will enter the market.

### □ **Structural Attractiveness**

The market segment's attractiveness cannot only be measured according size and growth but also according to the profit potential. The profit potential in the rural areas is usually a function of the establishment of certain factors that requires, the unlikely aggressive intervention of the state in re-dressing the past economic imbalances.

There are five points portrayed in the form of a cross, that were developed by Porter (see Figure 2.3 on competitive advantage), that need to be considered in the determination of the intrinsic long run profit attractiveness of a market or segment (Kotler 1994:264 - 290).

### □ **Intense Segment rivalry**

The selection of the market segment requires an appraisal of the number of aggressive competitors especially in a stable or declining market. The last two to three years financiers such as the formerly South African Agricultural Co – operatives, the Agricultural Credit Board and the formerly Land and Agricultural Bank, made serious encroachment in the geographic market sphere of Agribank. In the case of Agribank it will be important to continue monitoring all the intensity of rivals and the cracks that are developing on the entry barriers.

### □ **The New Entrants**

Any market segment is unattractive if it is to attract competitors who will bring in new capacity and fight for a market share growth. The new political order poses a moral responsibilities to most institutions particularly those that are government supported such as the Land Bank, Khula and Ntsika Enterprises.

These organisations and others that are not mentioned are expected to spearhead the crafting of a constructive role in the economic development of previously disadvantaged rural areas.

This new role challenge all the non-government bodies, including Agribank to research all potential markets in the rural areas with the result that some entry barriers might be minimised and new competitors for Agribank being ushered.

The total agricultural debt, excluding that of the former homelands is estimated at R20,3 billion, with the Agricultural Credit Board, Land Bank and the Co-operatives having the main share, (Agricultural Statistics,1998:111).

The total loan book of Agribank in June 1998, as depicted in Table 2.1 below, was estimated approximately R190 million rand.

Table 2:1      Agricultural Debt of Agribank

| <b>Description</b>      | <b>Total Outstanding Amount</b> | <b>Total Amount Due</b> |
|-------------------------|---------------------------------|-------------------------|
| Total Debtors Loan Book | R 190, 0179, 179.               | R 137, 310, 518.        |

#### □ **Growing Powers of Customers**

All the market segments that will be pursued by Agribank possess a great amount of bargaining power due to the fact that the institution is established to a large extend to satisfy certain political aspirations and the institutional survival.

There is a possibility that some customers, within a certain market segment might take a political leverage in order to try to force interest rates down at the expense of the organisational profitability. This can be possible particularly when the social switching cost especially during the drought period and even during civil unrest.

A better defence will be for the organisation to constantly design product package that will survive all the covers for all eventualities as long as each party is committed to its obligations.

### □ **Growing Bargaining Power Of Suppliers**

A market segment is unattractive when the organization's suppliers of resources are able to set the price and quantity at which the product should be sold to the customers. Being an organisation that is fully supported by government, Agribank cannot easily escape this trap and the best situation will be to use multiple sources of financing.

### □ **Substitute Products**

The threats that Agribank might face is the flow of foreign capital or local capital in the form of equity financing, economic aid or the government's reconstruction and development programme. These funds place a limit on the potential pricing strategies and profits that can be earned.

After determining the attractiveness of the different segments management must now consider which and how to serve the segments. Kotler (1994:283 - 286), suggest that consideration of which and how many segments to serve can be done under the following five patterns:-

#### ▪ **Single Segment Concentration**

This is the simplest of the five patterns where the institution selects a single segment like the provision of agricultural production credit only. The decision to select this pattern is muted by a strong market position in the segment owing to its greater knowledge of the segment's needs and the special reputation it gains. Maximum benefits can also be attained through the use economies of scale with regard to distribution and promotion.

The only serious disadvantage of this pattern is that it will expose Agribank to serious depletion of profits when a competitor infiltrate the market segment or when the

political environment changes to the detriment of the organisation or even when the natural disasters such as floods, drought etc occur.

- **Selective Specialisation**

Selective specialisation can also be termed the multi - segment coverage and has more advantage above the single segment concentration because it has the advantage of diversifying the organisational risk.

By adopting this market segment Agribank will be in the position to select those products and services that are profitable and have the potential of long term sustainability such as its short term products like trading stock and agri - business.

- **Product Specialisation**

In this pattern of target market selection Agribank can concentrate on creating certain products such as investment that are currently not used by many segments and sell it to several segments in packages that suites the demands of the customers.

The advantages of this pattern are that the organisation can build up a strong reputation in the rural investment product.

- **Market Specialisation**

Here the firm will concentrate on serving many needs of the particular customer group such as supplying all its available products to the whole market segment. This seems to be currently the strategy that is being engaged by Agribank.

- **Full Market Coverage**

This is the last of the five patterns of target market selection that is applied to serve all customer groups with all the products that they might need. This strategy can be pursued through undifferentiated differentiated marketing. The undifferentiated marketing focus on what is common in the needs of the customers rather than what is different as in the other strategy.

### 2.5.5 The Market Positioning Strategy

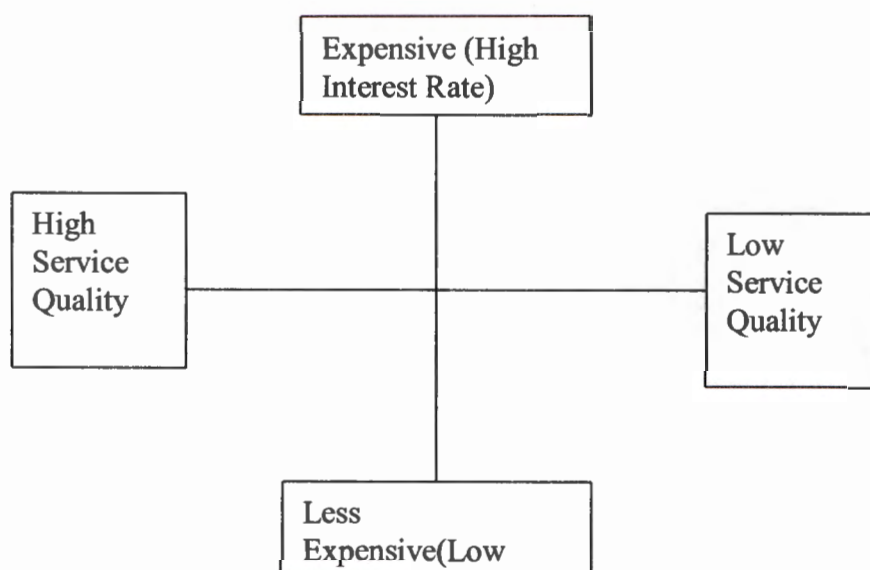
The market of banks is characterised by their intangibility, perishability, customer participation in delivery and the simultaneous production and consumption of products. The success in the chosen target market will depend on how well it is perceived to perform relative to competitive offering and customer needs in the market place (Walker *et al* 1996:175 - 176).

Product positioning is a process that is targeting the mind of the customer, because the whole exercise of judgement which will lead to acceptance of the product is subjective and often based on attributes not amenable to objective comparison such as the opinion of other users, past experiences, and perceptions.

Positioning is an organised system for finding a window in the mind of the customer and its real benefits will lie in identifying the gap or a hole in the market place and then filling it.

For an institution to successfully accomplish this objective it is important that the relevant criteria of competitiveness must be established and alternatives be plotted on a perceptual map confined to two or three attributes. These attributes might include the quality and value of the product or even the price (Baker: 1992).

Figure 2.5 Product Category and Brand Positioning



Source: Adapted from Walker *et al* (1996:181).

Walker *et al* (1996:181) maintains that service positioning analysis takes place either at product category (period of loan term) or the brand level (loan purpose). When new products either from the competition or from within Agribank are introduced to the customers, a positioning map in the mind of the customer is created.

As it can be shown from Figure 2.5 above, the proposed product will be assessed in terms of its price or quality or timeliness relative to the existing product. These are some of the attributes that management need to consider when introducing new products in the market or criteria to be applied when the competitors enter the market.

Currently, due to limited financial and human resources, little is being done to thwart the rapid encroachment of the competitors such as Land Bank, except to rely on the goodwill and loyalty of the customers.

The Agricultural Financing institutions like any other institutions either in manufacturing or services industry need to approach positioning as the most critical element when formulating a market strategy because this process defines the perception the organisation intends consumers to have of its product or service and is a key to the direction of promotional activity (Engel *et al*, 1994:164 - 167).

The positioning strategy may be approached in one of the following ways:

□ **Identification of competitive products**

This stage is concerned with management initiatives in identifying the customer's perceptions, about the type of product they might consider as a substitute to satisfy the same basic need.

The competitiveness of agricultural financing products is usually associated with critical determinant attributes such as the rate of interest, the time that it takes to process a loan application. It is essential to for an existing provider of service such as the Bank to constantly monitor the environment for an assessment of the impact of competitors.

Furthermore, the relevant question in the development of the positioning strategy is whether the institution's brand is better than that of a given competitor in service, cost, or value. It is ideal that the positioning of the brands must be within the target segment, (Engel *et al*1994; 165).

□ **Product attributes and Consumer Perceptions**

In formulating or strengthening the existing positioning strategy management is expected to find out customer perceptions and attributes that turns them on, and that makes them to choose a product over that of competitors.

These attributes might be associated with cost, accessibility, or quality. Alternative ways of segmenting the market should be considered and an evaluation is made of the size as well as the potential of different market segments.

#### □ **Internal Corporate**

The product positioning strategy cannot be formulated in isolation to the organisation's resources such as the financial capabilities, physical assets such as buildings or vehicles, human labour and know how. By reflecting the positioning strategy to internal organisational analysis, the Bank should try to select a limited number of target market segments that is willing and able to serve.

It is quite some time that Agribank has been operating without senior management and shortage of personnel. The rationale being that no permanent position can be filled until the restructuring process of the institution has been completed. Reports have been compiled on the re – organization of Agribank but little consideration has been paid to the implementation process.

#### □ **Price and Quality**

Although price and quality may be thought of as attributes, they are so important that they warrant separate treatment. In many product categories, some brands that offer more features, better service or better performance use a higher price as a cue to the consumer that they have higher quality.

Management of Agribank need to consider the fact that most researchers found that government subsidised interest rates induced high default rate, 72.26%, and also that high market related interest rate may increase the riskiness of the loan portfolio, (Gonzalez – Vega, 1993:28).

#### □ **Positioning by Use or Application**

In positioning by use or application the institution attempts to position its brand as being associated with a particular use or occasion such as the development of rural financial services and agricultural development for natural disaster.

#### □ **Positioning by Product User**

In positioning by product user, the brand is associated with a specific user or class of user, such as the previously disadvantaged communities with no formal financial track record or collateral.

#### ▪ **Product Branding Decisions**

Baker (1992) defines a successful brand as a name, symbol, design or some combination, which identifies the services or product of a particular organisation as having a sustainable differential advantage. Within the service industries such as the Bank, branding is also a possibility under the umbrella of their corporate name or image, (Lovelock: 1996).

From the above definition it is worth noting that brands are owned by the organisations and they confer a sustainable differential or competitive advantage. The concept of sustainable differential advantage or SDA means that customers of each an every organisation have a reason for preferring a particular brand over the others and that the organisation's brand represent a barrier to entry in the market segment in which it competes.

The development of a brand strategy is an essential element for the successful positioning exercise particularly when a decision has to be reached regarding whether should the institution's products be marketed under one's own corporate name (label) or under labels controlled by other institutions.

Lovelock (1995:98) maintains the role of brands within an organisation is to identify current and emergent consumer wants and to develop products that satisfies those wants profitably. This concept of branding becomes a reality when consideration has to be given to the development of partnerships with other institutions regarding management of their products or the same institution administering the Bank's products.

## **2.6 THE PRODUCT PROMOTIONAL OR COMMUNICATION STRATEGIES**

Product promotion or marketing communication is a collective phrase which among others embraces advertising, publicity, personal selling, promotion and corporate design helps to define and project a service firm's personality and highlight the competitive advantages of specific products offered by an institution.

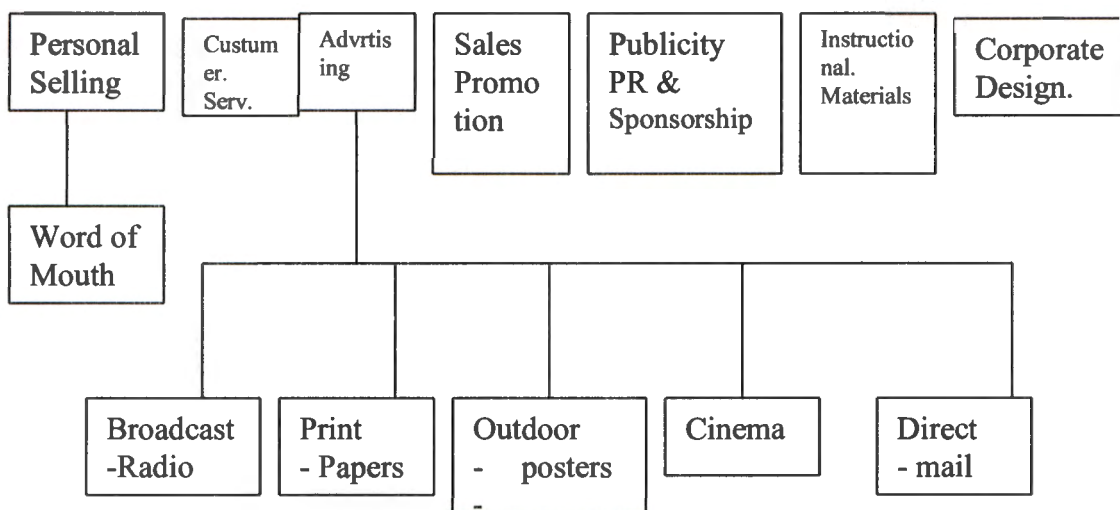
Furthermore Lovelock *et al* (1996:379), describes promotional communication attached to an incentive, which often takes the form of a price reduction, and they enhance the use of services provided during when demand declines.

The objective of a promotional strategy in service organisations is to inform customers about the firm and its product offerings. After informing then persuading customers that a specific product offers the best solution to a customer's needs, and remind customers of product availability and motivate them to act especially when it is only offered at very specific times such as the beginning of the planting season, (Lovelock *et al* 1996:391).

## □ The Promotional Or Communication Mix

The communication mix is a set of different elements consisting of different capabilities relative to the types of messages that they can convey and the market segments which are most likely to be exposed to them. These elements are shown in the following figure

**Figure 2.6: The Marketing Communications Mix for Services**



Source: Adapted from Lovelock (1996:378)

### ▪ Personal Selling and Word Of Mouth

Most service firms have personnel whose work schedule brings them into daily contact with customers either face to face or by means of telephonic conversation. The word of mouth advertising is a form of personal selling undertaken by satisfied or dissatisfied customers rather than a paid employee.

## ▪ Advertising

Advertising is a paid non-personal communication medium that can be conducted through the following media, electronic and non electronic, outdoor advertising and retail and direct mail.

The selection of an advertising medium is influenced by such factors as the service itself, the target market, the extent and type of distribution, the type of message to be communicated, the budget and competitor's advertising strategies.

The success of an advertising campaign relies on the establishment of sound objectives that creates an awareness about the products offered by the organisation or producing changes in consumer attitudes.

There are two types of information that are required for media selection namely the customer profile and the audience characteristics. Although it is possible that information concerning the customers and their characteristics can be obtained from the owners of the medium, it is up to management to identify the characteristics and medium preferred by the clientele.

Finally it is worth noting that the use of incentive type of promotional tools in both the manufacturing and services industries is usually associated with the attraction of new customers, to reward loyal customers and to increase the re - consumption rate of occasional users. The use of promotion tools must be judged by one of the following conditions:

- promotion need to be timed and related to the cyclical / seasonal nature of the product,
- each distribution method need to be viewed carefully in terms of the out reach level, costs and the desired impact.

## 2.7 THE PRODUCT PORTFOLIO STRATEGY

Anthony *et al* (1996:272), suggest that there are several product portfolio planning models such as the Boston Box, the General Electric Model and the Capital assets pricing model. These three models despite their generic limitations, can be of value to Agribank when management consider the adoption of one or a combination when considering allocating of resources to products or services rendered.

Central to these three different models in product portfolio planning, is that they are all associated with the appropriate development of the product building, product holding, product harvesting and product divestiture strategies.

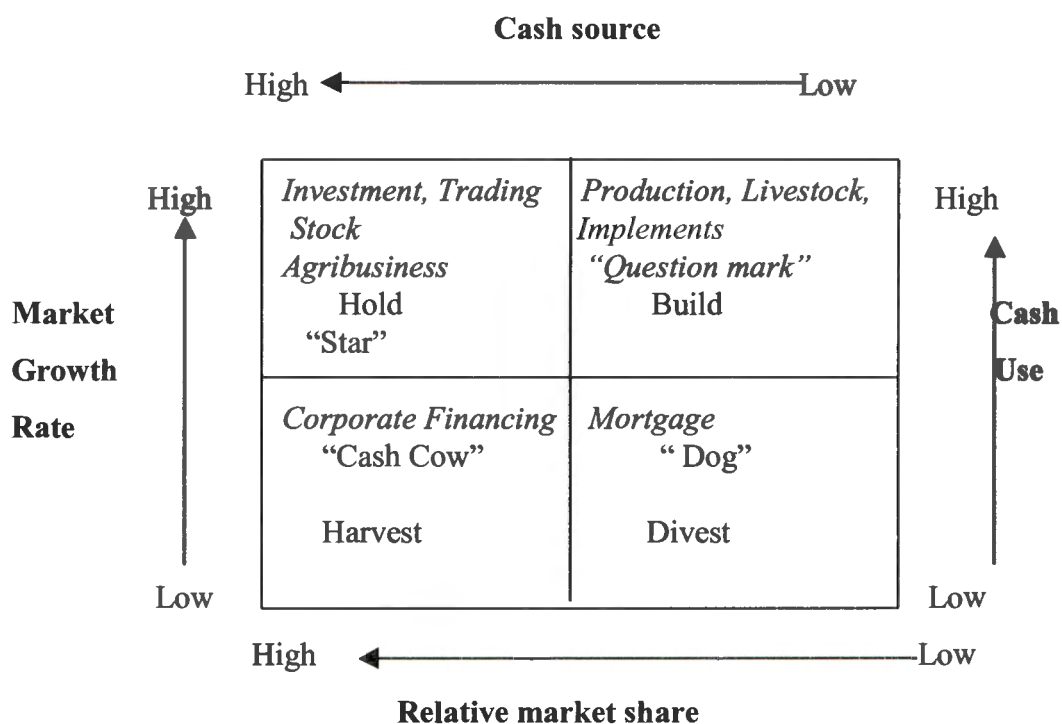
Since the emphasis of this document is not to determine the most appropriate models of the three for Agribank, but rather to investigate the possible strategic use of these model in agricultural financing. Therefore attention will be paid to only one model, namely, the Boston Consulting Group due to its simplicity and effective means of communication in an area such as Agribank where product portfolio techniques never mattered.

According to this model, the justification of the existence of each product offering should be based on the its ability to maintain relative market share, low usage of organisational cash as well as the ability to generate cash to the organisation, (Anthony *et al* 1995:275).

The logic behind this model suggests that there is no merit for an organisation, to supply services that are not attractive to the industry. All those goods and services that are not in the position to generate more cash that can be used for research and development and those products that constantly uses more cash without contributing meaningfully to the reserves, must be eliminated.

Furthermore, this model assumes that all loan classes or products rendered by the Bank can be placed in one of the four quadrants as shown in the diagram below namely the star, a question mark, the cash cow and finally a dog. The phrases used in these quadrants are easy to grasp, memorise and can easily be linked to strategy, (Hooley & Saunders: 53,1993)

**Figure 2.7: The Boston Box Product Portfolio Model**



Source: Anthony et al (1995:273)

This model of portfolio analysis places an emphasis on the attractiveness of an institution's product offering and market growth rate in a particular industry such as agricultural financing. The industry or market growth rate as an indicator of relative industry attractiveness and the relative market share as an indicator of the relative competitive position of a business venture within an industry.

Realizing the fact that the market or industrial growth rate is an open system that cannot be managed by an institution like Agribank alone, and hence Anthony *et al* (1995:273), reduced portfolio analysis to an assessment of the venture's position in relation to the relative industrial market share.

According to Hooley and Saunders (1993:45), this model singled out market share as the primary strategic variable because of the significance it places on the notion of the experience curve.

It is believed that market leaders have normally have the greatest accumulated production experience which can result in low cost production per unit as well as yielding of higher profits.

Furthermore an institution with the highest profits or contributions from sales has more to spend on research and development or marketing, which allow it to maintain its high market share.

The portfolio implications of this analysis brings meaning to an organization when cash flow implications for market growth rate and relative market share are considered.

(a) A Star Product

The products that fall in the star quadrant are typically assigned the objective of holding the market share because they have a high market growth rate and a high market share. These products because of their leadership position are self-sufficient and do not require to be subsidized by other products as they generate large amounts of income, which is used to maintain its competitive position, (Walker *et al*, 1996: 41).

Although this exercise of portfolio audit has never been commissioned in Agribank, one can be tempted to identify the following products to suit this categorization,

namely the investment, trading stock and agribusiness.

For an institution like Agribank that has been protected against competition by legislation, the main goal is to maintain the current leadership in those products that the competitors are aiming at. The competitive edge could be attained through harnessing the data about clientele and their requirements that other competitors do not have, (Nhlapo & Coetzee 1993 : 12).

The other leading agricultural financial institutions such as the Land Bank, which do not have much information about clientele in the former Bophuthatswana, are extensively acquiring this competitive resource from Agribank to the detriment of Agribank's business.

Furthermore, there are also other non - copyable holding initiatives such as distinctive skills and reputation of being the institution that extensively employed staff that understands the culture and speaks in the language of the customers.

The other formal competitors were not established to service these clientele and they are now starting to re – consider their options as the political influences requires businesses to actively participate in redressing the past inequities. The interference of the political factor should be viewed in the context of the historic perspectives and peculiarities of South Africa.

#### (b) Cash Cow Product

The products of the Bank such as the short - term production loans and agri – businesses can be classified as “cash cows” that must be harvested. This quadrant possess all the inherent qualities and all the benefits that are associated with the experience curve, such as high relative market share, low growth rate, low cash use,

and high capital generator.

They are the major source of income that can be invested in other portfolio such as research and development since they have a relative high market share and a low market growth rate. Management of Agribank is advised not to milk these products to the extent that they ultimately lose their competitiveness. It is imperative that short-term earnings are harvested even at the expense of the market share because they are experiencing a low growth rate.

At some stage in the life cycle of each products and services it can be clear that there is no long - term future. This is the case in Agribank with products such as corporate financing (Agricultural Co-operatives and Body Corporate) which were sustained by government trade incentives.

The total outstanding balance of these products is R46.5million Rand and yielding interest of R26,8 million rand, (Agribank,1998).

These services were provided because in most instances state guarantees that reduce the risk exposure were provided, but recent customer requirements and transformation of Co – operatives into companies rendered financing impossible.

#### ( c ) A Question Mark Product

Management is advised to build a low market share experience by these products early in the growth phase by investing a sizeable amount of money in order to promote these products either to the star or cash cow position. The advantages of building a market share earlier in the growth phase of the industry will lead to a better experience curve and lowest cost production per unit.

(d) A Dog Product

Loan products that are in this quadrant do not cost much to keep in relation to other products. Recent deregulation and the transformation processes in the agricultural financing institution and commercial institutions, these products are no longer what they used to be – one time breadwinners, which have fallen on bad times.

All the products that are classified as “dogs” might mean Land & Buildings, and Debt consolidation yield low even negative profit margins and they show a weak competitive position and are therefore unattractive. If these products cannot be improved through research and product development initiatives, then they have to be withdrawn from the list of products offered by the Bank.

The following figure, proposes a product lifecycle where funds are invested in the problem children in order to make them stars (tomorrow’s breadwinners) which will one day, become cash cows (today’s breadwinners). In the end these cash cows may decay to become pets.

The alternative disaster sequence shows the danger that can occur if organizations enter a market early and gain high market share that they fail to support. This can be the case when a product that generates high income, have a relatively higher market share and uses little resource, can degenerate from being a reasonably profitable into a loss making problem child that will eventually be divested.

Another disaster sequence could occur if, in a desire to take profits, a cash cow is over - milked and therefore becomes vulnerable to competition.

## 2.8 CONCLUSION

The problems that are facing Agribank are much more complex than the non-existence of functional and operational market strategy. Two of the main issues that management and the owners of Agribank have to speedily resolve is the nature or the form of business entity Agribank has to follow, and the withdrawal of the continued state financial or logistical support to the non self sustaining institution.

Despite the institutional shortcomings that faces Agribank, it is of utmost necessity that the development of marketing initiatives be undertaken in order to enhance the functions of the Executive and branch management.

The development of a market strategy for Agribank is not an event but a process that need to be seen holistically in philosophical aspects that will unleash sustainable competitive advantage by means of creating a market information based organization, (Kotze, 1997:42).

For Agribank to turn into a market information based organization, management need to monitor and interpret social, political, technological, and ecological events in an attempt spot the budding trends and conditions that could eventually impact the industry. According to Anthony and Govindarajan (1995:278), these aspects of the environmental need to be annualized in terms of the collective strengths of the extend of rivalry, the power of the donors, the power of the consumers, the threat of competition, and the threat of substitute products such as equity financing.

The crafting of a market strategy will be incomplete without due consideration being given to the cognitive aspects of the consumer. At all times consumers need to be asked to rate the quality of the services rendered to enhance the continued attainment of profound and substantial impact on the financial and other strategic performances of Agribank.

## **CHAPTER THREE**

### **METHODOLOGY AND THE RESULTS OF THE EMPIRICAL RESEARCH**

#### **3.1 INTRODUCTION**

The empirical case study was chosen with the purpose of determining the extent to which marketing theory, and in particular the strategic marketing management theory can be applied in the operations of the formerly government subsidized agricultural financing institutions like Agribank, that never used to market its product offerings.

#### **3.2 RESEARCH METHODOLOGY**

In an attempt to acquire the views of the customers of Agribank, who mostly have little or no understanding of English as a medium of communication but through the help of family members they were able to complete the questionnaire. The questionnaire was randomly distributed to the customers as they came in the bank for business as well as travelling to customers that are within reach.

##### **3.2.1 Questionnaire Design**

The whole questionnaire consists of four main aspects namely:

- Demographics
- Financial Products and Services,
- Institutional Accessibility and
- Communication.

In all the above four main aspects various methods of questioning such as multichotomous, dichotomous and five part Licket scale varying from 1(strongly disagree) to 5 (strongly agree), were adopted Churchill (1995:413-415). The advantage of using multi faceted

questions is to elicit the required response as well as to avoid boredom when answering questions.

### **3.2.2 Data Collection**

A judgmental sample of 100 customers of the Mmabatho branch office out of a total of approximately 220 customers was considered. This sample was chosen on the basis of the proximity of the branch office and the limited financial resources to cover five branches of the bank. Experienced front office personnel members were selected to interview some of the respondents, who do not understand English and were not certain about their next visit to town.

The selection of these members was done with the purpose of eliminating any biasness and limiting the level of errors.

The questionnaire constructed was firstly aimed at probing the extent to which the customers perceive the functioning and geographic positioning of Agribank. Furthermore, the questionnaire also investigated the possible use of some of the strategic marketing principles such as market segmentation, marketing communication and product portfolio management.

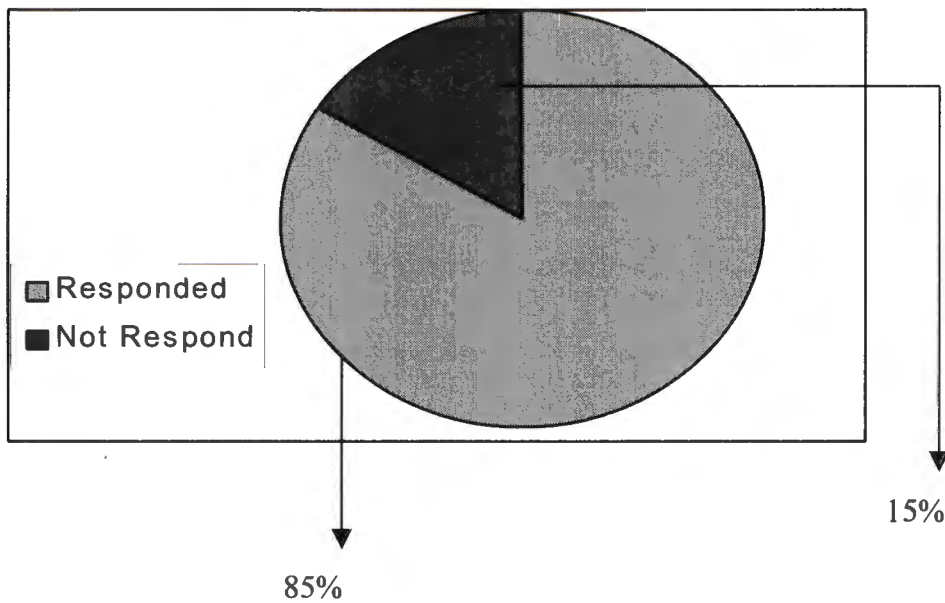
Finally the questionnaire was aimed at determining the extent to which the results of the above analyses could be integrated into the operational activities of an agricultural financing institution like Agribank.

### **3.2.2 Response Rate**

The questionnaire sample of 100 respondents, which included both existing and potential customers of Agribank, was distributed. From this sample only 85 questionnaires were returned, and this represents a response rate of 85%.

From the total returned questionnaires 9, which represents 10,58%, could not be used in this analysis because they were not correctly filled in and in certain cases most questions were not answered.

**Figure 3.1: Response Rate**



### 3.3 THE RESULTS OF THE QUESTIONNAIRE

#### 3.3.1 Demographics

| <u>1. Age</u>         |     |
|-----------------------|-----|
| ▪ ≤ 30 years old      | 3%  |
| ▪ 30 and 40 years old | 15% |
| ▪ 40 and 50 years old | 15% |
| ▪ 50 and 60 years old | 30% |
| ▪ 60 years old        | 37% |

|   |  |
|---|--|
| <u>2. Gender</u>  |  |
| <ul style="list-style-type: none"> <li>▪ Male</li> <li>▪ Female</li> </ul>  | <ul style="list-style-type: none"> <li>85%</li> <li>15%</li> </ul>                           |
| <u>3. Literacy</u>  |  |
| <ul style="list-style-type: none"> <li>▪ Cannot read and write</li> <li>▪ Not passed primary schooling</li> <li>▪ Passed Std 10</li> <li>▪ Tertiary qualification</li> </ul>                | <ul style="list-style-type: none"> <li>45%</li> <li>30%</li> <li>15%</li> <li>10%</li> </ul> |
| <u>4. Occupation</u>  |  |
| <ul style="list-style-type: none"> <li>▪ I am a full time farmer</li> <li>▪ I am a part time farmer</li> </ul>  | <ul style="list-style-type: none"> <li>85%</li> <li>15%</li> </ul>                           |
| <u>5. Tenure</u>  |  |
| <ul style="list-style-type: none"> <li>▪ Own property</li> <li>▪ Leased property</li> <li>▪ Communal property</li> </ul>  | <ul style="list-style-type: none"> <li>0%</li> <li>0%</li> <li>100%</li> </ul>               |
| <u>6. Associated Membership</u>   |  |
| <ul style="list-style-type: none"> <li>▪ Yes</li> <li>▪ No</li> </ul>   | <ul style="list-style-type: none"> <li>63%</li> <li>37%</li> </ul>                           |
| <u>7. Existing Client</u>   |  |
| <ul style="list-style-type: none"> <li>▪ Not Agribank's customer</li> <li>▪ Less than two years</li> <li>▪ Between two to five years</li> <li>▪ For a period more than ten years</li> </ul> | <ul style="list-style-type: none"> <li>10%</li> <li>17%</li> <li>28%</li> <li>45%</li> </ul> |

#### **How Old Are You**

A total of 82% of the respondents are within the age range of 40 to 60 years old and 18% comprise of respondents who are younger than 40 years of age. Furthermore the questionnaire revealed that most of the clients are people who are in the age level of 50 years and older.

It can be assumed that people within this age range are more dependable in terms of their previous farming experience. Whenever new products are developed it is vital that the various age limits of the potential customers is known because product preference can easily be linked to age groups.

#### □ Gender

The majority, (85%), of the respondents that approached the Branch office were male and only 15% was female.

From the findings it can be assumed that 82% of the respondents are between the age of 40 and 60 years. These findings confirms the belief that agricultural financing in South Africa had not been only skewed towards the racial inequities, but women have been extremely segregated against.

In an attempt to address this position, Nhlapo *et al* (1993:14), suggest that future financing strategies should concentrate more on women without discriminating against men. The reason behind these intentions is mainly to affirm the wrong policies of the past and apply some remedial or corrective measures without abandoning the current clientele.

Furthermore, other than the fact that women have suffered the most from a lack of access to credit, they need to be strongly considered as an untapped market because they have proved to be more reliable clients.

### □ Literacy Level

It can be concluded that the majority (75%), of the respondents are illiterate. The managerial implication for Agribank is that printed communication need to be limited and strengthened by oral or personal communication.

Although this seems to be expensive, and can lead to misinterpretations, it is the only best mechanism that when employed effectively meaningful results will be attained.

### □ Occupation

A total of 85% of the respondents indicated that figure of people who derive their livelihood directly from farming operations. Only 15% of the respondents have indicated that they do not rely only on farming.

The results of the survey reveals that the clientele of Agribank comprise predominantly of people who are self-employed and engaged in agriculture as the only means of survival. As most of the respondents are gaining their income from agricultural ventures, and most probably from seasonal production as the basis for household food security, this expose both the customer and the Bank to a higher risky position.

Lack of enterprise diversification in agricultural ventures might lead to no sustainability and if it is coupled with lack of additional non-farm income it leads to a disastrous situation.

### □ **Farming Operations**

All the respondents conduct their farming operations on communal area.

This area has its problems centered around the uncertainty about the future form of land rights as these rights are associated with the productive capacity of the land to satisfy the fixed collateral requirements (Coetzee *et al* (1994:9).

The challenge that faces Agribank is to provide financial services largely to clients who cannot provide land as collateral but they enjoy the communal rights. Faced with this position it will be vital for management to understand this predicament and adopt collateral requirements that are compatible to this environment.

### □ **Membership to Agricultural Institutions**

A higher proportion of the respondents are not members of the Co-operative movement or nor the farmers association. This state of affair means that the bank will have to increase its direct exposure to the clients rather than through intermediaries.

### □ **Are you the client of Agribank?**

A total of 90% of the respondents are existing clients of the Bank, with more than 45% of them being with the bank for more than ten years.

Foster (1997: 57), is of the view that the most precious assets in business is its existing customers because they are the reason Agribank is in business. For strategic intentions it will be appropriate to make use of the existing clients in designing new products rather than providing new products to totally new clientele.

This will give Agribank a better position to provide services that are akin to those provided by the commercial banks or even formulate linkage strategies with these institutions.

### 3.3.2 : Financial Products

|   |                      |
|---|----------------------|
| <input type="checkbox"/> <u>Commercial Banking Experience</u> <ul style="list-style-type: none"> <li>▪ Savings</li> <li>▪ Investment</li> <li>▪ Savings and Investment</li> <li>▪ None of the above</li> </ul>    | <br><br><br><br><br> |
| <input type="checkbox"/> <u>Frequency of commercial Bank</u> <ul style="list-style-type: none"> <li>▪ Once a week</li> <li>▪ Once in two weeks</li> <li>▪ Once in a month</li> <li>▪ When a need arise</li> </ul> | <br><br><br><br><br> |
| <input type="checkbox"/> <u>Future Products / Services</u> <ul style="list-style-type: none"> <li>▪ Agricultural and agricultural related products</li> <li>▪ Loans as required by the clients</li> </ul>         | <br><br><br><br>     |
| <input type="checkbox"/> <u>Lending Rates</u> <ul style="list-style-type: none"> <li>▪ They are too high</li> <li>▪ They are markets related</li> </ul>   | <br><br><br>         |
| <input type="checkbox"/> <u>Future Funding</u> <ul style="list-style-type: none"> <li>▪ Money market</li> <li>▪ Government</li> <li>▪ The above two factors</li> </ul>  | <br><br><br><br>     |
| <input type="checkbox"/> <u>Supervision of Credit</u> <ul style="list-style-type: none"> <li>▪ Transfer money into my account</li> <li>▪ Pay the suppliers directly</li> </ul>                                    | <br><br><br>         |
| <input type="checkbox"/> <u>Natural Disaster</u> <ul style="list-style-type: none"> <li>▪ Yes</li> <li>▪ No</li> </ul>  | <br><br><br>         |
| <input type="checkbox"/> <u>Enterprise Monitoring</u> <ul style="list-style-type: none"> <li>▪ Yes</li> <li>▪ No</li> </ul>   | <br><br><br>         |

|  |            |
|--|------------|
| <input type="checkbox"/> <b>Training</b> <ul style="list-style-type: none"> <li>▪ Yes</li> <li>▪ No</li> </ul> | 100%<br>0% |
|--|------------|

| Criteria   | Strongly Disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly Agree |
|--|-------------------|----------|----------------------------|-------|----------------|
| <input type="checkbox"/> Track Record            | 7%                | 3%       | 12%                        | 17%   | 61%            |
| <input type="checkbox"/> Default Management      | 39%               | 8%       | 1%                         | 27%   | 25%            |
| <input type="checkbox"/> Sources of Income       | 20%               | 10%      | 17%                        | 11%   | 42%            |
| <input type="checkbox"/> Collateral Requirements | 43%               | 29%      | 0%                         | 10%   | 19%            |
| <input type="checkbox"/> Deposit Requirements    | 53%               | 19%      | 15%                        | 6%    | 7%             |

#### **Commercial Banking**

The majority of the respondents are making use of commercial banking facilities such as savings and investment (70%).

It is a common knowledge that the propensity to save is higher among people who receive little income than with higher income. Strauss (1997:26) is of the view that rural people will not switch their savings to alternative institutions such as Agribank, unless better access is provided, unless the institution is regarded to be financially sound, and offer competitive interest rates.

#### **How Often Do You Visit This Institution**

A total of 75% of the respondents pay a visit to their local commercial Bank on a monthly basis and 10% when need arise.

When making use of this information Agribank can arrange that the transactions of farmers can coincide with the monthly trip of the customers. This might enable the minimalist approach to transaction costs.

□ **What should Agribank's products be?**

The survey depicts that 70% of the respondents are of the view that, the bank should provide financial services as required and determined by the clients as opposed to the provision of the agriculture and agricultural related products only.

This high affirmation percentage align itself with the views espoused by Coetzee et al, (3), that future financing principles should be guided by the needs of the targeted clientele. The financial needs of the targeted rural farm and non-farm enterprises are so broad and they might include aspects such as production credit, savings facilities, household consumption and insurance facilities.

The provision of deposit taking (savings) facilities should be encouraged and all legal barriers preventing Agribank from taking up deposits should be reviewed. This provision is based on the negative effects of ignoring the provision of savings facilities in conventional credit programs.

Research indicates that the majority of rural entrepreneurs finance themselves out of savings that imply a greater need for saving facilities than for credit facilities. Also there is lack of other formal financial services in rural areas are evident.

□ **How comparable are Agribank's lending Rates?**

Almost 90% of the respondents are of the view that the ruling lending rates of Agribank at 10% long term, 13.5% medium term, and 14% short term, are neither too high nor too low but highly market related.

Agribank like most state funded financiers, have been relying on interest rate subsidies, for the purpose of alleviating rural poverty and the promotion of rural economic development. Conzalez (1993:19) believes that subsidized or cheap interests are weak

instruments to achieve rural economic development and rural poverty.

Subsidized interest rates do not enable institutions like Agribank to be financially viable and self-sustaining and meet all its operational costs. Self-sustaining institutions have credibility, and are able to mobilize deposits from the public, collect their loans, and retain good management and staff.

The lack of Agribank's viability during the past few years have indicated by the decrease in its lending capacity to institution like the Land Bank. The value of the accounts in arrears has been increasing with little amount of money received from the collections of the loans. In 1992 the Agribank at the request and aide from government wrote - off an amount in excess of 120 million rand that has accumulated as a result of non payment of loans by the clients. The non-servicing of the loans cannot be attributed only to the clients but there were some institutional impediments.

During the past two to three years the Bank has been in a poor state of mobilizing funds from the state department or other government supported institutions due to the change in government policies and lack of major success from the loan defaulters who politicized their non-repayment ability.

□ **Where should the Bank acquire its funding?**

A total of 68% of the respondents is of the view that the government should play a meaningful role in the provision of funds, as the market cannot equalize all the past inequalities. Another 10% of the respondents are of the view that money should be obtained from the money markets whereas the other 10% is of the view that money should be obtained from both the government and the money market.

Agribank can still continue to acquire funding from the government and other donors

provided that money will be used to fund the development of human capital that is required to manage credit risk intelligently.

Important here is the implementation of a management system that permits the tracking of loan defaulters on a regular basis (Graham 1995:19).

The use of cheap governments funds that is targeting selected beneficiaries will lead to a situation whereby the targeted clientele view the whole financing as government conduit. The clients specifically viewed the previous approach by Agribank in this manner and there was no great that can be attributed to this practice.

Gonzalez (1993:19) suggest that agricultural finance institutions like Agribank have mistrusted the market and have minimized the role of interest rates as a major tool for resource allocation, by being totally dependent on external funds from the government as opposed to generate own financing.

Agribank can pave its way towards self-sufficiency by funding their operational funds from open money markets with the intention of lending at higher rates to those cases that they deem risky and lower to those cases they deem less risky. Nothing precludes Agribank from charging higher than the commercial interest rates

By charging real interest rates as opposed to sponsor regulated rates, Agribank will be in a better position to price its products and make allowance for reserves against default. Furthermore, too low rates of interest discourage depositors, allow poor investments by borrowers, and create a paternalistic culture, which is not conducive to viability.

□ **When a loan facility has been granted**

A total 65% of the respondents are of the opinion that when a loan facility has been granted, payments can be made directly into the accounts of the providers of services.

The remaining 35% is of the view that money should be paid directly to them either into banking accounts or on hand.

The fungibility of funds has led Agribank to adopt a detailed supervision of the use of funds, and despite all good intentions this have resulted in negative consequences such as higher transaction costs. The motivation for credit supervision is to ensure control of the funds and the application of the funds for strictly farming purposes (Gonzalez, 1990:8).

Although most respondents are of the opinion that funds should be paid in kindness, this system reduces the client's purchasing power and resulted in the inability to finance possible multiple entrepreneurial activities.

A corollary to know the customers does not imply that Agribank should waste resources on credit supervision. Money that has been advanced to clients with limited and full collateral and need not be supervised to the last stage of the productive phase. In the event the client uses money in activities that are not consistent with the application the next credit application can be withheld.

The relaxation of the current supervisory and control activities is in no way equated with the abandonment of crucial financial disciplines. This need to be seen as a measure that allows the customers to take the advantage of special opportunities and compete more effectively against other individuals who do not have sufficient working capital.

Management of Agribank can reduce the loan transaction cost by not controlling the productive use of the loan but by offering complementary services such as insurance and investment products. By maintaining this relationship the management can attain low cost knowledge of the customer necessary for the next credit decision, while at the same time fulfilling the productive supervision.

## □ **Provision for natural disaster**

A total of 90% of the respondents are of the opinion that the bank must make provision for natural disaster.

Natural disasters such as drought, floods or plagues, need to be planned for, by both the Bank the borrower, and the government purely for venture sustainability. The Bank can accommodate the loss of revenue associated with natural disaster by diversifying the product portfolio such as moving away from supply led–credit to demand led credit products.

These initiatives will lead to the capitalization of reserve funds during better periods and these funds can be used during the time of disasters to make provision of bad debts or maintaining the institution when the customers' accounts have been rescheduled.

Intervention of the state in the provision of agricultural and rural financing is limited to those activities that are pertinent to normalization of the inadequacies of the previous policies or inadequacies of the market forces. Van Empel et al (1995: 8) affirms that the private sector is not in a position to establish a sound and affordable drought relief mechanism and only the state can be in such a position to establish or sponsor debt forgiveness mechanism.

The rescheduling of debt might tend to improve the long-term relationship between the bank and in turn decreases the transaction costs over the long term to both borrower and lender.

The responsibility of product diversification is not only limited to Agribank, it is advisable that customers also diversify their enterprises to lessen the effect of loss of income due to natural calamities.

## □ **Enterprise Monitoring**

All of the respondents are of the opinion that all business ventures financed by the bank should be monitored.

Gonzalez (1990: 8) alleges that traditional agricultural credit programs provided by institutions like Agribank have mistrusted customers by insisting on a detailed supervision on the use of funds.

The aspirations of the customers surveyed is not total supervision of the loan by the financing agent, but they prefer the periodic evaluation of the business venture because they possess little technical skills required by the successful entrepreneurs.

By rationing and strictly adhering to the detailed supervision of the extended credit, have resulted in negative consequences. One of these consequences is the cost of service by both the customer and Agribank. From Agribank's point, the procurement system needs to be monitored and checked by both the Officers who conduct progress reports, estimation of yields, as well as the authenticity of payment.

The customers developed negative sentiments as the whole supervision is both expensive and time consuming. This supervision requires that for each and every transaction a journey needs to be taken to the supplier of services to collect a quotation, another journey from the supplier to the nearest branch office for an order and finally a journey back to the supplier.

## □ **Skills Training**

A total of 100% of the respondents are of the view that the bank must be in a position to provide financial services as well as skills training.

Although all the respondents are of the view that skills training need to be provided, this should not be interpreted to mean the perpetuation of supervised credit programs.

Gonzales (1990: 8) maintains that supervised credit extensions have mistrusted the market forces as major tools for resource allocations and the integrity of the client as a rational decision maker.

Strauss (1996: 32) recommends that the incorporation of training support with the provision of agricultural financing is inadvisable. There are researched cases where most of the borrowers have disassociated themselves from the ensuing debt stating that they were unduly influenced by the training or extension officers and that the organization should share the loan risk.

International experience also suggest that development finance institutions should restrict their operations to financial services and leave technical assistance and training to other institutions, whether private or state owned.

The provisioning of skills training need to be viewed in the light of the previous government policies that resulted in higher illiteracy levels among the rural inhabitants. Since agriculture is like any other sector of the economy, it is also either positively or negatively influenced by technological advances.

Farmers or potential clients of the bank, who are not literate, will have to put more effort in managing their business ventures that are highly influenced by the ever changing technological and managerial advances.

It is understandable that Agribank is not a training institution, but its association or the promotion of adult basic education will be highly appreciated by those who require its services and this might lead to building good organizational image.

□ **Good repayment record is good for future loans?**

More than 80% of the respondents strongly agree that building of a financial track record with Agribank is an important aspect for future loan requisites, 20 % agree to this statement and only 5% of the respondents is indifferent to this statement.

Gonzalez (1990: 10), is of the opinion that timely repayment of the loans is, on the other hand, a recognition of the value for the client of his relationship with the financial intermediary. The most powerful incentive for the borrower's repayment is the expectation of a reliable and continued access to valuable financial services.

It is advisable that Agribank should consider building a financial track record of its customers particularly those with no or limited collateral by starting to grant smaller short term amounts to allow customers to gradually prove and build their creditworthiness before obtaining larger loans (Graham 1995:11).

The idea of considering good repayment track record from other institutions will alleviate in the initial screening process of the possible defaulters. This requires the establishment of the information network system that is capable of tracing defaulters, or the possibility of affiliating to credit referencing organizations.

□ **Should serious steps be taken against the defaulters?**

A total of 60% of the respondents strongly agree that serious steps be taken against those individuals that do not service their account. About 20% of the respondents agree that loan defaulters should be dealt with, 10 % of the defaulters are of the respondents neither do they confirm nor accept the situation and 15% totally disagree that defaulters should be attended accordingly.

Luke warm efforts on default management usually result in luke warm loan repayments. If an institution create a perception of being serious about the product it sells, clients usually

are serious about loan repayments (Coetzee *et al* 1993:14).

In the past, Agribank has been reluctant to enforce sanctions against delinquent borrowers, primarily because of the negative publicity generated by punishing poor borrowers for being too poor to repay.

In most instances poor repayments accumulated to the point where government bailed out the defaulters through natural disaster relief mechanisms, as it was the case with 1992 / 1993 debt write off worth approximately 120 million rand. The bulk of this money was the unsecured consolidated debt of 1988/89. Because loan amnesty was provided for by the government and not by Agribank, the defaulters never lost their financial relations with the organization.

It is envisaged that, management will act freely without political embarrassment when sanctioning all financial ties with the client both formally and informally through inter institutional information sharing system. Through this system the defaulter risks the entire economic future and probably this will be a much stronger sanction than losing all assets and image

□ **Should other sources of income be considered when applying for a loan?**

Almost 40% of the respondents strongly agree that other sources of income should be considered when a client applies for a loan, the other 10% agree with this statement, 20% is neutral, the other 10% disagree and the remaining 20% strongly disagree with this statement.

One characteristics of the traditional agricultural financing institutions that is cited by Gonzalez (1990:7), which is prevalent to Agribank is the targeting of the clientele independent of the repayment capacity.

In cases where the borrowers' repayment ability and the degree of risk taken in each case is taken into consideration, other sources of income such as salary, insurance policies, investment instruments and procedures for and efforts towards loan collection are emphasized more than quick disbursement of the funds.

This aspect of viewing the total income exposure of the client is further supported by Coetzee *et al* (1993:14) as the farming communities are likely to be exposed to fluctuations in commodity prices as well as vagaries of nature. This is an important consideration for management of Agribank since a whole group of entrepreneurs will be unable to repay their commitments at the same time. By considering additional income that the client receives outside the farming venture, organizational risk exposure will be reduced.

□ **Should collateral be considered?**

The survey revealed that 25% of the respondents strongly agree with this statement, 15% agree, 10% is neutral, 20% disagree and the remaining 30 % strongly disagree.

All the respondents are of the opinion that conventional and non – conventional collateral requirements should be satisfied before the disbursement of the funds. In the case of conventional collateral attempts by management to register Agribank with the Bank Act and the Mutual Bank Act, or apply for a provisional relaxation of the constraints that prohibits the holding of deposits for clients.

Strauss (1996: 79), maintains that inability of the institutions like Agribank to hold deposits for their clients is not in keeping with the international experience, where deposit taking is often the cornerstone of successful institutions lending in rural areas. The collateral problems facing many local rural financing institutions would be greatly eased if enabling legislation were passed regarding deposit-taking.

Other forms of non-conventional collateral such as the use of the group approaches and character lending can be exploited. The group approach lending technique is one measure that can be extended to small, socially cohesive borrower groups. These groups can greatly reduce the information problem as all members presumably know and trust each other and are in a position to monitor each other's behavior, Graham, (1995:12). The benefits associated with this technique usually remedy that part of the lack of information that is reflected in the provisioning of bad debt, as the group can internalize it.

A group lending relies on peer monitoring and other group advantages such as character-based collateral, referrals, linked contracts and building a relationship between borrower and lender, can decrease bad debt provision and administrative cost drastically.

The successful implementation of group lending comes from the full understanding of the group dynamics and to determine effectively which group works well and identify the scoring techniques.

**□ Should you pay some deposit?**

As little as 10% of the respondents strongly agree, 15% of the respondents are neutral, 30% of the respondents disagree and 45 % with this statement.

**3.3.3 : Communication**

|   |   |
|---|---|
| <p>□ <u>Preferred Medium</u></p> <ul style="list-style-type: none"> <li>▪ Radio</li> <li>▪ Television</li> <li>▪ Newspapers</li> <li>▪ Magazines</li> </ul> | <p>78%</p> <p>14%</p> <p>3%</p> <p>5%</p> |
|---|---|

|   |                       |
|---|-----------------------|
| <input type="checkbox"/> <u>Frequency of Attendance</u> <ul style="list-style-type: none"> <li>▪ Daily</li> <li>▪ Weekly</li> <li>▪ Monthly</li> <li>▪ Whenever possible</li> </ul> | 90%<br>5%<br>0%<br>5% |
| <input type="checkbox"/> <u>Time of the Day</u> <ul style="list-style-type: none"> <li>▪ In the evenings</li> <li>▪ In the morning</li> <li>▪ When time permits</li> </ul>          | 9%<br>80%<br>11%      |
| <input type="checkbox"/> <u>Language of Preference</u> <ul style="list-style-type: none"> <li>▪ Setswana</li> <li>▪ English</li> <li>▪ Afrikaans</li> </ul>                         | 100%                  |

**Which Communication Medium do you prefer?**

As many as 80% of the respondents prefer the use of radio and 10% prefer the use of magazines and the remaining 20% prefer the use of television and newspapers.

Based on the premise that the majority of the population in the North West Province is illiterate, (Central Statistical Services: 1996), radio or any other audio material will be preferred by the larger proportion of the customers.

It is advisable that all marketing or communication articles need to be conveyed to the clients or potential customers in oral mechanisms.

**Frequency of Listenership or Readership**

From the surveyed clients of Agribank, 90% of the respondents listen to the radio on a daily basis, and the remaining 10% read weekly magazines.

The clients that were surveyed prefer to listen to the radio early in the morning before they embark on the daily activities, and those clients that are semi literate prefers to read weekly magazines as opposed to daily or monthly magazines.

Daily magazines are regarded to be too frequent to the farming business and any other magazine that is more than a week old is regarded to be too old for the business.

□ **At what time of the day do you attend to this medium?**

A total 80% of the respondents prefer to listened to their medium or read their magazines in the morning.

□ **Language of preference**

All respondents prefer the use of Setswana.

The challenge to Agribank is to prepare the material to the customers in the language that is well understood, to compound the matter further, the language of preference is not technologically developed.

### 3.3.4 Institutional Accessibility

|   |                  |
|---|------------------|
| <input type="checkbox"/> <u>Distance to the nearest Agribank Office</u> <ul style="list-style-type: none"> <li>▪ Not far</li> <li>▪ Far</li> <li>▪ Very far</li> </ul>  | 7%<br>60%<br>33% |
| <input type="checkbox"/> <u>Distance to the nearest Agribank Office</u> <ul style="list-style-type: none"> <li>▪ Not far</li> <li>▪ Far</li> <li>▪ Very far</li> </ul>  | 7%<br>60%<br>33% |
| <input type="checkbox"/> <u>Desired location of Agribank Offices</u> <ul style="list-style-type: none"> <li>▪ Within the farmer's vicinity</li> <li>▪ Within the vicinity of other suppliers</li> <li>▪ At any place convenient for the organization</li> </ul> | 45%<br>58%<br>3% |

### 3.3.4 : Proximity to Banking Institutions

#### How far are you from the nearest Agribank's Office.

A total of 60% of the respondents are of the view that they are far from the nearest office of the bank, 35% felt that they are very far from the Bank.

Access to loans should be in close proximity to where most of the clients are living or working since travelling add to their transaction costs in terms of time and money ( Nhlapo *et al* 1993:14).

The institution can lower the borrowers transaction costs by being accessible and in close proximity to the client. Furthermore Agribank can drastically decrease the borrowers opportunity cost by processing applications speedily and by having a flexible approach to repayment terms.

□ **How far are you from the nearest Commercial Bank's office?**

The results revealed that 60% of the respondents are of the view that they are far from the nearest office of the bank, 35% felt that they are very far from the commercial Bank.

□ **Where should the Bank's Offices be positioned?**

Only 45% of the respondents are of the view that the bank should be located within the vicinity of the farmers, and 58% feel that the Bank should be within the vicinity of the suppliers of services, 3% is of the view that any geographic place is still okay.

□ **How far are you from the nearest Commercial Bank's office?**

The best transmission services that are rendered by the commercial banks are less accessible in the deep rural areas, and the challenge to Agribank is identify a partner that is within reach of most of the rural communities.

□ **Where should the Bank's Offices be positioned?**

The geographic location of the Bank is highly essential to the customers with respect to the time it takes to reach and the its convenience to the suppliers of services. In the event that it is impossible to relocate the branch offices, then it is essential that linkages either electronic or administrative arrangements can be entered into with institutions that are both accessible to customers as well as the other providers of services.

### 3.4 CONCLUSION

The finding of the sampled population's demographics depicts that most of the respondents are predominantly illiterate males who are in their declining ages of economic activity. Further than this, these respondents' entrepreneurial activity is limited by communal land tenure rights and with little job opportunities in other mechanized sectors of the economy and hence most rely on agriculture for their main source of income (Kotler, 1994:157).

The benefit of having the demographic knowledge will enable Agribank to fragment the total rural market into smaller markets with the purpose of designing products that are differentiated by age, gender and literacy. The financial needs of rural women with better repayment ability will be different from the current loan requirement of their counter male partners (Strauss 1996:25).

Since its establishment Agribank has been mainly dealing with customers that could not access the commercial banks' loan facilities due to risk and cost implications Gonzalez (1990:2). This survey revealed that despite the access to the loan facilities, the majority of the respondents is familiar with banking and makes use of savings and investment facilities that are provided.

The findings of the survey further revealed that customers are of the opinion that the design and developments of products need to be based on the requirements of the market segments rather than out of political responsibility (Gonzalez 1990:1) and (Kotler, 1994:19).

The other finding from the survey is the strong rejection of the risk assessment criteria by the respondents. Coetzee and Vink (1991:11-12), maintains that risk assessment profiles of borrowers need to be scrutinized by providing a diversified product range or acquiring financial profile from the commercial banks or informal money lenders. Financial profile of the borrower can be of value if Agribank builds a deposit relationship through savings mobilization.

Due to some historic perspective most of the respondents are of the opinion that most institutions that provide financial services are not located within their immediate reach. In these remote areas most respondents tune every morning to their local radio station. In the event of product positioning, this medium will be highly effective than print or visual medium.

## CHAPTER FOUR

### CONCLUSION AND RECOMMENDATIONS

#### 4.1 INTRODUCTION

Graham (1995:10) suggests that the attainment of organizational sustainability require the emphasis by management to achieve rapid growth in the loan portfolio with the purpose of attaining the benefits associated with the principles of the economies of scale.

The other factor that lies beyond the discretion of the organizational management but that rests with the shareholders such as the Provincial government is the need for a long run commitment to allow time for the realization of the economies of scale.

Although the contents of this paper is geared towards the establishment of a market strategy for Agribank, it is important to recognize that no marketing initiative can be successfully implemented without considering financial and administrative aspects of the organization.

Furthermore, Graham recommends that the price of lending should be commensurate with the cost of funds, all administrative expenses, loan losses and a decent return on capital.

The interest rate at which Agribank makes funds available to the farming community is usually negotiated with the government. The current interest rates are scheduled as 10% for bonds, 14% for intermediate and 15.5% for the short term financing. This state intervention mechanism need to be phased out on a diminishing scale as the government itself has a large number of pressing needs to meet from its limited tax base and should not have to constantly fund the recurrent cost of inefficient institutions (Strauss 1996:27).

Administrative activities should be geared towards lowering the default rate from 72.26% to at least 10% of the total loan portfolio or farming debt. To achieve this goal Agribank need to

structure its financing mechanisms on character lending and repayment ability of the borrower. The adaptation of other means of non-conventional collateral requirements need to be reinforced with the adherence to the loan maturities.

When Agribank starts to focus on character lending, thorough consideration should be placed on smaller short term to allow customers to prove their creditworthiness before obtaining larger loans. The rationale behind this philosophy is to allow the organization to be accessible to the poorest of the poor without necessarily exposing itself to larger collateral risk exposure.

Finally Agribank is the only formally established institution that is operating in the rural as well as the peri-urban areas of the North West Province. Most of the commercial institutions and the Land Bank of South Africa are still operating from towns and cities around the province, this comparative advantage gives Agribank the potential franchise value.

In order for Agribank to reap the fruits of this franchise value, radical internal re-organization with the intention of creating a sustainable institution supplying realistically priced financial services earning decent rates of return.

Most researchers are arriving at a consensus concerning the financial technologies required to secure sustainability in institutions like Agribank that were established with the aim of providing credit first as opposed to savings or sustainability first.

## **4.2 CONCLUSION**

Agribank has been exclusively providing agricultural credit to the rural communities without mobilizing savings. By providing a wide spectrum of financial services Agribank will be in a position to distribute income equitably by giving access to financial assets with higher return than those from tangible assets.

By designing and offering the savings product, Agribank will improve its financial viability

and most probably minimize on its default rate of currently 72%. The broadening and diversification of the product offering will result in the stabilization of liquidity and solvency and reduces the dependence from government funds (Spio 1995:4).

One major problem that has encompassed the credit delivery mechanism of Agribank can be attributed to lack of independent loan appraisal authority and the ability to collect outstanding debts from the farmers. The political intrusion in the financial operations of the bank due to the morality factor have led the farmers to believe that non-repayment of the loan is a justifiable act and not a deviant conduct from the contract. Gonzalez (1991:15) believes that these political obstructions need to be eliminated in order to create a viable organization.

As it is shown by the survey most of the respondents are male in higher age group achelons, and this is not the true reflection of the population of the rural areas that can be serviced by Agribank. Future success factors lies in the realization and harnessing the potential of the women and the younger members of the societies (Nhlapo and Coetzee 1993:14).

The successful implementation of a strategy depends highly on the availability of sound management that can formulate the organizational structure that will support the new strategic initiatives. Organizational structure is just a means to an end that will harness individual efforts and coordinates performance of diverse tasks. This function is absent from Agribank, and any strategy requires sound and stable management environment (Kotze 1997:10).

### **4.3 RECOMMENDATIONS**

Agribank is faced with the dilemma of attaining self - sustenance and the likelihood of government withdrawal of its continued financial support especially the annual administrative grant and government investments. Fortunately, this is not a unique position for most enterprises and the survival strategies has been focusing on the attainment competitive either through cost leadership or service differentiation (Walker et al, 1996:71). The implication of these two factors will be outlined below:

□ **The low cost leadership advantage**

The principle of cost leadership can best be attained when the marketing drive can be excellerated to such an extent that the rural franchise value is maximized and the number of the loan book is increased to attain the benefits of the economies of scale (Graham, 1995:17). This strategy can only wok best in the long run as much capital will be required to build the information data at the early developmental phase.

□ **The Product or Service Differentiation Advantage**

Linneman and Stanton, (1991:53), maintain that customers can be satisfied and be given the reason to belief that the same products from different companies yield different utility levels to the same consumer. Adopting one of the following strategies can bring about this customer delight:

▪ **Product or Service Differentiation Strategy**

One of the strategic choices that can be adopted by management is to differentiate its offerings from that of the competition. This strategy means that Agribank can develop and hold a product that is different from that of other suppliers, as long as it has the capabilities or the potential of generating money.

▪ **Differentiation through customer service**

By implementing quality service guides and making use of a help desk that is manned by well-motivated, trained and courteous personnel. Agribank with the majority of employees coming from the same cultural pool as the potential clientele can turn this into an advantage that will improve their image performance with the public.

Having an advantage of satisfied customers, Agribank could gain customer loyalty, which will make switching cost expensive for the competition (Blem 1995:15-16).

- **Differentiation through communication strategy.**

The survey revealed that most of the respondents are illiterate, it might be necessary for management to adopt a direct selling strategy using the local gatherings and addressing the clients in their language.

- **Differentiating with Price**

Price can still be a differentiation strategy when variable prices can be offered to different client base on their special sensitivities such as loyalty or risk classifications.

Blem (1995:15), suggest that satisfied customers are willing to pay more for the satisfaction they derive from better service. For those customers that do not meet the collateral requirements of the commercial banks a higher price can be charged only if they are happy with the service.

#### **4.4 FUTURE RESEARCH**

The study was conducted only within one out of the five branches of Agribank, and the views of one branch cannot necessarily be the same with other branches. Further research should be conducted throughout the whole Agribank to avoid generalization of the findings.

#### **4.5 SUMMARY**

Agribank is not only faced with the problems of competition and financial viability, but it is also faced with a serious problem of transformation and lack of senior management to drive guide the re-organization process. The whole senior management positions have been vacant for some years without being filled.

If this re-organization can be completed and Agribank performs well, it could offer through its extensive branch network a range of financial services to the rural poor. Moreover portfolio diversification and extensive branching would alleviate the risk of loss income due to climatic conditions or variations in output prices, Graham (1995:20).

The presence of revamped Agribank will facilitate a pivotal role in development of the village Banks in areas such as Kraaipan, and Setlagole. A rural financial system spearheaded by Agribank can mobilize rural savings and provide low cost tailor made financial services to the rural poor.

Agribank and the other commercial banks initiated these Village Banks and due to logistical problems, Agribank left them without support.

Jazayeri (1994:2) asserts that a fundamental asset in a village environment is the network of relationships, information, and the knowledge of people about each other. This is a priceless information that any banker would like to have.

The continued existence of Agribank in the rural areas of the North West Province could possibly lead to the stimulation of the rural economy within which other enterprises can emerge.

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## APPENDIX ONE : QUESTIONNAIRE

### Section 1: DEMOGRAPHICS

Complete the following information by marking the correct alternative

1.1 I am

- (a) Less than 30 years old
- (b) Between 30 years and 40 years old
- (c) Between 40 years and 50 years old
- (d) Between 50 years and 60 years old
- (e) Greater than 60 years old

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1.2 I am a

- (a) Male
- (b) Female

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1.3 My literacy status is as follows:

- (a) I cannot read and write
- (b) I have not passed primary schooling
- (c) I have passed Std 10
- (d) I have a tertiary qualification

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1.4 What is your present occupation?

- (a) I am a full time farmer
- (b) I am a part time farmer

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1.5 Where do you conduct your farming operations?

- (a) Own property
- (b) Leased property
- (c) Communal property

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1.6 Are you are a member of a particular Farmers Association or Union?

- (a) Yes
- (b) No

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1.7 Are you are a member of an agricultural Co – operative?

- (a) Yes  
(b) No


1.8 How long have you been Agribank's customer?

- (a) I am not Agribank's customer  
(b) For less than two years  
(c) For a period between two to five years  
(d) For a period more than two years


## Section 2: FINANCIAL PRODUCTS

2.1 Do you have one of the following accounts with any commercial Bank?

- (a) Savings  
(b) Investment  
(c) Savings and Investment  
(d) None of the above


2.2 How often do you visit this commercial Bank?

- (e) Once a week  
(f) Once in two weeks  
(g) Once in a month  
(h) When a need arise


2.3 What should Agribank's products be?

- (a) Only agricultural and agricultural related products  
(c) Loans as required by the clients


2.4 How comparable are Agribank's lending rates?

- (a) They are too high  
(b) They are markets related

2.5 How should future rates be?

- (i) They should be lower than Commercial Banks
- (j) They should be market related
- (k) The above two factors

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2.6 Where should Agribank obtain its funding?

- (a) Money market
- (b) Government
- (l) The above two factors

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2.7 When a loan facility has been approved Agribank should :-

- (a) Transfer money into my account
- (b) Pay the suppliers directly
- (c) Pay me directly

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2.8 The Bank must make provision for natural disasters

- (a) Yes
- (b) No

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2.9 Should the Bank monitor your venture?

- (a) Yes
- (b) No

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2.10 Should the Bank provide skills training

- (a) Yes
- (b) No

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Answer the following questions by indicating with an X on the appropriate box. The numbers in each box indicate the following:

- Strongly disagree = 1  
 Disagree = 2  
 Neither disagree nor agree = 3  
 Agree = 4  
 Strongly agree = 5

|   |   |   |   |   |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|

2.11 Good repayment is important for future loans

- 2.12 Serious steps be taken against defaulters
- 2.13 Other sources of need to be considered
- 2.14 Some sought of collateral need to be considered
- 2.15 Clients must pay some deposit

### Section 3: COMMUNICATION

3.1 Which communication medium do you prefer

- (a) Radio
- (b) Television
- (c) Newspapers
- (d) Magazines

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3.2 How often do you read/listen/watch/attend the medium of your choice?

- (a) Daily
- (b) Weekly
- (c) Monthly
- (d) Whenever possible

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3.3 At what time of the day do you listen/watch to a radio or TV?

- (a) In the evenings
- (b) In the morning
- (c) When time permits

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3.4 Which language do you prefer?

- (a) Setswana
- (b) English
- (c) Afrikaans

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### Section 4: Institutional Accessibility

4.1 How far are you from the nearest Agribank's office?

- (a) Not far
- (b) Far
- (c) Very far

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4.2 How far are you from the nearest Commercial Bank?

- (a) Not far
- (b) Far
- (c) Very far

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4.3 Where should Agribank's offices be positioned?

- (a) Within the farmer's vicinity
- (b) Within the vicinity of other suppliers
- (c) At any place convenient for the organization

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