NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS MANAGEMENT
STRATEGIC MARKETING MANAGEMENT II – CBU 4201
FINAL EXAMINATION - JUNE 2007
TIME ALLOWED 3 HOURS

INSTRUCTIONS TO CANDIDATES

- ***Answer Section A and any three others.***

SECTION A

<u>Dairiboard Zimbabwe Limited</u>

Dairibord Zimbabwe Limited (DZL) is a former state owned company privatized and listed on the stock exchange in July 1994. The company leads the Zimbabwean market in the milk processing and marketing business. However, currently, viability is threatened by ongoing agrarians reforms. Consequently, raw milk supplies have declined. Dairibord, now a holding company of three subsidiaries, (namely Dairibord Zimbabwe, Dairibord Malawi and NFB logistics), is faced with the dilemma of maintaining profitability in the face of economic hardships.

The company's mission is, "to be the most sought after provider of world class quality dairy delights; ingredients and beverages". Its vision is, "to be the best and most successful dairy company in Africa, commanding a position of sustainable growth driven by technological and market share leadership". The company claims that customer satisfaction is the yardstick against which its performance in all spheres will be measured. Exceeding customer's needs and expectations is a commitment shared by every person in the company.

DZL is one of the largest manufacturing and marketing companies in Zimbabwe with seven factories in Harare, Chitungwiza, Bulawayo, Gweru, Kadoma, Mutare and Chipinge.

The group produces an extensive range of dairy products, and beverages, which are marketed locally and abroad. Its turnover of approximately Z$4 billion has a complement of 1040 employees.

The Operating Environment

Although a difficult operating environment had been forecasted for the year 2000, the magnitude of woes that eventually beset the business climate turned out to be far beyond the most passionate forecasts. The main factors that impacted on performance included:

- High levels of inflation - Characterised by
    - High interest rates
    - Pegged foreign exchange rate which eroded the viability of exports
    - Excessive government expenditure

- The negative effects of cyclone Eline, and
- Cropping fuel and foreign currency shortages.

Inflationary Environment

Inflation remained lamentably high, averaging 55.7% in 2000 compared to 58.5% in the preceding year. This outcome was not surprising given the excesses in government recurrent spending and the resultant burgeoning budget deficit, which are the underlying reasons for the hyper inflationary environment. Expectedly, the hostile economic climate exerted severe upward pressure on production costs. Hefty increases in the prices of fuel, water, electricity and coal negatively impacted the company's activities throughout the value chain, from milk procurement through to manufacturing and distribution, complemented by tight management controls and treasury management.

Financial Performance

The group's pricing policy was formulated with due regard to the prevailing economic conditions of high inflation, high unemployment and dwindling aggregate demand. The challenge was to balance the need to maintain margins against the necessity to meeting growth objectives. The pricing policy was therefore founded on maintaining pricing levels below the rate of inflation. Group turnover for the year at current cost was $4 billion, a decrease of 10% over the previous year. This result was attained against a backdrop of sub optimal pricing that was heavily influenced by demand depression. In this respect, the most affected products were low value, short shelf life products such as pasteurized milk and lacto whose prices and volumes remained stressed. On the other hand, value added products such as chimombe, cremora and yoghurt continued to command premium prices coupled with growing volumes, thus increasing the contribution of value added products to turnover.

Milk supply

The most significant cost savings resulted from the company's deliberate policy to boost local milk production. Whereas in 1999 the company had to supplement local milk intake with imported and more expensive milk solids amounting to over 5 million litres in whole milk equivalent milk receipts for the year under review were sufficient in meeting domestic and export demand.

The negative impact of farm invasions and the accompanying threat to milk supply was mitigated through dialog with the authorities. Constructive strategic options were considered aimed at consolidating short and long term milk supply through the introduction of medium and large scales producers.

With respect to the outcome in milk intake, it is fttting to acknowledge the valuable resilience of dairy farmers in the face of adverse economic conditions. More importantly, let it be recognized that the extremely progressive contribution of the Ministry of Lands and Agriculture and the Ministry of Industry and International Trade, whose timely and positive interventions, significantly contributed to the stability that is presently obtained in national milk production.

Domestic market

Despite the relatively stable milk supply, domestic sales were adversely affected by the economic ills affecting the country. Runway inflation and unsustainable interest rates contributed to pervasure downscaling of operations in the national economy. This resulted in increased unemployment and a shrinking consumer base, with some analysts estimating unemployment at 60%. Consequently, the turnout on domestic sales volumes was 9% below the previous year.

Product performance

Besides the general decline in aggregate demand, other factors which contributed to demand depression included the destructive effects of cyclone Eline and fuel shortages. The fuel shortages that characterized most of the year posed significant threats to the group's nationwide distributive capacity liquid short shelf life products.

Pasteurized Milk

Urban consumers, who are the primary target market for pasteurized milk, faced enormous hikes in municipal rates, electricity charges, and transport costs. The lower end of the urban market was the worst affected by the ensuing erosion of disposable incomes. The resulting intense competition for the over stretched consumer dollar of this vulnerable but important market segment led to reduced demand for pasteurized milk, whose sales accounted for 22% of total turnover, declined by 13% compared to the previous year.

Two strategic options were employed to mitigate consumer hardships and, thus, minimize the impact on sales volumes. Firstly, the company did not need to supplement local milk intake with more expensive imported milk solids, as was the case during the previous year.

Through the company's proactive efforts of supporting the local dairy industry, sufficient milk was produced in the country during the year, culminating in substantial savings in milk procurement costs. Secondly, consumer price adjustments for pasteurized milk were deliberately kept below the rate of inflation to alleviate consumer resistance and other demand related factors.

Fermented Milk (Lacto)

Fermented milk suffered the largest decline in demand, posting a 23% decrease in sales volumes compared to the previous year. Contribution to turnover also dropped by one percentage point from 13% in 1999 to 12% in 2000. On the supply side, the dislocations in distribution that were caused by cyclone Eline and the continuing fuel shortages adversely affected product supplies to the important rural market segment. However, prudent fuel management and route rationalization helped mitigate the distribution bottlenecks resulting from fuel shortages.

Demand factors that contributed to the poor performance of fermented milk included the relatively long wet weather that led to reduced demand. In addition, shifting consumer needs and changing life styles also led to diminished demand. Exploratory research suggests that fermented milk's weighting in the consumer basket in shrinking. Further research is being conducted to ensure that appropriate strategies are formulated that will of necessary, lead to product improvements and repositioning of the brand.

Long Life Products

Chimombe:- (UHT Milk)

Chimombe, the group's leading brand, recorded a modest 1% volume growth compared to 4% growth during the previous year. This relatively solid performance is testimony of the brand's robustness and resilience against the backdrop of declining aggregate demand, nationwide contribution constraints, and supply bottlenecks in packaging materials due to foreign currency shortages. Future investment decisions will be directed at strengthening the brand's continued competitive advantage 22% of total turnover.

Steri Milk

This is a robust brand that commands considerable equity, particularly in the rural segment. However, the infrastructural damage that followed the destructive cyclone Eline was largly responsible for 13% reduction in volume sales of the otherwise stable brand. Impossible roads and bridges caused serious disruptions to both milk supplies to the Chipinge Plant, as well as distribution of finished products from the same plant. In addition, substantial quantities of highly perishable raw milk had to be destroyed due to the ensuing interruptions in production.

Crema (Instant Full Cream Milk Powder)

Crema recorded a commendable real growth of 5%, with sales revenue accounting for 4% of turnover. The product line continues to register growth on the basis of a very strong brand with solid reputation for quality. The potential for this brand is yet to be realized on the export markets.

Yoghurt and Fruit Juices

The performance of value-added products such as yoghurt and branded pure fruit juices was relatively stable. Yoghurt performed particularly well, posting a real growth of 21% over 1999. The positive outcome was due to product development initiatives undertaken at the beginning of the year. The improved products were well received by the market as evidenced by the exceptional growth in sales.

Milk Protein Drinks

A new range of milk protein branded “Fun ‘n Fresh” was launched in December 2000. The initial response by the market is very encouraging. This initiative is in line with the group’s corporate strategies of growth through expansion of beverages portfolio. Targeted promotions and brand building campaigns have been lined up to support the new brands in the coming year. The company’s stable of refreshments, fun, and health products now encompasses the popular Flavor Ravers. Sugar-free diet yoghurts, natural joy pure fruit juices, and the…..Fun ‘n Fresh milk protein drinks are targeted at the growing, alert – the youth and health conscious.

Ice Creams

Demand for ice cream declined by 9%, with contribution to turnover remaining at 3% like the previous year. The most affected was the vending segment whose sales were adversely affected by the long wet weather. The decline was more pronounced in the price sensitive lower income segment where sales were hurt the most. A number of cost containment measures aimed at keeping prices down were implemented. These included an import substitution strategy where the group worked closely with local manufacturers in developing cheaper local packaging materials.

Dairibord Malawi

Strategic initiatives at the subsidiary remained focused on the consolidation of the milk supply base. These efforts are beginning to bear fruit as evidenced by 16% increase in milk intake from 2.1 million litres in 1999 to 2.5 million litres during the year under review. The newly established Lilongwe distribution facility is producing encouraging results, with sales in the catchments area having increased by 60% during the year.

However, the hostile economic environment that prevailed in Malawi throughout the year adversely affected the performance of the subsidiary. The market experienced considerable demand depression and contraction due to severe macro-economic problems which included a 90 % devaluation of the Malawi Kwacha during the year. The devaluation resulted in significant foreign exchange losses. As a result, the subsidiary’s turnover remained at 3% of group turnover.

The subsidiary will for the foreseeable future, continue to play the twin strategic roles of supporting localized manufacturing of short shelf life products in Malawi, while providing a solid base for exporting the group's long life products from Zimbabwe.

Exports

The negative effects of inflation were more pronounced on exports where it was not possible to adjust prices to account for the escalations in production costs. The problem becomes more vivid when one considers the fact that while domestic inflation in most of the company's regional export markets averaged less than 10% during the same period. Clearly, export-oriented companies such as Dairiboard were faced with a dichotomous situation of exporting at very thin margins while importing inputs at parallel markets rates, thus eroding the viability of exports.

As direct result of the mismatch between foreign exchange policy and prevailing economic fundamentals was that while export volumes increased by 46% compared to 1999, revenue decreased by 11% at current cost. Consequently, the proportion of exports in volume terms grew to 12%, while they continue to account for 8% in revenue terms. Relevant authorities have continued to be insensitive to the problems and needs of exporters, save for the recently announced export inventive scheme. The new plan is not expected to have any meaningful impact on the competitiveness of exports.

Despite these and other problems which severely eroded export competitiveness, the group achieved a major breakthrough half way through the year with the setting up of a distributorship in the coastal twin of Mombasa. The distributor is strategically located to service not only the vast Kenyan market, but also to access Somalia. The introduction of the COMESA free trade area at the beginning of November 2000 was most welcome development in terms of improved market access. The concomitant removal of customs duties further strengthened the competitiveness of the group's products into the lucrative Kenyan market.

The long-awaited implementation of the SADC trade protocol is expected to considerably improve market access to the traditionally difficulty market of Mozambique. A large South African retail chain has already established a number of supermarkets along the Beira Corridor. Subsequently, modest export volumes are being directed through this channel, and initiatives are underway to further develop this strategically located market in partnership with the retail chain.

In addition to exporting activities, the group intensified the search for strategic linkages with selected East African diary companies. As the group pursues its vision of growth through regional expansion, these initiatives will continue to provide opportunities for the company to spread its productive base beyond the borders of Zimbabwe and Malawi.

Management Information Systems (MIS)

The new enterprise wide resources planning MIS was successfully rolled out to all the group's seven plants, including Head Office. The entire national productive infrastructure is now interlinked real time wire Head Office. This development has greatly enhanced communications and decision-making throughout the company's national operations, resulting in heightened efficiency levels. Towards the end of the year, the SAP R/3 solution that forms the backbone of the MIS was upgraded to a version that is capable of supporting e-business. The company is therefore fully geared to make the most of the opportunities and challenges presented by e-business.

ISO 9000 Certification

At the beginning of the year the company engaged in a quality management programme. The primary objective of the initiative was to improve the quality of the group's market offerings and their competitiveness on both domestic and export markets. The programme was to be undertaken in phases to cover all the group's manufacturing plants. There has been ISO 9001/4 certification at Chitungwiza Dairy. This land mark quality accreditation is not an event, but is a culmination of years of management efforts to build a quality culture throughout the group. The certification is therefore just recognition of the quality culture of Dairibord's products and services which will form the competitive base to support the group's growth plans on both the domestic and export markets. The coming year will see more plants being ISO 9000 accredited.

Research Development

A number of improved and new products were launched during the year, the most notable of which were improved yoghurt formulations and the branded "Fun 'n Fresh" milk protein drinks. Most of these innovations involve value – added products which command relatively higher margins. The strategic vision is to ensure that at least 5% of the group's revenue comes from new products.

Human Resources Development

In recognition of the fact that organizational success hinges on the quality of human capital, the group continued with the well-established overseas training of its technical staff in dairy technology. In addition to having the skills and expertise of its staff in the core competency area of manufacturing. An executive training programme for senior managers was initiated during the year at a renowned tertiary institution. The executives are required to undertake the Master's degree in Business Administration (MBA). It is the group's firm belief that contemporary management skills are a prerequisite to organizational survival in today's world of uncertainty and continuous change.

Social Responsibility

Community investment projects from an integral component of the group's objectives. The popular provincial and national High school cross country competition was this year sponsored to the tune of $1.1 million. The final was held in Mrewa in line with a decision to decentralize the event. It is pleasing to report that the event was a resounding success against the backdrop of record participation by both participants and spectators. It has therefore been decided to continue with this format, to cover all the country's processes.

Conclusion

Exports will remain the group's main vehicle for growth. While the company's presence in newly established markets will be consolidated through targeted promotions and brand building, the COMESA free trade area and SADC trade protocol will be used both to access new markets as well as consolidate existing ones. In addition, prospective manufacturing linkages with other diaries with the COMESA and SADC region will continue to be pursued and evaluated with the objective of localizing the group's activities in the region.

Adapted from: 2000 Dairibord Limited Zimbabwe Annual Report

<u>Question 1</u>

(a) Do a SWOT analysis for Dairiboard Limited Zimbabwe. **[20]**

(b) Discuss the liquidity and profitability situation of Dairiboard Zimbabwe. **[15]**

(c) Discuss the non-financial criteria that will ensure sustainable competitive advantage in future. **[15]**

(d) Describe Dairiboard Zimbabwe's product mix; product width and depth. **[10]**

SECTION B

QUESTION 2

Discuss the likely reactions of market leaders in the face of threats from market challenges. **[20]**

QUESTION 3

"Marketers manipulate marketing mix variables as the product moves along the product life cycle (PLC)". Discuss. **[20]**

QUESTION 4

"Successful change in strategy requires effective implementation on the part of management and commitment to change of the part of operatives". Recommend an ideal change management process for use in the introduction of a new marketing strategy. **[20]**

QUESTION 5

You are newly appointed Marketing Manager and have been tasked to introduce tight strategic marketing control measures. Elaborate on your mandate. **[20]**