THE KITCHEN INDUSTRY: AN ANALYSIS OF THE KITCHEN INDUSTRY IN GAUTENG AND A MARKETING STRATEGY FOR THIS INDUSTRY

S. TAYLOR

THE KITCHEN INDUSTRY:

AN ANALYSIS OF THE KITCHEN INDUSTRY IN GAUTENG AND A MARKETING STRATEGY FOR THIS INDUSTRY

by

Sharyn Taylor

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Strictly Confidential

Supervisor : Andrew Pampallis

Co-Supervisor : Dr Ruurd Van Der Wal

DEDICATION

This dissertation is dedicated to my mother Lorraine, my sister and brother-in-law, Allyson and Rodrick, for their editing, patience, moral support, understanding and encouragement throughout the course of this degree.

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The author wishes to thank the senior staff of PG Bison for the opportunity to research the titled subject, their financial support and for affording me the time to fulfill the requirements of this degree.

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Executive Summary

The holding of the first fully democratic elections in South Africa and the subsequent inauguration of President Nelson Mandela on 10 May 1994 brought great changes to this country, not the least of which was South Africa's exposure to the "Global Market". President Mandela extended an open invitation to international companies to invest in a country which he believed would provide an economic and social climate which would create opportunities to generate wealth. This exposure resulted in the development of an open economy, forcing South Africa to compete against all the economies of the world and resulting in a huge increase in both imports and the number of suppliers active in all sectors of industry, not the least of which is the kitchen industry.

Concerns with regard to the high levels of crime, political instability, government inefficiency, labour unrest, labour costs and extremely high interest rates have resulted in the loss of business confidence by both local and international companies. The current recessions being experienced by Asian countries have added to the country's financial downturn and South Africa could be facing a recession in the near future. The resultant high unemployment and inflation rates have had a negative impact on the consumer's disposal income and has resulted in negative growth in kitchen sales.

In summary, the findings of this research indicated that the kitchen industry remains a viable market during these trying times. The kitchen industry is one of fashion and therefore paints a different picture today to that of ten years ago. The survey illustrated that the need for changes to consumers'

kitchens still exist. This can be gauged by the positive replies, shown graphically below, to the question 'Is there anything you would like to change in your kitchen?' posed to the sample of domestic home owners used during the survey.

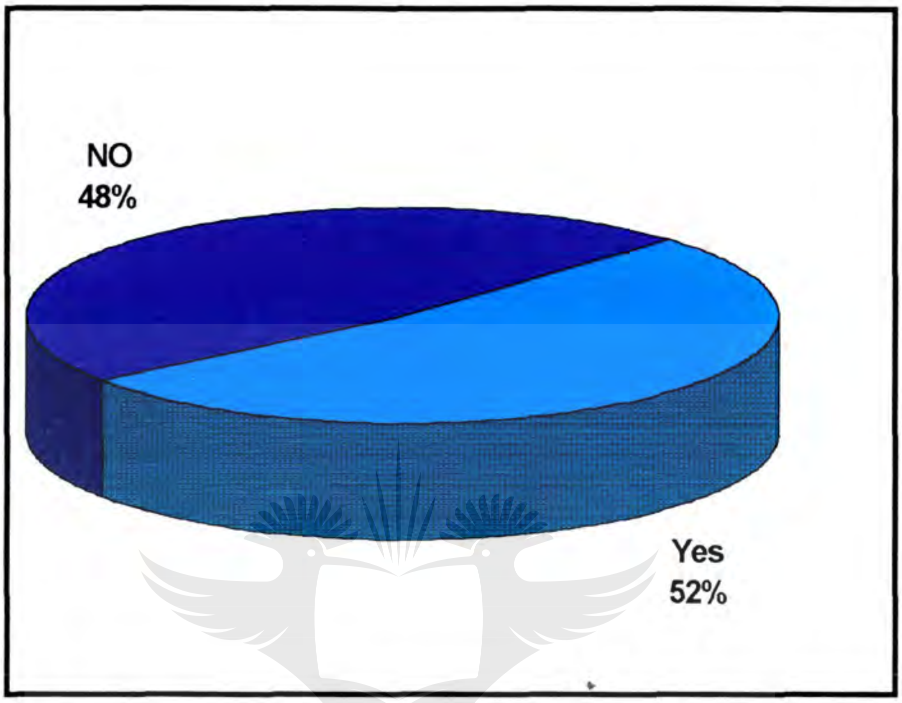

Figure I: Representation of the question : 'Is there anything you would like to change in your kitchen?'

The changes ranged from 'complete refurbishment' to changing only counter tops. These changes in consumers' needs call for a marketing strategy that not only satisfies these needs, but also differentiates one supplier from its competitors.

PG Bison is well poised to meet the marketing opportunities and threats confronting its business. It has been operating for more than thirty years, has a financially secure holding company, produces high quality products and has a well developed distribution network. There is a need for PG Bison to develop and implement a proactive Marketing Strategy which will ensure not only its survival in the current economic crisis, but will overturn the negative growth it has faced over the past three years and ensure that it is able to retain its position as market leader of the South African kitchen industry.

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1. CHAPTER ONE

1.1 INTRODUCTION

Chipboard (C/B) (particleboard) is manufactured from wood particles bonded with synthetic resin, urea formaldehyde, under severe pressure and heat. It is used in the manufacture of furniture, kitchen cupboards, bedroom furniture, coffins and shopfitting, to name but a few. High Pressure Laminates (HPL) are decor papers (coloured or patterned) impregnated with resin to give the laminates durability, workability, scratch resistance, etc. These laminates are used for kitchen counters, doors, wall cladding, etc. Medium Density Fibreboard (MDF) has the same concept as chipboard except that it is manufactured from wood fibre instead of wood chips. Thus the machineability of MDF is much greater than that of C/B and is a substitute for solid timber. Allied products are referred to as all the products related to the aforementioned products, i.e. C/B and MDF laminated on both sides with melamine impregnated paper (Melamine Faced Boards), veneers, foils and HPL. (PG Bison Training Manual, 1998:6).

The volume of imported chipboard, Medium Density Fibreboard, High Pressure Laminates and allied products into South Africa has increased dramatically over the last four years. This has resulted in supply outstripping demand in South Africa and PG Bison closed three of the four C/B production lines in their largest plant, Piet Retief, in March 1998 (PG Bison Strategic Plan, 1997:67). The Piet Retief plant feeds the Gauteng, Mapumalanga, Northern Transvaal and Free State regions with chipboard whilst the Pietermaritzburg plant supplies Kwazulu Natal and the Stellenbosch plant supplies the Cape region. PG Bison also has a MDF plant in Boksburg and a HPL plant in Alrode (Johannesburg). (PG Bison Company Profile, 1994:3) The location of these plants and their respective supply areas are shown in Figure 1.1

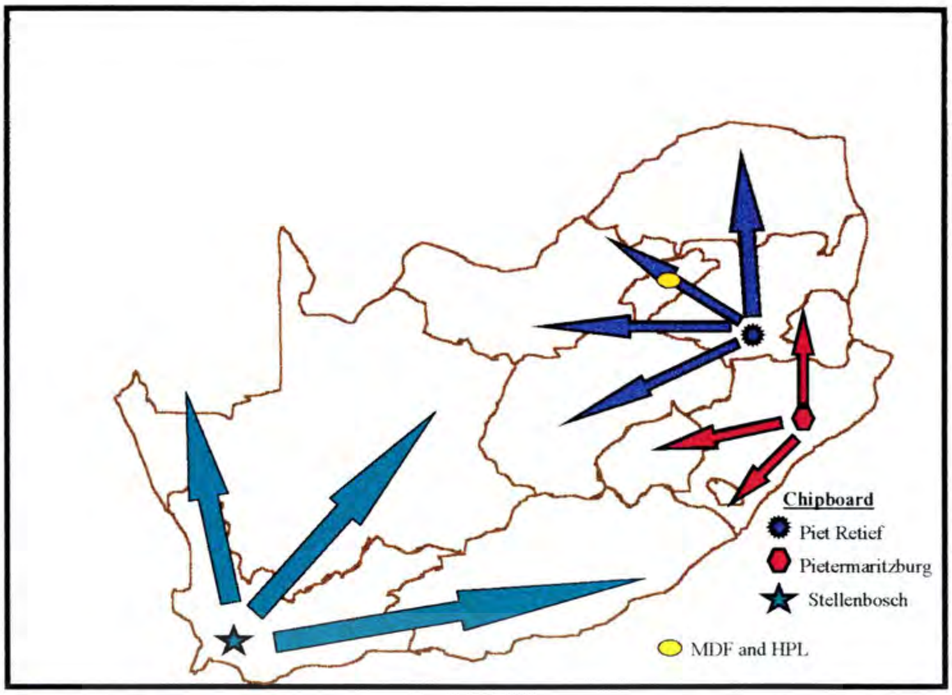


FIGURE 1.1 PG BISON PLANTS AND THEIR RESPECTIVE DISTRIBUTION AREAS

(PG Bison Company Profile, 1994:3)

PG Bison supplies products into the following market segments: casket, construction and housing, DIY (Do-It-Yourself), domestic furniture, flooring, kitchen manufacturers, office furniture, school furniture, shopfitting and joinery, upgraders (veneer, foils and laminates). Figure 1.2 shows the breakdown of the aforementioned (PG Bison Sales Data Base, 1998)

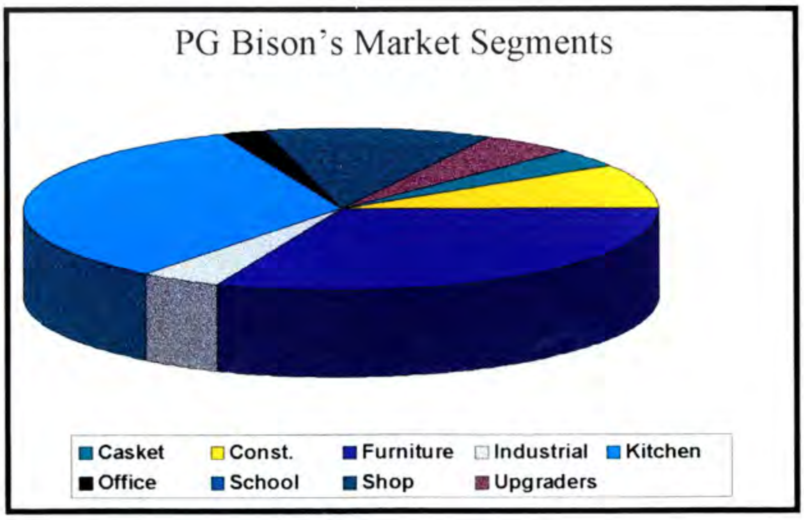


FIGURE 1.2 VOLUME OF SALES INTO THE SPECIFIC MARKET SEGMENTS

(PG Bison Sales Data Base, 1998)

The size of the target market for board products has decreased due to the difficult conditions prevailing in the furniture industry. There is a continual swing from case goods furniture (large consumer of PG Bison's products) to white goods as further electrification takes place throughout the country (PG Bison Annual Report; 9). Table 1.1 illustrates the change in mix of products sold by the Ellerines Retail Group from 1994 to 1997 (vd Westhuizen, 1998:2).

TABLE 1-1 SALES MIX OF PRODUCTS SOLD

Sales Split	Dec 1994	Dec 1997	% Change
Case Goods	37%	32%	-13.5%
Kitchen	17%	10.5%	-38%
Bedroom	16%	13%	-19%
White Goods	15%	21%	+40%
Audio & TV	10%	18%	+80%
Other	5%	5%	--

The impact of the change in product mix sold has an effect on the marketing strategy of PG Bison and in the case of this research, on the kitchen market segment. The above figure is evidence that the target market is in fact shrinking. Although the product mix has changed for the retailers, this has not necessarily been negative for the retailer. Ellerines Holdings are enjoying a 5% increase in dividends from 1997 to date in 1998 (Financial Mail, 1998a:71). However, not all retail groups have enjoyed an increase in dividends. McCarthy Retail's dividends have decreased from 97,0c in 1997 to 88,9c to date in 1998 (Financial Mail, 1998b:60).

The shift in buyer preferences from case goods to white goods together with the increased competitor activity has resulted in decreased demand and inconsistent pricing in board and allied products. This inconsistent pricing has various affects on all parties linked to the board industry and the greater choice of product to the end user of board products has affected both the manufacturers and distributors of board products.

1.2 PROBLEM STATEMENT

The purpose of this study is to determine the requirements of the consumers in the kitchen industry by means of market research in the Gauteng region. To determine the reasons for the recent decline in PG Bison's sales of the four main product lines sold into the kitchen industry, namely chipboard (C/B), Medium Density Fibreboard (MDF), High Pressure Laminates (HPL) and Melamine Faced Boards (MFB) and to develop a marketing strategy, by means of a literary review, for this market segment.

1.3 OBJECTIVES

- To identify and analyse the present trends in the domestic kitchen industry.
- To identify the key players in the supply of C/B, MDF, HPL and MFB to the kitchen industry in Gauteng.
- To analyse the sales activities of these products according to environmental and market conditions.
- To recommend a marketing strategy for PG Bison for the kitchen industry in Gauteng.

1.4 DELIMITATIONS AND ASSUMPTIONS

Consumers who have imported less than one 'eighteen cubic metre container' of board in the last year have been excluded from this research. It is assumed that information gathered from competitors with regard to pricing of products is accurate and true and that the present inconsistency of prices will continue in South Africa.

1.5 RESEARCH REPORT LAYOUT

The main text of this report will be a synthesis of qualitative and quantitative data gathered from local sources, senior managers in the respective industries, substantial literature review, questionnaires and personal discussions. Included in this synthesis will be appropriate discussion and analysis of the data and information gathered.

Chapter 2 will include an environmental analysis of South Africa, namely political, economical, technological, demographical, cultural and the environmental influence on South Africa and the effects the environmental analysis has on the kitchen industry in South Africa. This chapter will also include an introduction to the board market in South Africa as well as the background of PG Bison as an organisation. Included in this chapter is a background of the kitchen industry, the products utilised by the manufacturers and an analysis of the competitors partaking in this industry.

Chapter 3 will be the analysis of the data collected from the questionnaires sent to the consumer (owner of the kitchen). This chapter will include the conclusions from the completed research.

Chapter 4 will encompass a literary review of marketing strategies and a marketing strategy for PG Bison in the kitchen industry. The marketing strategy will include the four marketing "P's", namely, product, price, place and promotion and any relationship marketing requirements, including quality and process.

Chapter 5 portrays the final recommendations for PG Bison's marketing strategy for the kitchen industry in Gauteng.

2. CHAPTER TWO

2.1 ENVIRONMENTAL ANALYSIS

No country or organisation can operate as an island. The marketing environment consists of external forces: political, economical, technological, demographical, cultural and natural (these will be detailed below), which directly or indirectly influence PG Bison's acquisition of inputs and generation of outputs. No industry or country is immune to foreign competition. Because of the rapid market changes observed today, a company must acquire the ability to respond to these changes without hesitation (Sunter, 1997).

2.1.1 POLITICAL

As a result of Nelson Mandela's release in 1992, South Africa's relations with the rest of the world began to normalise and new trade and diplomatic ties were established with countries around the globe. That process accelerated sharply after the 1994 elections, the first time that all South Africans could partake in a fully democratic general election. The inauguration of President Nelson Mandela on 10 May 1994 was a catalytic event in South Africa's history. Since then, South Africa has been exposed to the 'Global Market'. "The primary motivation of the ANC's foreign economic policies as a whole will be to place South Africa on the path of rapid economic development with a view to addressing three problem areas: slow growth, severe poverty and extreme inequalities in living standards, income and opportunity" (Mandela, 1993:93). South Africa's most important trading partners are the US, UK, Germany and Japan (GEDA; 1998:56).

Key areas which threaten positive socio-economic development or contribute to slow economic growth include (Mills, 1995:239):

- Continuation of high levels of criminal activity
- Political instability

- Lack of investment and aid
- High population growth rate
- Inflated and/or expensive and/or inefficient government
- Structurally misconceived and mismanagement of reconstruction programmes.

A Washington research consultancy, Investor Responsibility Research Centre, says US businesses have become increasingly negative about South Africa in the past year amid concerns about management of economic policy, labour productivity, labour relations, currency stability, crime and violence (Business Times, 1998a). SACOB (South African Chamber of Business) has reported that the business confidence index has dropped to 86.2 points in August, the lowest it has been for twelve years (Business Times,1998b).

A relationship exists between political, social and economical stability (Mills, 1995:8). It is estimated that some 2.5 million people were diagnosed as HIV positive at the end of 1996 (Sidiropoulos, E et al; 1998:189). It is also estimated that the average life expectancy of South Africans will decrease to 40 years if the current growth rate of HIV continues. All political and social forces affect the economy in one form or another. A reduced number of economically active people will affect the production and distribution of PG Bison products. The increased demand for social services will place untold pressures on government budget allocations. This, in turn, will affect the population's disposable income, resulting in the downturn of purchases of PG Bison products. All the aforementioned factors affect every organisation in South Africa. The inter-relationship between political and social conditions is shown in Figure 2.1 overleaf. These forces have to be taken into consideration when determining business strategy and with regard to this research report, the marketing strategy for the kitchen industry.

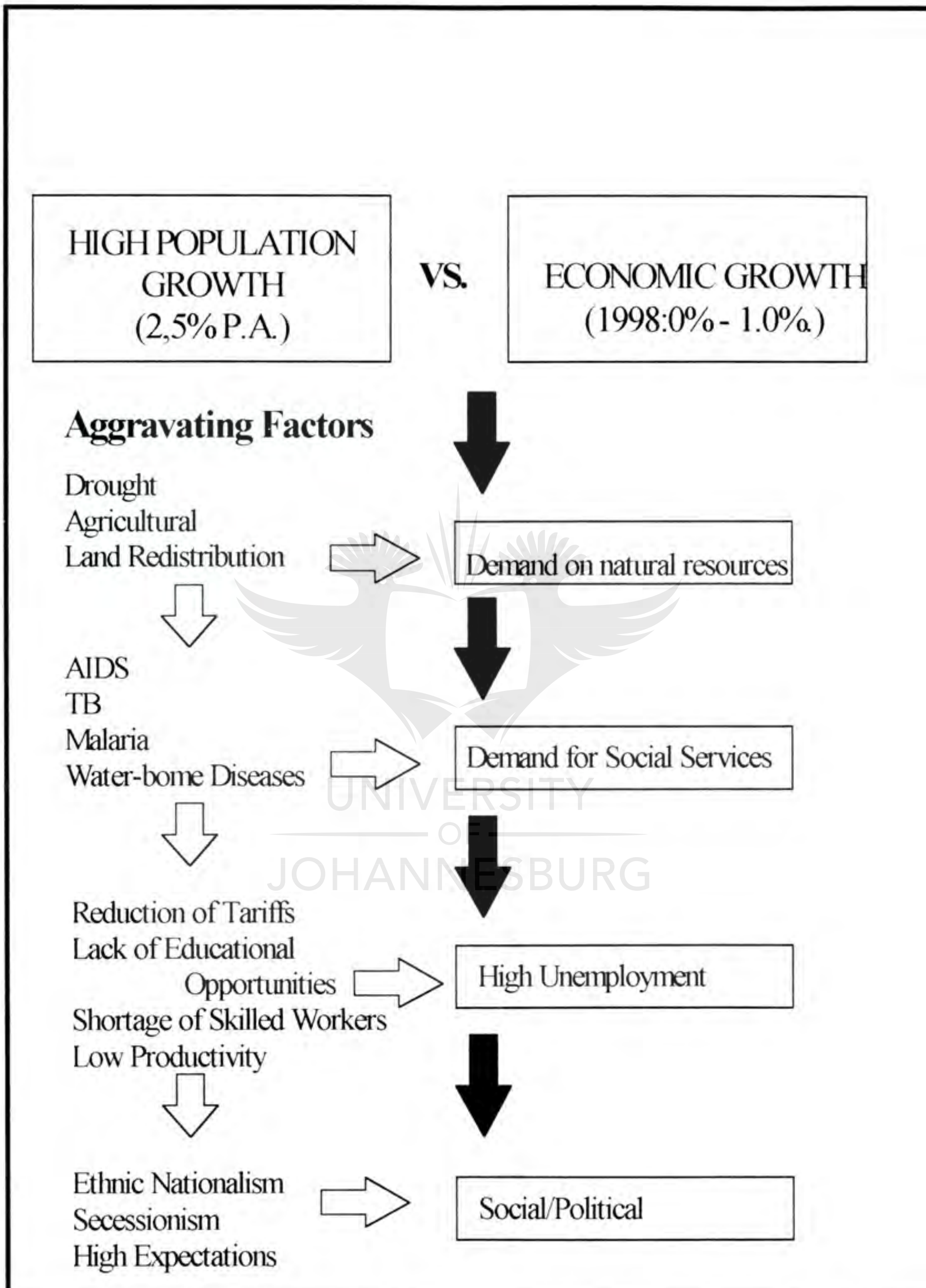


FIGURE 2.1 THE INTER-RELATIONSHIP BETWEEN POLITICAL AND ECONOMIC STABILITY

(Mills, 1995:8)

2.1.2 ECONOMIC ANALYSIS

"South Africans need to know that one rule has changed - SA is now an open economy and is competing against all the economies of the world. They cannot control an open economy and world standards." (Sunter, 1997).

GDP (Gross Domestic Product) can be defined as "The total value of all final goods and services produced within the boundaries of a country in a particular period (usually one year)" (Mohr, et al; 1995:91). GDP is one of the most important barometers of the performance of an economy. As depicted in the graph below, the South African economy is in a decline at present.

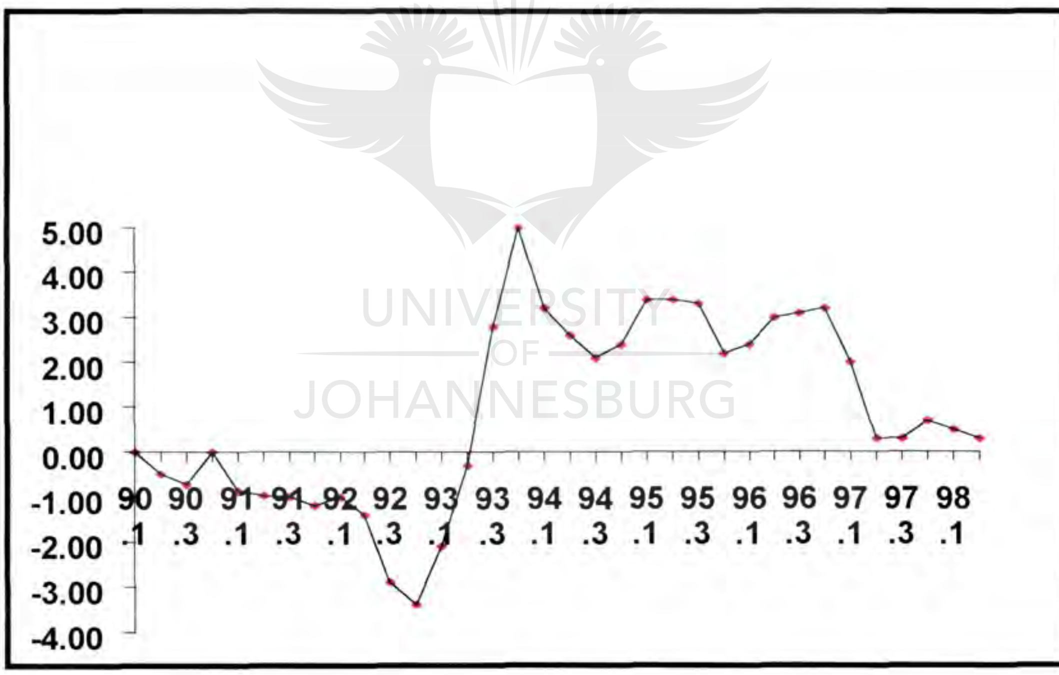


FIGURE 2.2 GDP GROWTH FOR SOUTH AFRICA (1990-1998)

(Econometrix, 1998)

However, when one compares South Africa's GDP with that of countries within the rest of Africa, as shown in Table 2.1, South Africa is in first position.

TABLE 2-1 GDP FIGURES FOR AFRICAN COUNTRIES, 1997

(Profurn Annual Results, 1997:5-8)

Country	Population (m)	GDP (USD per capita/annum
South Africa	43.9	3040
Botswana	1.5	2800
Namibia	1.7	1970
Lesotho	2.2	390
Swaziland	0.9	1100
Zambia	9.4	350
Malawi	11.6	170
Mozambique	16.4	90
Kenya	27.3	250
Tanzania	29.5	140
Uganda	20	190
Ivory Coast	14.8	610
Gabon	1.4	3880
Ghana	17.5	410

Trade with the rest of the African continent has multiplied several fold and South African companies have moved quickly to invest in other countries throughout the continent. In 1996 South Africa's exports to the rest of the continent amounted to R16.7 billion against R3.7 billion in imports (Gauteng Economic Development Agency, 1998). This is a favourable position for PG Bison to consider when looking at the export potential for its products. The fact that in many cases the infrastructure already exists with their existing client base is a positive factor for all market segments, including the kitchen industry. South Africa's top ten trading partners for 1996 (latest available figures) are shown in Table 2.2. (Gauteng Economic Development Agency, 1998).

TABLE 2-2 SA'S TOP TEN TRADING PARTNERS - 1996.

(Gauteng Economic Development Agency, 1998).

Country	Imports from (Rm)	Exports to (Rm)	Total Trade (Rm)
United Kingdom	13315	13102	26416
Germany	17323	4999	22322
United States	14778	6788	21566
Japan	9447	6974	16421
Italy	5072	2674	7744
Taiwan	3614	3178	6792
Zimbabwe	1177	5388	6565
Netherlands	2912	3384	6296
Switzerland	2941	2974	5914
Belgium	2225	3602	5827

The recession being experienced by Japan and other Asian countries has affected the whole world. The Asian crisis is affecting other developing economies negatively due to the high level of real interest rates. The crisis is also affecting the economic and prospective growth in Western industrialised countries by depressing exports from these countries (Econometrix, 1998:A-1). This has resulted in these Western industrialised countries looking (possibly) outside their normal countries for export and for growth, thereby affecting South African markets and in particular the board industry. South Africa is seen as a gateway into the rest of Africa due to infrastructure within the country's borders.

Credit Guarantee's John Rupert reports that the latest round of increased interest rates have once again heightened the risks attached to extending credit to existing and new customers, and businesses operating without effective credit management controls are looking for disaster (Luciem, (a) 1998). 97% of PG Bison's sales are achieved on credit (PG Bison Sales Data Base, 1998). Once again this factor influences the marketing strategy for the kitchen industry where the number of liquidations and closures is high. The number of kitchen manufacturers ceasing to operate in the last two years in the Gauteng area has increased dramatically.

Amongst these are Mr Cupboard, Meloplan, Whitehouse Kitchens (manufacturing concern only) and Custom Kitchens (Lockyer, 1998).

A consumer's disposable income (the income available to purchase goods and services after tax) is affected by inflation rates and interest rates. The higher the interest and inflation rate, the less money the consumer has for spending after all expenses such as house bond and car repayments have been made. As shown in Figure 2.3, the prime interest rates in South Africa have increased dramatically over the past year. The decrease in disposable income affects all sectors of business. Very few customers requiring a new kitchen, whether it be a replacement of an existing kitchen or a kitchen being built into a new home, are able to pay cash for the purchase. Higher interest rates are therefore restricting the number of people who can afford to purchase kitchens. Household debt as a percentage of disposable income, due to interest rates and the high level of consumer debt, is at approximately 72% (Econometrix, 1998). Debt judgments against firms rose by 13,7% to R322.98m in the first five months of 1998. The value has grown by 16,6% for individuals - more than treble the average inflation rate of 5.3% for that time period. Company closures have risen 35.8% in the second quarter of 1998 compared to the same period last year (Luciem (b), 1998). These company closures impact on unemployment (Gauteng unemployment rate is presently at 28%) (Statistics SA) and as a result disposable income.

The annual inflation rate at the end of July was at 7,6% with an anticipated year-end CPI rate close to 9.5% year on year (Bruggemans, 1998:1). Once again this has a negative impact on the consumer's disposable income and results in negative growth of kitchen sales.

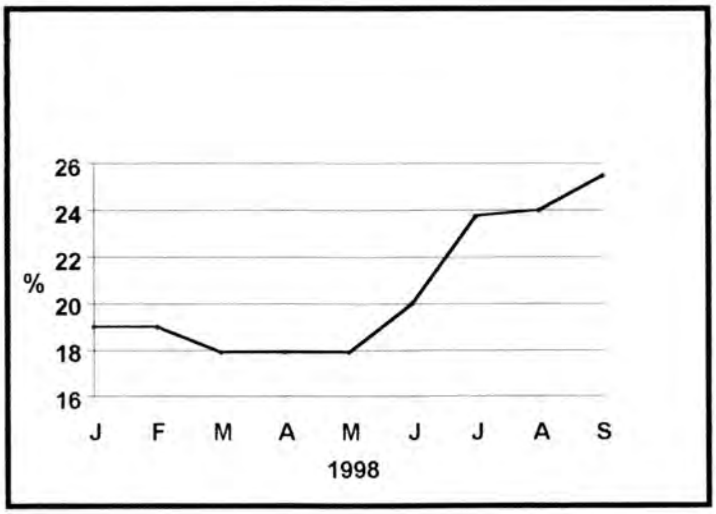


FIGURE 2.3 PRIME INTEREST RATE IN SOUTH AFRICA

(Freidland, 1998: 87)

The Rand : Dollar exchange rate has deteriorated over the last three years. The Rand has lost over 30% of its value in real terms during this time (Econometrix, 1998:B-1). The exchange rate has negative and positive effects on the South African economy. A higher exchange rate has a negative impact on imported products. Unfortunately a large percentage of the raw material used in the manufacture of chipboard and allied products is imported, e.g. methanol used in the manufacture of resin, and decor papers used for the manufacture of HPL. However, a higher exchange rate is favourable for exporting. Figure 2.4 below indicates the movement in the exchange rate of the Rand against the US Dollar over the last eight years.

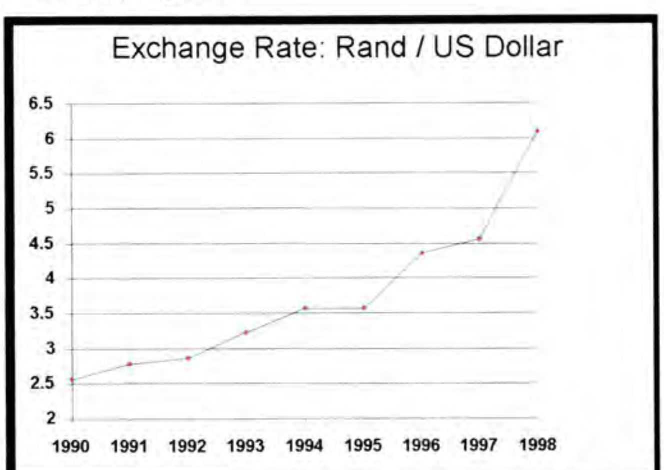


FIGURE 2.4 RAND / US DOLLAR EXCHANGE RATE

(Econometrix, 1998:B-1).

The Joshua Doore (JD) Group in South Africa is one of the top five retailing groups in South Africa and according to David Sussman, Executive Chairman of JD Group (JD Group Annual Report, 1998:10), over 40% of their customer base are policy holders of either Old Mutual or Sanlam. The view held by Sussman and many others is that billions of rands will be recycled into the economy over the next few years. This effect on consumer spending will certainly benefit the South African economy and, with it, the subject of this research project, the kitchen industry.

2.1.3 TECHNOLOGY

Technology has had a major impact in the production and use of wood-based panels such as C/B and MDF. North American Capacity Survey (1998:54) estimates the capacity at December 1998 to be as follows:

Chipboard

- United States 9,219 000 Cubic Meters
- Canadian 2,615 000 Cubic Meters
- Mexican 835 000 Cubic Meters

Medium Density Fibreboard

- United States 3,605 000 Cubic Meters
- Canadian 1,276 000 Cubic Meters
- Mexican 60 000 Cubic Meters

Productivity is a result of a combination of skills, technology, capital and labour. Although South Africa has an abundance of labour reserves, a poor educational background has resulted in a slow productivity growth (0.4% and 0.5% in the 1970s and 1980s). South Africa has become increasingly capital-intensive and labour-saving from the 1970s on, which has once again influenced, and will continue to influence, the already high unemployment rate of 29.3% in South Africa (Mills, 1995:9-10).

Advancement in technology in the Information Technology field is developing at an alarming rate. This has also influenced the kitchen industry. Customers now expect Computer Aided Design (CAD) from the kitchen manufacturers, which enables them to physically see the design in three dimensions before going to the expense of installing the kitchen and then being dissatisfied with the result. With the advent of the Internet, business is indeed conducted globally. The demand for skilled computer hi-tech workers outstrips supply. President Bill Clinton has recently approved the US$520bn "omnibus" Budget Bill and in the process signed into law the hi-tech green card bill. This will almost double the limit on green cards for foreign hi-tech workers from 65 000 to 115 000 for the next two years (Hamlyn, 1998:85).

2.1.4 DEMOGRAPHICS

2.1.4.1 Urbanisation

Urbanisation is on the increase in South Africa with large numbers of people moving into squatter camps. Gauteng is the richest of the nine provinces in South Africa with a population of 7.3 million people. Of the 20 000 people who earn more than R360 000 per annum, nearly half live in Gauteng. The average income is R33 500 per annum and the unemployment rate is 28%. The new definition of "unemployed" (Census 1996) is those people within the economically active population who:

a) did not work during the seven days prior to interview
b) want to work and are available to start work within a week of the interview, and
c) have taken active steps to look for work or to start some form of self-employment in four weeks prior to interview.

The unemployment rates per population group and gender are depicted in Figure 2.5 below. The effects of unemployment have already been discussed previously. Nearly half a million households live in shacks (Census 1996).

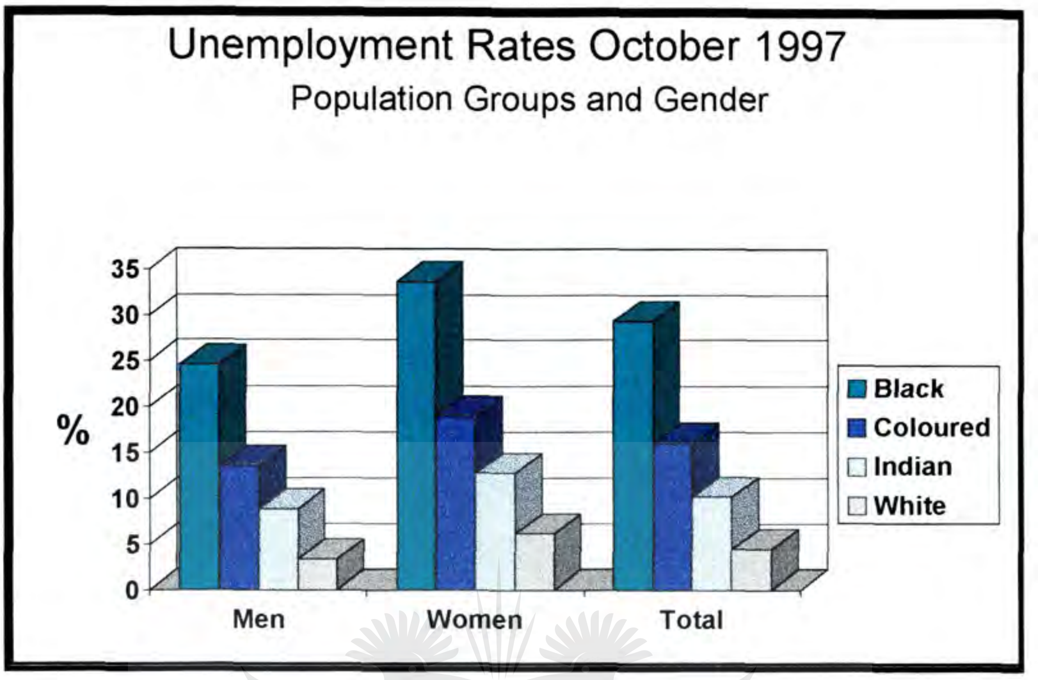


FIGURE 2.5 UNEMPLOYMENT RATES FOR GAUTENG

(Census, 1996)

2.1.5 CULTURE

Two, of many, definitions of culture are:

- The total of the inherited ideas, beliefs, values and knowledge which constitute the shared bases of social action.
- The total range of activities and ideas of a group of people with shared traditions which are transmitted and reinforced by members of the group (Hornby, 1992).

The kitchen industry is a fashion industry. Colours and designs which were in fashion ten years ago are considered old fashioned today. Likes and dislikes of people are also influenced by their upbringing and culture. South Africa has one of the greatest numbers of different cultures within one country in the world. This is illustrated by the fact that South Africa has eleven official languages. The employee average gross monthly earnings per race are as follows (Central Statistics Service, 1997:22-26):

- Blacks <R2500.00
- Coloureds <R4000.00
- Indians/Asians <R8000.00
- Whites <R8000.00

Population groups in Gauteng can be broken down into the following numbers:

- African/Black 5 147 444
- Coloured 278 692
- Indian/Asian 161 289
- White 1 702 343

As can be seen in Figure 2.6, the black population in the Gauteng area is by far the greater, more than double all other races added together. This in itself places great challenges on any marketer and has a major impact on the marketing mix for the kitchen industry. One has to take into consideration race, income, culture and living standards.

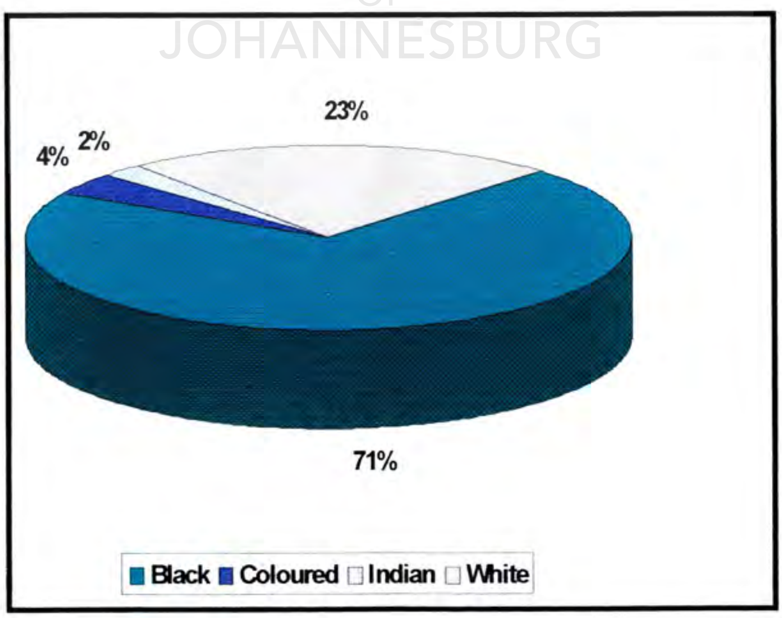


FIGURE 2.6 POPULATION BY RACE IN GAUTENG

(CENSUS 1996)

2.1.6 PRODUCTIVITY LEVELS

According to the Global Competitiveness Report (1998), South Africa holds 42nd position with a competitiveness index of -0.84 (two positions up from 1997). Singapore is in first position and has been for the last three years. Its competitive index is 2.16. However, the worker productivity rating for SA is at 2.49 (out of 10) - position 53 - whilst Switzerland enjoys top position with a rating of 6.14 (Global Competitiveness Report; WWW; 1998). South Africa's unit labour cost is at 650, whilst the UK's is 245, Taiwan's 150, the US and Germany's are both 100 and Japan's is 50 (Hazelhurst, E; p47).

2.1.7 SOCIAL ENVIRONMENT

Crime remains probably the greatest disincentive to the prospective investor in South Africa today. South Africa has the highest rate of violent crime in the world today: the murder rate is six times that of the USA. 11,543 South Africans were murdered in the first six months of this year. More South Africans per 100 000 of the population are raped than in any other country of the world. In the first six months of this year, 23,374 cases were reported (Sunday Times, 1998a:2). The number of car hijackings in South Africa during 1997 was 13,011, of which 61% occurred in Gauteng (Sidiropoulos, et al; 1998:46). The high level of unemployment, political unstability, a culture of violence, a corrupt police force and weapons proliferation all add to the crime rate. According to O'Neill (1997), "There is a concern overseas that it (crime) is getting out of hand and could exacerbate the brain drain". Nearly 13% of the best executives emigrated in 1996; 84% cited crime and violence as their reason for leaving. The brain-drain leaves SA companies ill-equipped to compete in the international economy. SA has the second highest fraud rate in the world, next to USA, according to a global survey by accountants Ernst & Young (Business Times, 1998c). The extent of fraud in South Africa can be illustrated by the case of Dr. Allan Boesak: he is accused of stealing R1.1 million from funds donated to his Foundation for

Peace and Justice. The Chief Immigration Official in the Home Affairs department and nine policemen from the Aliens Unit are being investigated on charges of corruption and theft (Sunday Times,1998a:2).

These crime issues affect the kitchen industry both positively, if that is possible, and negatively. The positive influence on the kitchen industry is that of cocooning - retreat into one's home-as-fortress to escape the harsh realities of the outside world. There has been an increase in the number of South Africans entertaining at home. This is resulting in open plan kitchens leading into family rooms/entertainment areas and thus becoming the heart of the home. Consumers are upgrading kitchens and other areas in their homes that were previously not exposed to guests. Consumers are looking for products which allow them to express their individual styles but still have status appeal (PG Bison Marketing Business Plan, 1998).

The negative influence is that of emigration. The brain drain is generally affecting people above the Living Standard Measure (LSM) 6 level. LSMs are explained in Figure 2.7.These people are economically active, have a higher than average income and satisfy the comfort, status and unique lifestyle category. The upper income level of the kitchen industry is therefore being affected.

FIGURE 2.7 LIVING STANDARD MEASURES OF SOUTH AFRICA

(Profurn Annual Report, 1998)

At the beginning of October 1994, President Mandela visited the USA and in a televised speech argued: "Forget the past and come to South Africa to make money. All of you will, and should, make your investment decision based upon the real opportunities you see and find in South Africa. Our Government of National Unity, founded on an unprecedented consensus, provides an economic and social climate that will create opportunities for investors." (Mills, 1995:15). However, as the US$115 million NAB Pepsi plant found out, there is no perfect formula for investing in South Africa. The head of the Gauteng Jobseekers Committee answered, when questioned on the industrial action at the Pepsi plant, "We will never budge until Pepsi meets our demands. We welcome foreign visitors, but they have to adhere to the rules of a new and democratic South Africa. The unemployed must have a say in who management will recruit." (Mills, 1995:15). Pepsi is no longer producing in South Africa today. After listening to this statement, many foreign investors will be wary of investing in South Africa. Trade unions have a strong hold on business in South Africa today. New legislation such as the Labour Relations Act of 1995, the Employment Equity Bill of 1997 and the Basic Conditions of Employment Act of 1997, are forcing organisations to change the way they do business. The Employment Equity Bill states that designated employers (i.e. those which have fifty employees or more) would be required to classify their employees by race, gender and disability to determine the 'degree of under-representation' of people from these designated groups. The Bill is aimed at eliminating workplace discrimination and ensuring 'equitable representation' for black people, women and the disabled at all levels of employment (Sidiropoulos, et al; 1998:92). While trade union membership in South Africa more than doubled between 1985 and 1995, trade union membership around the world had dropped by almost half (Sidiropoulos, et al; 1998:1). This impacts on the profitability, productivity and culture of PG Bison as well as favouring the importers of all board and allied products.

2.1.8 ENVIRONMENTAL INFLUENCES

The public is expressing concern over environmental damage, wasteful use of natural resources, the greenhouse effect, the depletion of the ozone layer, deforestation, erosion and natural catastrophes (Hartikainen, 1993:189). "The World Wildlife Fund - South Africa works as a catalyst, addressing the widest range of conservation issues in order to achieve sustainable use of our living resources. Without this, economic and social development is impossible." (Allan, 1995:15). Environmental action groups all over the world have the power to stop or change products if they have devastating effects on the environment or ecosystems. An example of this is the protest against Lesotho's Katse Dam where action groups are protesting that the dam should not impound water until various social and environmental problems are solved (Allan, 1995:16).

The earth's biological resources are under serious threat. In the early to mid 1980's, humid tropical forests were losing nearly 25 million acres annually and dry forest may have lost even more (Allan, 1995:16).

PG Bison manufactures chipboard using the 'alien' timber species *Eucalyptus Grandi*. The greatest concern with regard to these plants is the amount of water they require. Professor Kader Asmal has undertaken research on the 'Working for Water' programme. It is estimated that alien plants cause a loss of 3 000 million m³ of water per year. Analysis has shown that clearing invading alien plants can yield water at 11% or less of the financial costs of building a dam. If social and ecological costs are included, this figure drops to just a tiny fraction of the cost of building a dam (Edwards, 1997:38). This is of great concern to the users of these products, for example the mining industry and chipboard manufacturers. The call is for research and development into the usage of waste materials as raw materials for these industries.

2.2 BACKGROUND TO THE BOARD MARKET IN SOUTH AFRICA

Prior to 1994, the board industry in South Africa was a relatively stable market. There were three manufacturers of C/B in South Africa, Sappi Novobord, Bisonbord and Chipboard Industries Transkei (CIT). Their respective market shares in C/B and MDF are shown in Figure 2.8. There were two manufacturers of MDF, namely Sappi Novobord and Bisonbord, and there was only one manufacturer of laminates, Laminate Industries. Due to the fact that Laminate Industries was the only local producer of laminates, they enjoyed a 98% market share (Laminate Industries Market Share Report 1994).

The brand names of the respective companies' C/B, MDF and HPL products are listed in Table 2.3: (PG Bison Training Manual, 1998: 104).

TABLE 2-3 COMPETITORS BRAND NAMES

Company	Product	Brand Name
Bisonbord	C/B	Bisonbord
Novobord	C/B	Novobord
CIT	C/B	Magnabord
Bisonbord	MDF	Supawood
Novobord	MDF	Novowood
Laminate Industries	HPL	Formica

Because of South Africa's political and economical isolation, competition was mild and, according to customers such as Norman Morris of Custom Kitchens, collusion amongst the two main suppliers, Sappi and Bisonbord, appeared to be rife. Price increases occurred once a year and the two price lists were within a few cents of each other. CIT has always been priced below Sappi and Bisonbord, due to its poorer quality both in appearance and board properties. The product positioning of these products during 1994 is depicted in Figure 2.9. (Bisonbord Marketing Department, 1994).

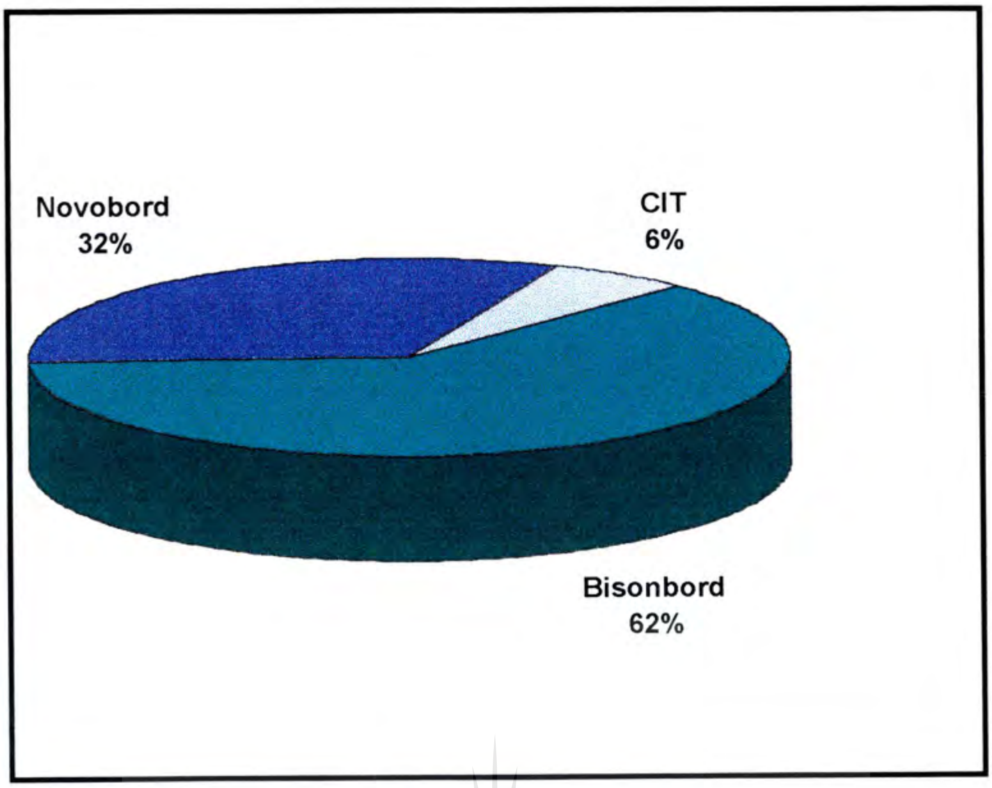


FIGURE 2.8 MARKET SHARE 1994

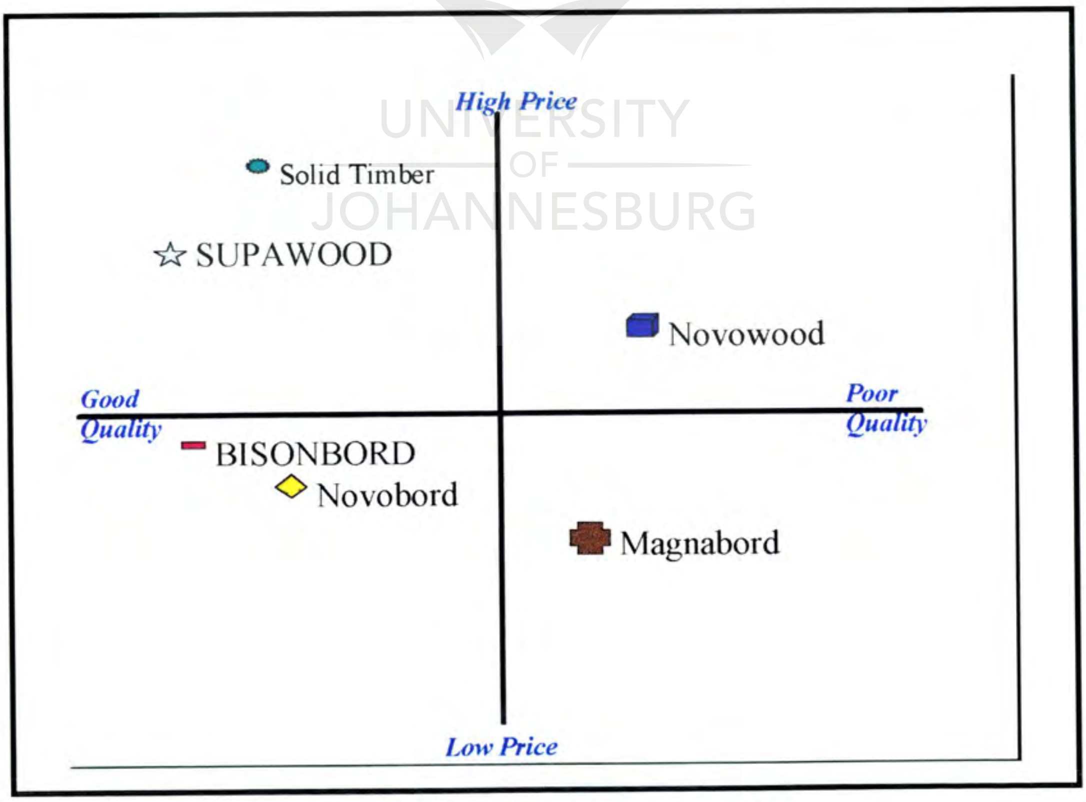


FIGURE 2.9 PRODUCT POSITIONING 1994

With regard to the distribution of board products, until 1994 there were only four main competitors in the Gauteng region, namely PG Wood, Kayreed Timbers, Board King and Citiwood. The distributors all purchased from the same suppliers and price parity was therefore evident. Higher market share was achieved due to service, stock availability and personal relationships (Bisonbord Market Share Report 1994).

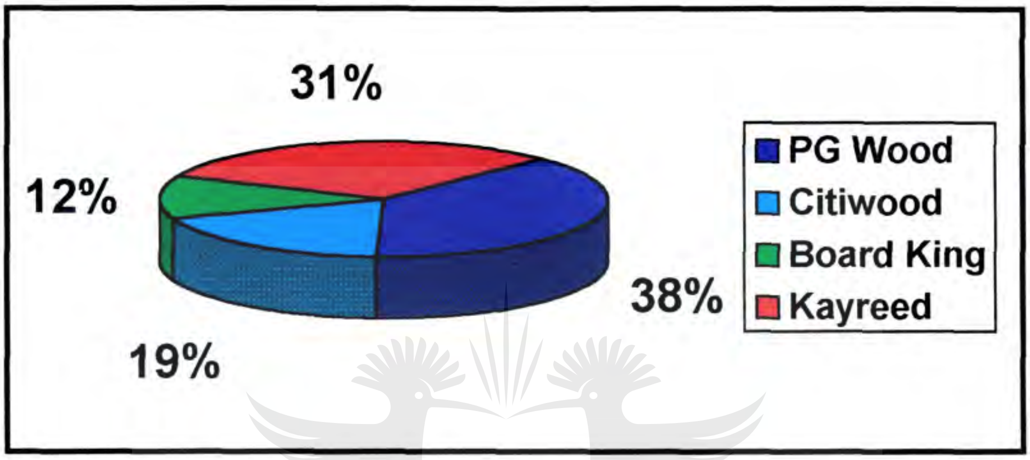


FIGURE 2.10 DISTRIBUTOR MARKET SHARE - 1994

(Bisonbord market research, 1994)

PG Wood had five outlets in the Gauteng region, Kayreed had two outlets and the remaining two distributors, Citiwood and Board King, had one each (Bisonbord Market Research, 1994).

In 1994 the three sister companies, Bisonbord, Laminate Industries and PG Wood, merged into one company and currently trade under the name PG Bison. This merger created wariness amongst the other competitors in the market. From the distributors' point of view, PG Bison was now both a supplier (via the factories) and a competitor (via the distribution metros) (Katz, 1998). From Sappi's point of view, one of their distribution outlets, namely PG Wood, had been closed off and Sappi had thus to form bigger and stronger alliances with the remaining independent distributors (Verster, 1998).

At this time, with the birth of the 'New South Africa' and the disbanding of political and economical isolation, imported boards started to appear on the local market. Imports were arriving from, inter alia, Russia, Portugal, Brazil, Malaysia, China and America. This resulted in fierce competition between the manufacturers and the buying power of distributors increased tenfold. Due to the increase in the number of suppliers, the barriers of entry for distributors had been decreased. Before 1994, the three manufacturers had had stringent sales policies resulting in only large distributors qualifying to purchase direct from the factories. The imported boards allowed the smaller distributor to purchase any quantity of boards at prices comparable with the manufacturers' prices. This resulted in more distributors entering the market. As at September 1998, there were at least twelve major players in the distribution market in Gauteng. These factors have resulted in a different picture in 1998 (PG Bison Market Report, 1998). Both the market shares and product positioning have changed. These changes are depicted in Figure 2.11 and Figure2.12.

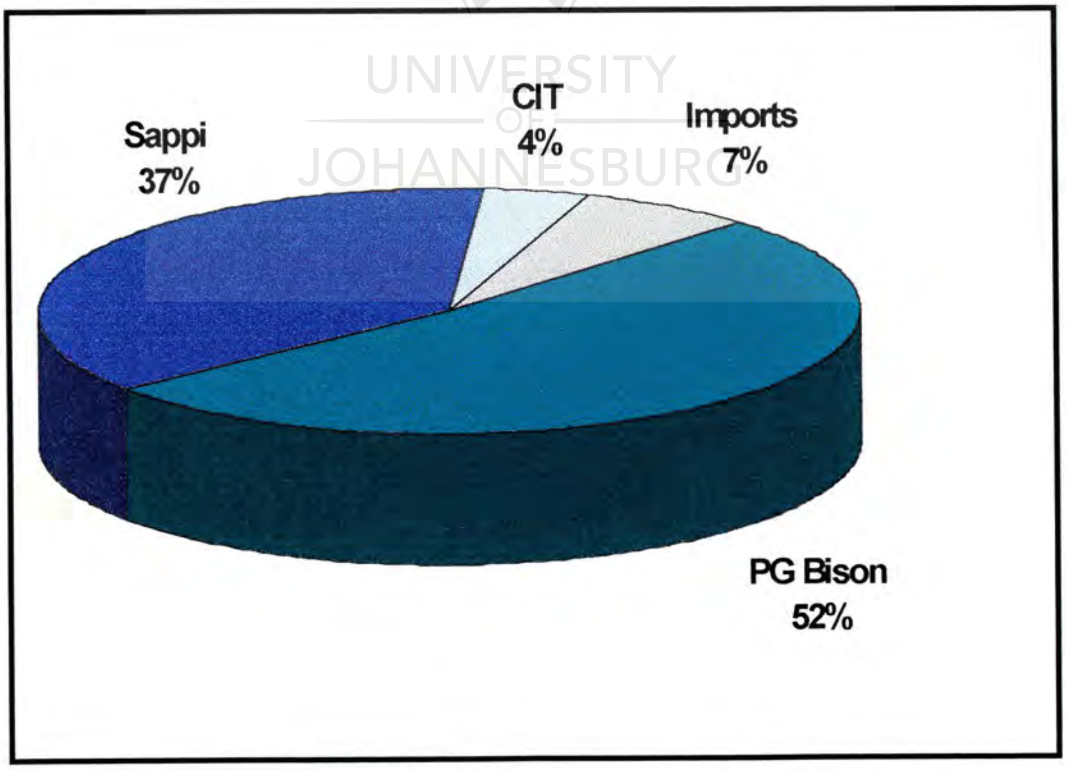


FIGURE 2.11 MARKET SHARE - 1998

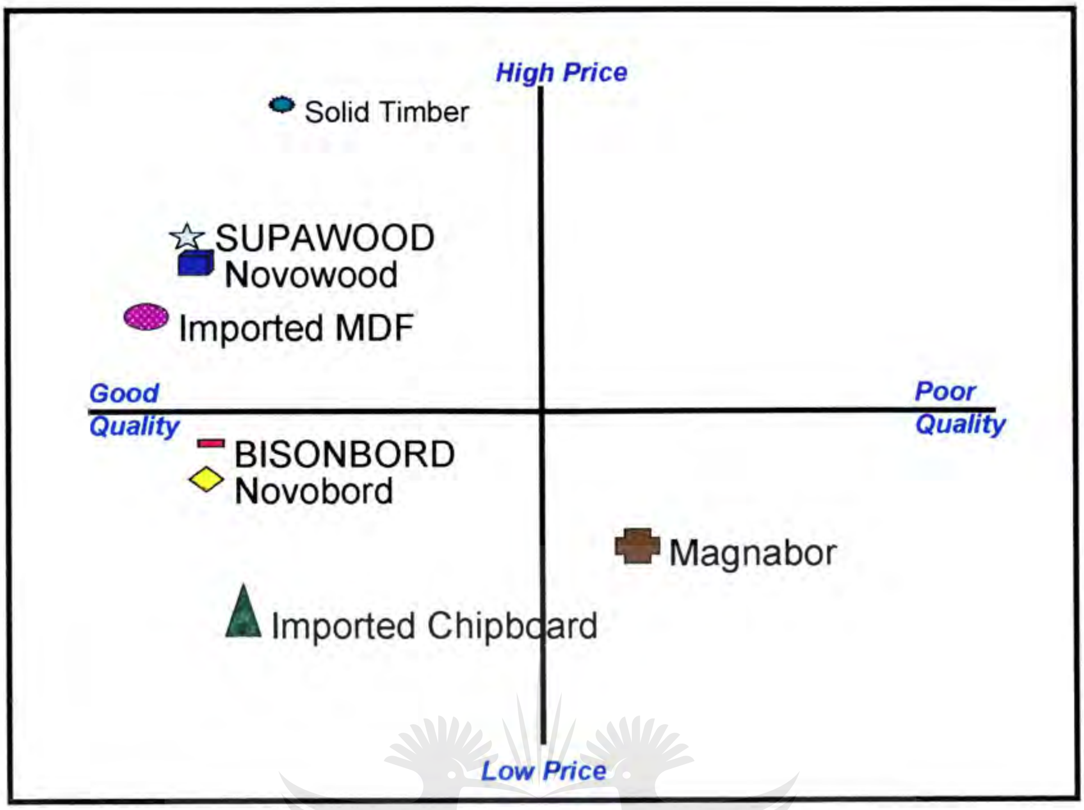


FIGURE 2.12 PRODUCT POSITIONING 1998

These changes in both the business and board environments have led to changes within PG Bison.

2.3 BACKGROUND TO PG BISON

PG Bison is the largest panel product (C/B, MDF, HPL and allied products) manufacturer and distributor in South Africa and the sole domestic manufacturer of decorative laminates. In addition, PG Bison has a position in retail through a 100% share-holding in Pennypinchers, a Cape-based building material supplier, and PG Bison controls the 'Timber City' national retail timber and board franchise.

PG Bison manufactures panel products at five separate plants: Piet Retief (chipboard), Pietermaritzburg (chipboard and upgrading), Stellenbosch (chipboard and upgrading), Boksburg (MDF and upgrading) and Formica SA (HPL and upgrading). PG Bison also has a competitive advantage in the form of a national distribution network.

• PG Bison distribution	23 branches
• Timber City	38 branches
• Pennypinchers	17 branches
• Sizwe Stores*	3 branches

*PG Bison holds 20%, Anglo American Corporation 20% and management 60% in this township-based retail business.

PG Bison manufactures the following products under their respective brand names:

Bisonbord	Raw chipboard
Bisonlam	Melamine faced board
Bisondura	Exterior grade, weather resistant board
Bisonply	Natural wood veneer surfaced Bisonbord
Bisondecor	Pre-printed paper foils on Bisonbord
Supawood	MDF
Supaply	Natural wood veneer surfaced Supawood
Supalam	Melamine faced board with Supawood as substrate
Formica	HPL
Melawood	Melamine faced board
CDL	Continuous decorative laminates

The supply chain of these products, illustrated in Figure 2.13, is dependent on the size of the customer. The larger end users (manufacturers) and distributors receive their deliveries direct from the respective factories. These loads are generally in excess of 20 tons per delivery. The smaller end users or distributors receive their deliveries via the larger distributors. These quantities may be as small as one board.

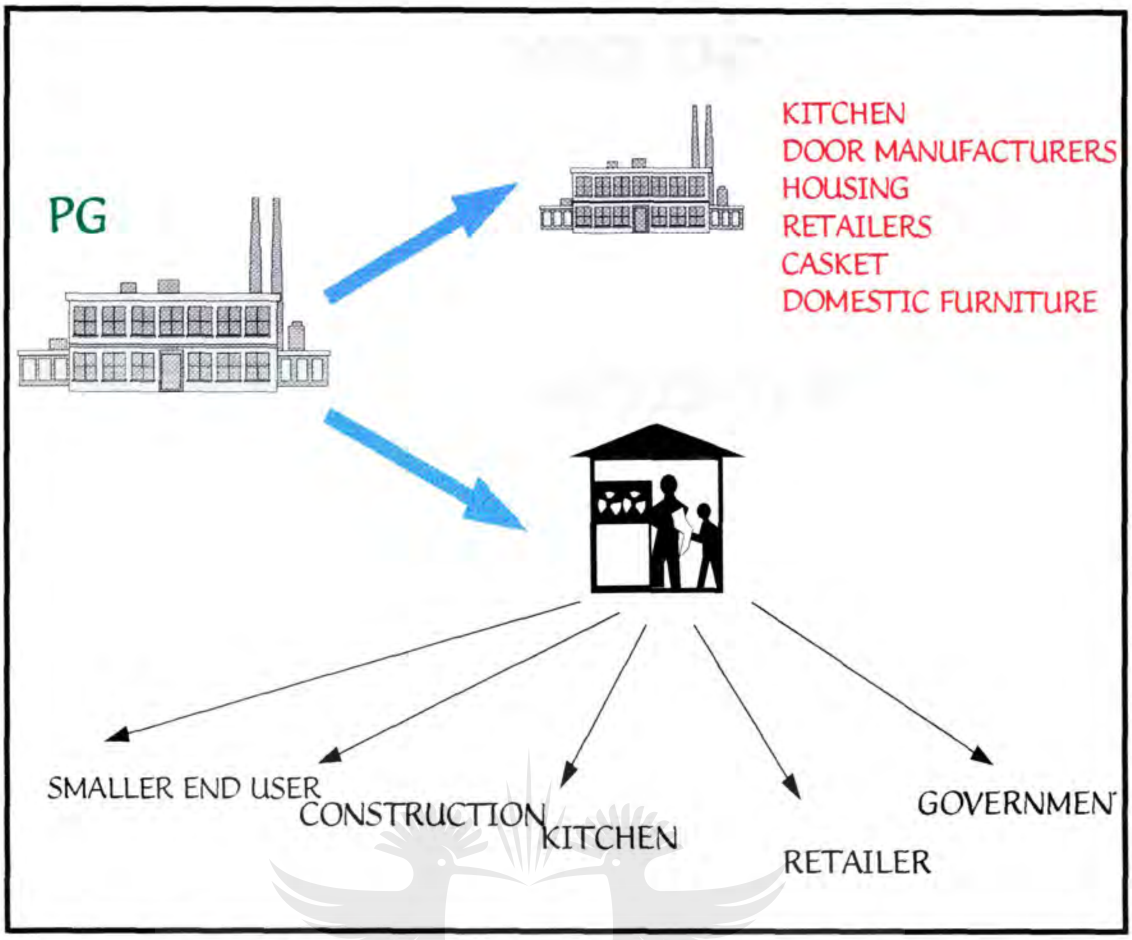


FIGURE 2.13 DISTRIBUTION CHANNEL OF PG BISON PRODUCTS

The value added products are then sold to retailers, e.g. Ellerines Furnishers, who then sell on to the ultimate end user, e.g. wall unit to the home owner, kitchen to developer or home owner, etc. As can be seen, the distribution channel contains many links before it reaches the end target market.

When compared to the international market, South Africa has a lower than average per capita consumption of the products manufactured and distributed by PG Bison. Germany has an annual per capita consumption of board of $4m^2$. South Africa's annual per capita consumption is at $0.65m^2$ (Hafner, E; 1998).

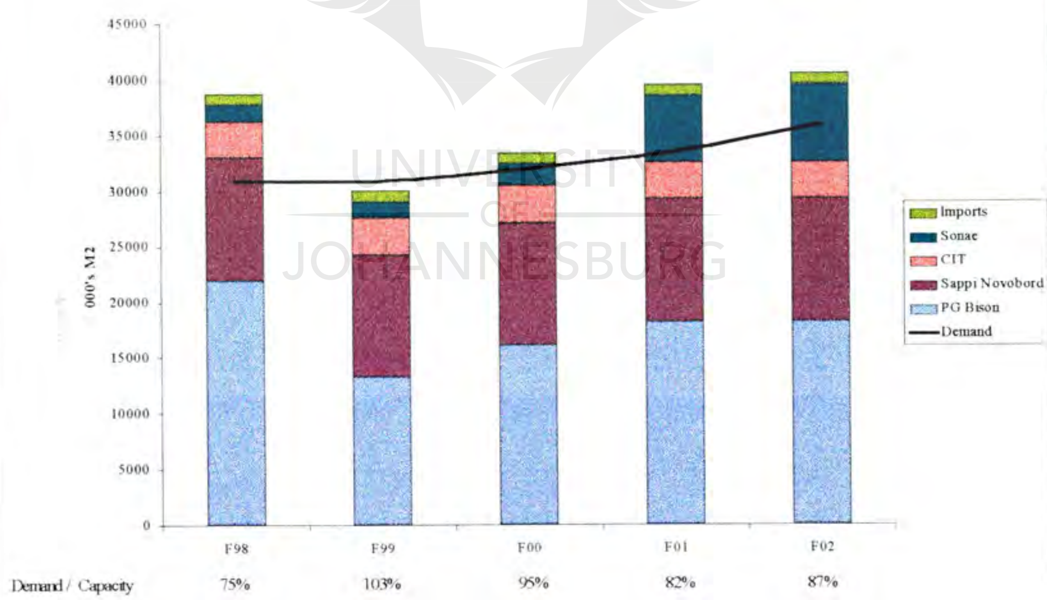
Certain key assumptions are made when understanding the low per capita consumption in South Africa:

- Focus has been primarily on the white market
- Products reaching the emerging, predominantly black, market are primarily through furniture retailers. This has not made the product affordable.
- The ability for a black entrepreneur to have access to PG Bison's products has been hampered by:
  - ⇒ lack of accessibility to products in the area in which it is required
  - ⇒ the price via a cash sale formal distributor has placed the product beyond the reach of the building entrepreneur
- Lack of skilled black entrepreneurs to convert the sheet product into saleable and useable furniture
- Furniture, including kitchen furniture, has not been developed with the emerging black consumer's needs in mind, e.g. size of kitchen.

The above consumption figures together with the forecast supply volumes (PG Bison Internal Document) till the year 2001 indicate that marketing strategies are essential for PG Bison to continue as a going concern. Indications are that there will be an oversupply of board products from the year 1999 onwards, as shown in Table 2.3. Sonae, a Portuguese company, is only exporting boards into South Africa. They have plans to commission a plant in the Piet Retief area during 2000. As can be seen from Table 2.3, in the year 2000 the volume of Sonae boards will triple due to this new plant (PG Bison Internal Document). It must be noted that Sonae was supposed to have commissioned a plant in Zimbabwe in 1997. This plan was cancelled, however, due to the global economic downturn and the inability to secure raw material, namely timber, in that country. It was at this time that negotiations started with a South African supplier of timber in the Piet Retief area (PG Bison Internal Document).

TABLE 2-4 FORECAST BOARD SUPPLY IN CUBIC METERS

Supplier	1997 Actuals	1998 Forecast	1999 Forecast	2000 Forecast	2001 Forecast
PG Bison	22000	13300	16200	18300	18300
Sappi Novobord	11000	11000	11000	11000	11000
CIT	3300	3300	3300	3300	3300
Sonae	1500	1500	2000	6000	7000
Imports	1000	1000	1000	1000	1000
Total Supply	38800	30100	33500	39600	40600
Demand	31000	31000	32000	33600	36000
Over Supply	7800	-900	1500	6000	4600
	25%	-3%	5%	18%	13%



Forecasted growth rates: F98 - F99 0% F99 - F00 3.8% F00 - F01 4.5% F01 - F02 6.5% (Econometrix)

FIGURE 2.14 SOUTH AFRICAN BOARD CAPACITY

2.3.1 SWOT ANALYSIS OF PG BISON

The Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis is a framework for an objective appraisal of the performance and strategic moves of the marketing side of the business. Strengths refer to the competitive advantage and other distinctive competencies that a company can exert in a market place. Weaknesses are constraints that hinder movements in certain directions. Opportunities refer to directions the company may wish to move towards to achieve certain marketing objectives, such as market share and new market penetration. Threats are conditions that exist in the marketing environment that may challenge the present strengths of the company (Subhash, 1993:170-171).

2.3.1.1 Strengths

- Locally manufactured products
- Been in operation since 1966 and thus well established with numerous mergers and buy-outs occurring along the way
- Strong and extensive distribution network
- Brand awareness as a "Quality Product" - Bisonbord, Supawood, Formica
- Financially secure company - SAB as holding company
- High barriers of entry for new panel product manufacturers
- Large range of homogeneous, complementary products in comparison with other South African manufacturers and distributors, as shown in Table 2.5.

TABLE 2-5 COMPETITORS' PRODUCT RANGE

Product	PG Bison	Sappi	CIT	Sonae	Wilsonart
Chipboard	X	X	X	X	X
MFB	X	X	X	X	
MDF	X	X		X	
MFB on MDF	X	X			
HPL	X				X
Worktops	X				X

- Good technical back-up
- Market leaders

2.3.1.2 Weaknesses

- PG Bison and Sappi Novobord seen as being monopolistic
- Production-orientated instead of market-orientated
- Sales force too "price sensitive"
- No formal marketing strategy
- Poor "strategy communication" through the company
- High prices for demand range products
- Lack of end-consumer knowledge, i.e. Mrs Housewife who purchases her kitchen, bedroom suite, etc.
- High costs historical to Formica brand.

2.3.1.3 Opportunities

- Becoming a market-orientated company
- Cost controlling during the manufacturing and distribution processes
- Exports to the rest of Africa
- Exports to the rest of the world due to low value of the Rand to the American Dollar and English Pound
- Network development onto emerging markets
- Optimisation of value added products, i.e. component cutting.

2.3.1.4 Threats

- Competitive environment
- Cheaper imports coming into the country at an increased rate
- Low barriers of entry for new distribution players
- Most raw materials are imported for the production of laminate products
- Perceived value of Granite
- Lack of product knowledge within the consumer's mind - e.g. all HPL tops are 'Formica' when, in fact, the top is manufactured using an imported HPL

The SWOT analysis is a tool in the development of a marketing strategy for PG Bison, as discussed in Chapter 4.

2.4 THE KITCHEN INDUSTRY

2.4.1 BACKGROUND

As can be seen in Figure 2.15, volumes sold into the kitchen industry by PG Bison are on the decline. Volumes listed in the graph include all sales, whether direct from the factories or via PG Bison's distribution outlets. PG Bison's financial year runs from 1 April to end March of the following year. There was an 11% increase in volumes from F'96 to F'97 and an 11% decrease from F'97 to F'98. F'99 is presently at a 17% decline from the previous year's volume (PG Bison Sales Data Base, 1998).

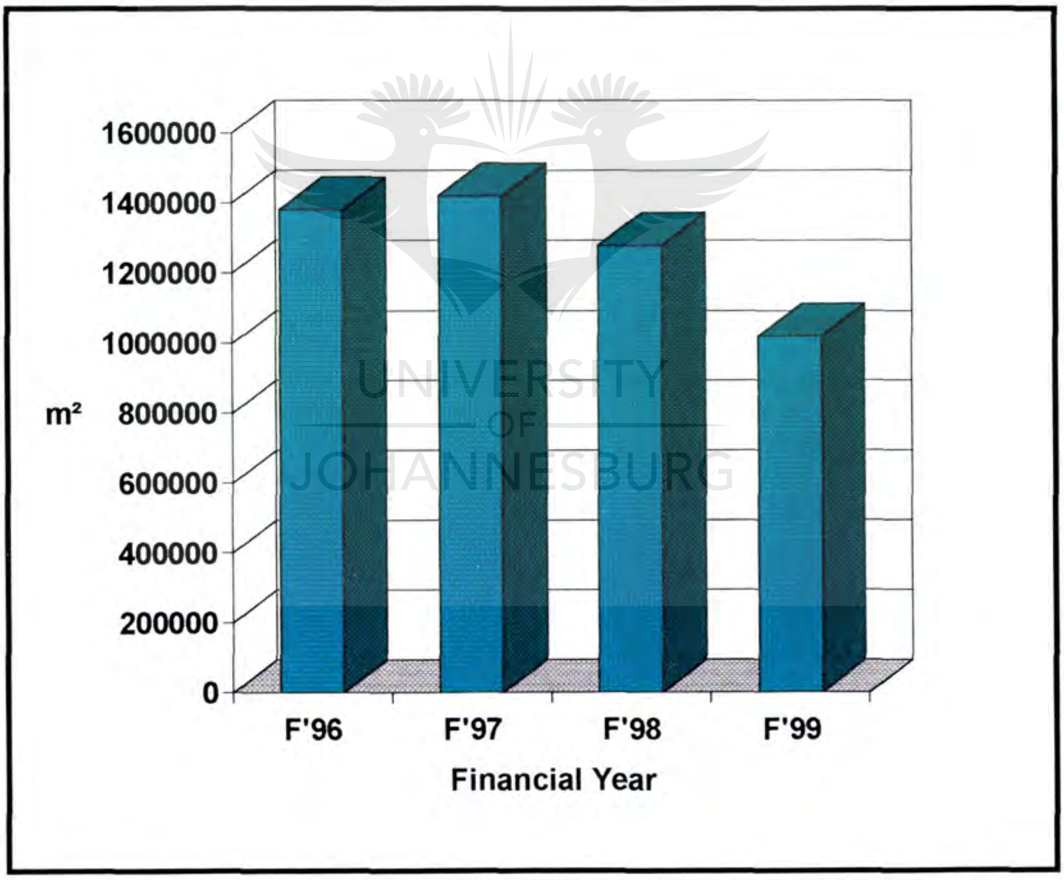


FIGURE 2.15 SALES INTO KITCHEN INDUSTRY - APRIL TO AUGUST PER FINANCIAL YEAR

Kitchen industry perspectives have changed in South Africa over the last four years. The kitchen as a focus of consumer expenditure has lost ground to other products such as white electrical goods with the electrification process of Escom into previously disadvantaged areas. Kitchen sizes have been reduced due to the impact of townhouses and cluster homes (security) and the impact of the government's Reconstruction and Development Programme (RDP) housing. There is also a fair amount of product substitution taking place in the form of granite, wood, solid surfacing, steel and tiles. The real value (at constant 1995 prices) of building activities has decreased over the last two years. This is presented graphically in Figure 2.16. The real value of building plans passed for the first eight months of 1998 decreased by 9,5% (a value of negative R1 023,9 million) compared with the same period last year. Gauteng was one of the main provinces responsible for this decline in Rand value, a 14,7% decrease (R678,2 million). The real value of buildings completed decreased by 3.6% (-R247,7 million) nationally compared to the same period last year (Orkin, 1998:5041.1).

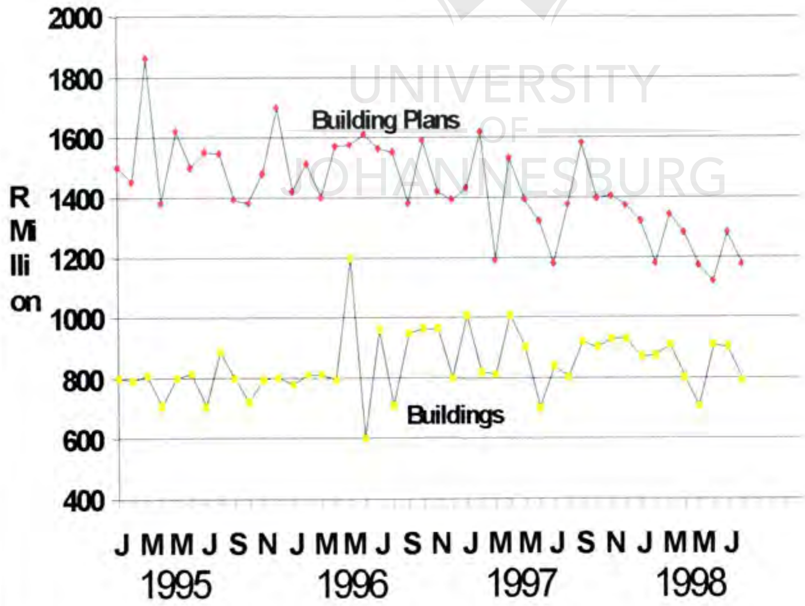


FIGURE 2.16 REAL VALUE OF BUILDING ACTIVITIES

2.4.2 MAIN PANEL PRODUCTS USED IN THE KITCHEN INDUSTRY

The main products manufactured by PG Bison used in the manufacture of kitchens in South Africa are Bisonbord (C/B), Supawood (MDF), Melawood (MFB) and Formica (HPL).

2.4.2.1 Bisonbord (C/B)

Chipboard is used as a substrate for either veneers, CDL (Continuous Decorate Laminate) or foils to be laminated onto it in the kitchen industry. These products are then used for doors and in some instances (to lower the cost of the kitchen top) for the use as worktops. However, these fabricated tops are not ideally suited for worktop applications as they are not scratch resistant, heat resistant, water resistant or impact resistant (PG Bison Technical Brochures, 1994)

The main suppliers of C/B in the Gauteng region are PG Bison, Sappi Novobord, CIT and Sonae. All of Sonae's sales are of imported board either from Brazil or Portugal. Figures 2.17 and 2.18 represent the decrease in volumes sold into the kitchen industry over the last four years as well as the average selling price achieved (PG Bison Sales Data Base, 1998). Before becoming part of the global market in 1996, PG Bison, as well as the other local manufacturers, had enjoyed a stable market with regard to both volume and selling prices. The volumes fluctuated according to the historical seasons and selling price was stable with a general price increase, enjoyed by all, occurring once a year. Price increases were the result of increases in raw material, overheads and labour. As with all South African companies, the increase in price of inputs was passed directly onto the customer. South African customers had very little choice in supply, and each link in the supply chain just increased their price to their customers. There was very little competition. Once the volume of imports started increasing, competition increased and the choice of suppliers widened. This resulted in supply outstripping demand and prices had to be adjusted at very short notice so as to avoid ending up with excess stocks. The reason for this is that the imported board was landing at approximately 20% cheaper. In some instances, the locally manufactured board prices were adjusted monthly (PG Bison Marketing Survey, 1997). This situation prevails to date. From Figure 2.18, it can be seen that there has in fact been no real value increase in the price of C/B over the last three years (PG Bison Sales Data Base 1998).

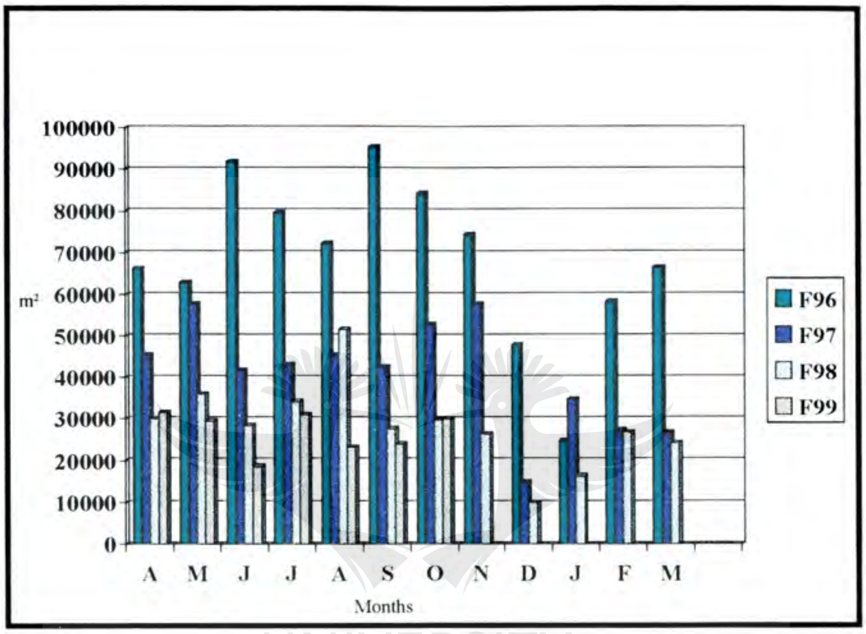


FIGURE 2.17 VOLUME OF BISONBORD SOLD INTO KITCHEN INDUSTRY

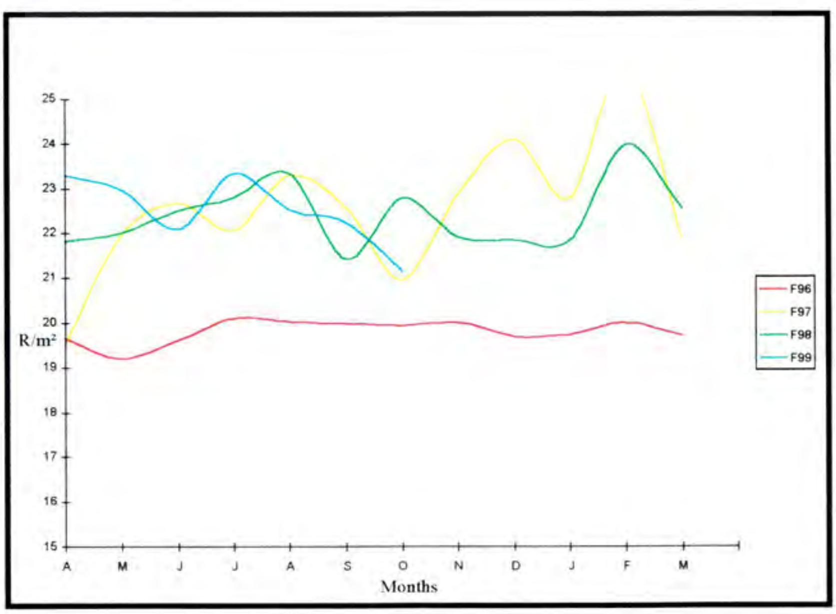


FIGURE 2.18 AVERAGE SELLING PRICE OF BISONBORD / M²

2.4.2.2 Supawood (MDF)

Supawood, as can be seen in Figure 2.19, is a growth product in South Africa. This is due to new technology in the door manufacturing process. The new technology involves moulding and postforming the Supawood and then laminating the door with a melamine-impregnated foil. The kitchen manufacturers in the Gauteng region which have imported this technology are Semble-It, The Kitchen Family, William Tell, Devin Doors and Risely Kitchens. These doors have grown in popularity in South Africa as the foils utilised in the process can be obtained in various colours and different textured finishes. This has, however, had a negative impact on Melawood, which was previously the most often used product for the manufacture of doors (Verster, 1998).

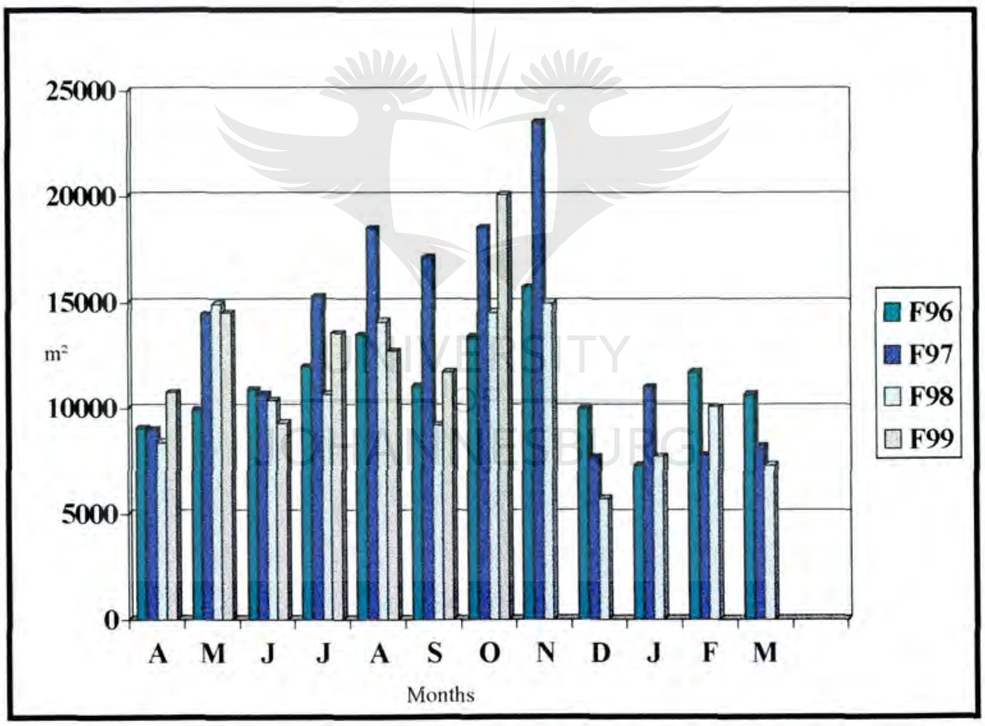


FIGURE 2.19 VOLUME OF SUPAWOOD SOLD INTO KITCHEN INDUSTRY

Although this is a growth product, increased imports have not allowed the same increase in real value growth in selling price as in volume growth. This is illustrated in Figure 2.20.

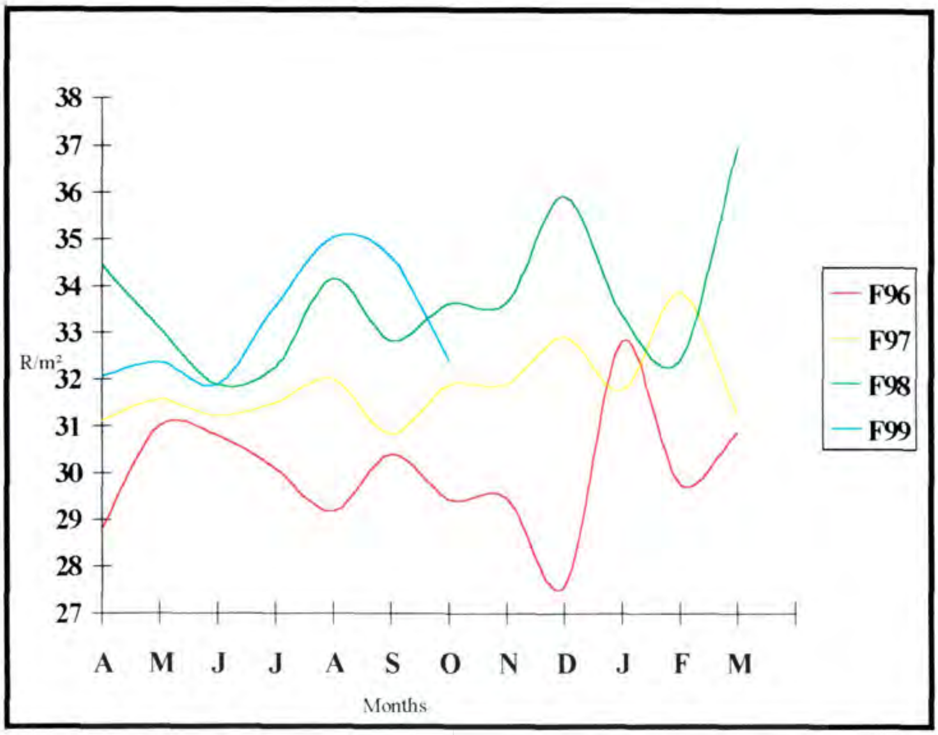


FIGURE 2.20 AVERAGE SELLING PRICE OF SUPAWOOD / M²

2.4.2.3 Melawood (MFB)

PG Bison manufactures and distributes its Melawood range in 163 different colours. These colours are predominantly used in the kitchen and shopfitting industries. This extensive colour range is high maintenance due to the fact that fashions change. Colours are continually being discontinued and others added on to this extensive range. One has to be careful that even if the colour has lost flavour in the kitchen industry, it may still be required as a company's corporate colour e.g. Valencia Orange for Nando's Chicken. PG Bison has a competitive advantage as they have control over both the purchasing of decor paper and the manufacturing process to offer an exclusive range to a customer (volume permitting). A good example of this is Standard Maple, which is for the exclusive use of Standard Bank South Africa. The other local manufacturer, Sappi Novobord, manufactures and distributes twelve colours. One of the disadvantages of this large range is the fact that distributors have to have increased cash tied up in stocks for smaller manufacturers (Verster, 1998).

The decrease in sales for F99 depicted in Figure 2.21 is primarily for two reasons: the increase in new technology for the manufacture of doors using Supawood and the decrease in activity in the kitchen industry. Melawood has not been affected by imports due to the fact that large volumes of specific colours need to be imported at any one time to enable the user to enjoy the benefits of cheaper prices. Due to the colour range on offer by PG Bison, kitchen manufacturers are unable to restrict their colour ranges on offer to the kitchen purchaser to one or two colours of the range. This would decrease their target market to unsustainable levels.

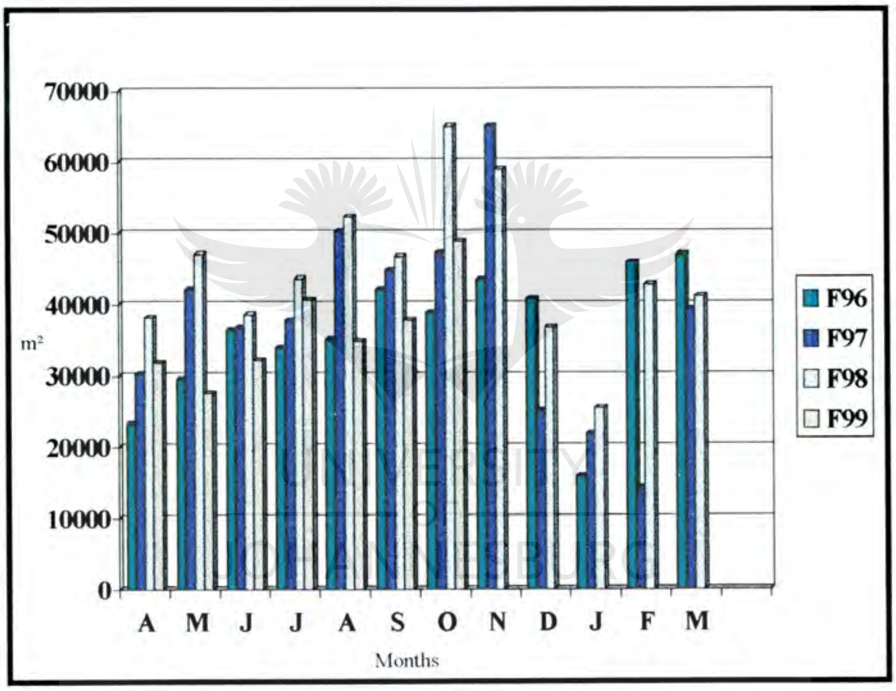


FIGURE 2.21 VOLUME OF MELAWOOD SOLD INTO KITCHEN INDUSTRY

Thus Melawood has been able to maintain a real growth in selling price, as shown in Figure 2.22. This is a profitable product for PG Bison but also requires high maintenance in marketing. The marketing strategy applied to this product needs to be fashion orientated, realistic patterns and colours in the case of woodgrains, and both production process and quality needs to be of world class standards.

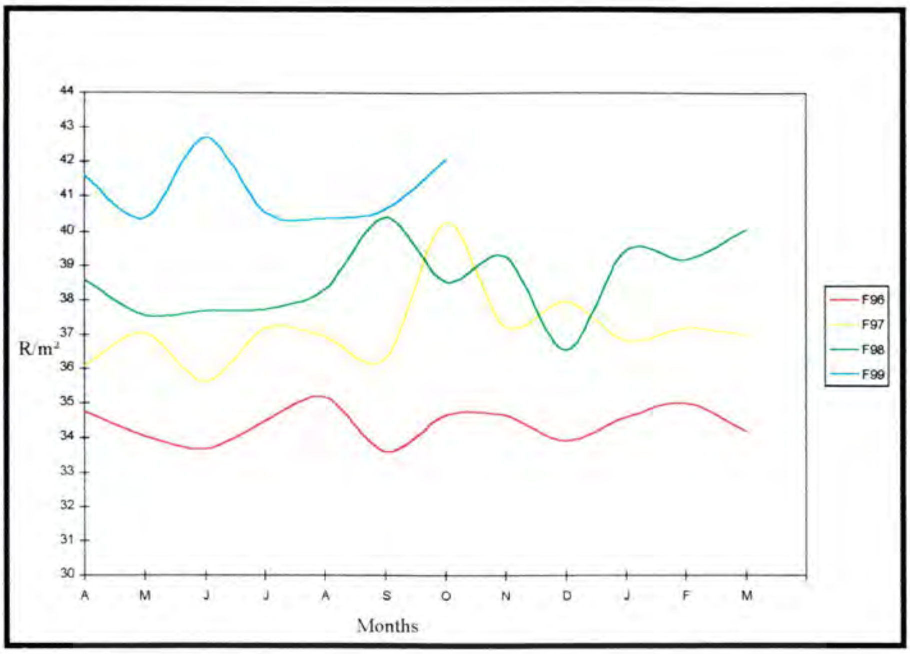


FIGURE 2.22 AVERAGE SELLING PRICE OF MELAWOOD / M²

2.4.2.4 Formica (HPL)

High pressure decorative laminates are defined internationally as "a sheet consisting of fibrous sheet material (e.g. paper) impregnated with thermosetting resins and bonded together by means of heat and pressure of not less than 5Mpa (mega-pascals), the outer layer of layers on one or both sides having decorative colours or designs" (Melamine Plastic Surfaces, Technical Manual, 1988:57). Due to the process and chemical composition of HPL, the physical properties of the product are conducive to kitchen worktops, i.e. high scratch resistancy, high wear, scuff resistancy, burn resistancy to a temperature of 120°C, whilst being aesthetically pleasing at the same time. There are alternate products on the market which equal or exceed Formica's properties but which are sold at a much higher price: for example, Formica sells at approximately R150.00/m² whereas Granite retails for approximately R800.00/m² (Risely, 1998).

Formica adds colour to the kitchen. PG Bison currently has 137 different colours in its colour range and these colours are available in three different finishes, namely loglare, glaze and gloss. Formica is predominantly used for worktops in the kitchen; a small percentage of consumers use Formica door frontals (Barnard, 1998).

Formica has come under huge pressure from cheaper imports. HPL is entering South Africa from countries such as United States of America, Italy, India, Spain, Korea and Japan. The volumes of imported laminates are continuously increasing. Table 2.5 represents the total volume of imported HPL from January 1997 to July 1998 (Customs and Excise Pretoria; October 1998). Prior to 1995, this volume was negligible. These imports are taking market share away from PG Bison. The largest importer is currently Wilsonart, an American-based manufacturer. Wilsonart is the largest manufacturer of HPL in the world and is PG Bison's largest competitor in the HPL market.

TABLE 2-6 IMPORTED HIGH PRESSURE LAMINATES: AUGUST 1997 - JULY 1998

Country	Quantity kgs	Rand Value	Quantity calculated as m² of 0.8mm	R/m² calculated	Possible Brand Name
Austria	119,533	2,809,249	110,679	25	Max
Germany	155,828	4,583,920	144,285	32	Duropal
United Kingdom	1,489	46,929	1,379	34	Formica
Italy	206,767	3,803,900	191,451	20	Abett
Taiwan	8,561	109,600	7,927	14	????
Japan	38	10,102	35	287	???
USA	550,956	8,691,319	510,144	26	Wilsonart
Ecaudor	27,108	484,469	25,100	19	????
Spain	2,300	34,173	2,130	16	????
Korea	8,290	137,109	7,676	18	???
Total	**1,080,870**	**20,710,770**	**1,000,806**	**21**	

Wilsonart International was founded in 1956 in Temple, Texas, as a producer of HPL, under the name of Ralph Wilson Plastics Company. Wilsonart distributes internationally in 38 countries across all five continents (Wilsonart - Worldwide Distribution Directory). In the early

1990s, distributors were established in the Pacific Rim and South America, in countries such as Japan and Brazil. The years 1995-1996 marked the company's expansion into Europe and the Middle East with the establishment of a sales office in London, England, and a distribution center in north-west England. In 1997, a sales office was opened in Germany as well. Wilsonart opened four operations in South Africa in October 1997, situated in Cape Town, Johannesburg, Midrand and Durban. The Managing Director of this company is the previous Marketing Director of PG Bison. 60% of their staff were previously employed by PG Bison and thus very little product training was required. The staff who resigned from PG Bison had existing relationships with their target customers. This enabled Wilsonart to begin operating within two months of the stocks arriving to an existing customer base (PG Bison Competitor Report 1998).

The effects of the above increased competitor activity and the downturn in the kitchen industry has resulted in volumes and prices of Formica to decrease year on year, as depicted in Figures 2.23 and 2.24. (PG Bison Sales Data Base, 1998)

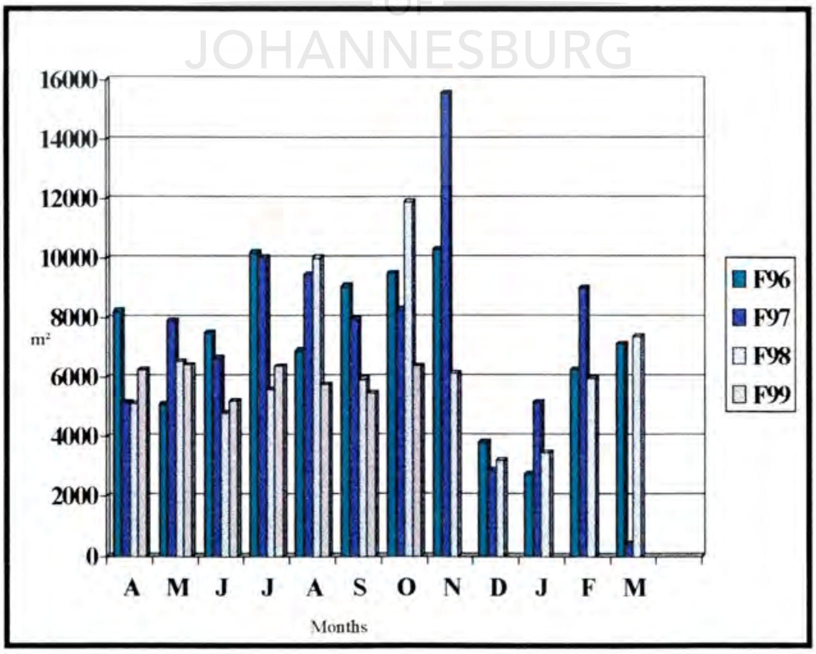


FIGURE 2.23 FORMICA VOLUME SALES INTO THE KITCHEN INDUSTRY

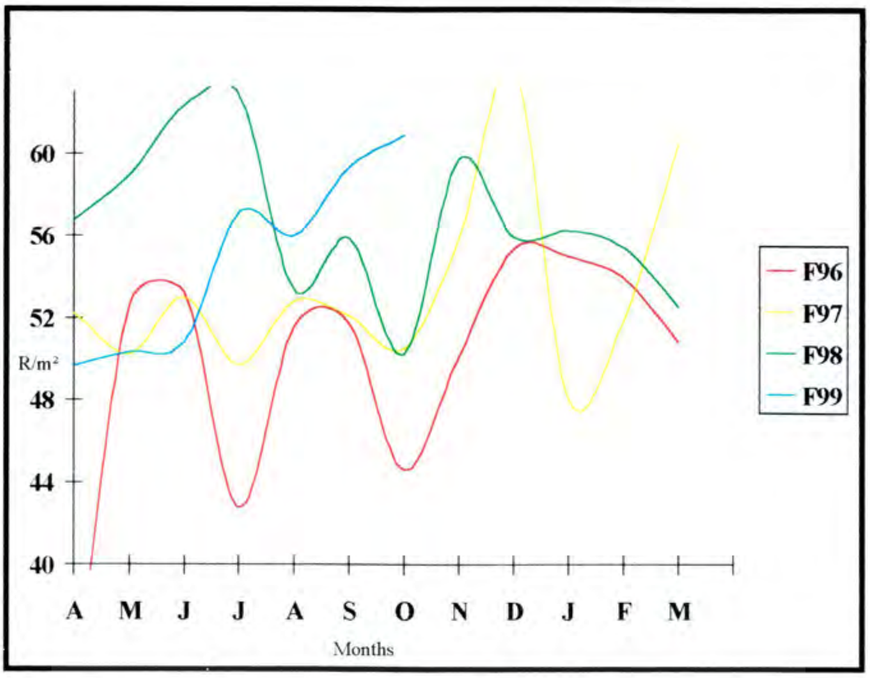


FIGURE 2.24 AVERAGE SELLING PRICE OF FORMICA / M²

Formica is also pressed onto postformed (90 degree profile along one edge of the board) Bisonbord of thickness 32mm to produce Formica worktops. These worktops are used almost exclusively in the kitchen and shopfitting industries. Once again due to increased competitor activity, the sales volumes and price have decreased as per Figures 2.25 and 2.26 (PG Bison Sales Data Base, 1998).

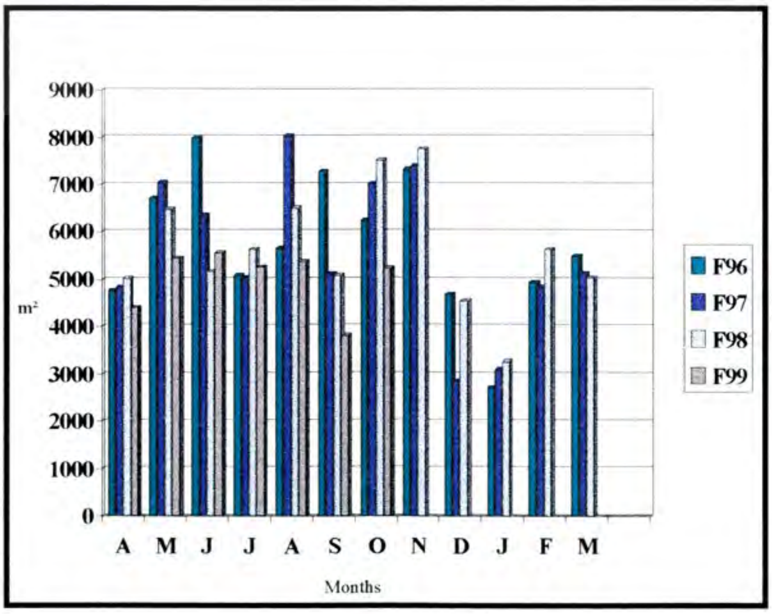


FIGURE 2.25 FORMICA WORKTOPS SALES INTO THE KITCHEN INDUSTRY

The decrease in volume has not been as dramatic as some of the products discussed above, but this has been achieved at the expense of price, as shown in Figure 2.26. Prices have stabilised in the latter half of the current financial year. This has been achieved by a refusal to react to price pressures from customers on a daily basis. "Both the sales consultants and customers are beginning to view the complete package, i.e. the marketing mix, on offer, not just zoning in on price" (Barnard, 1998).

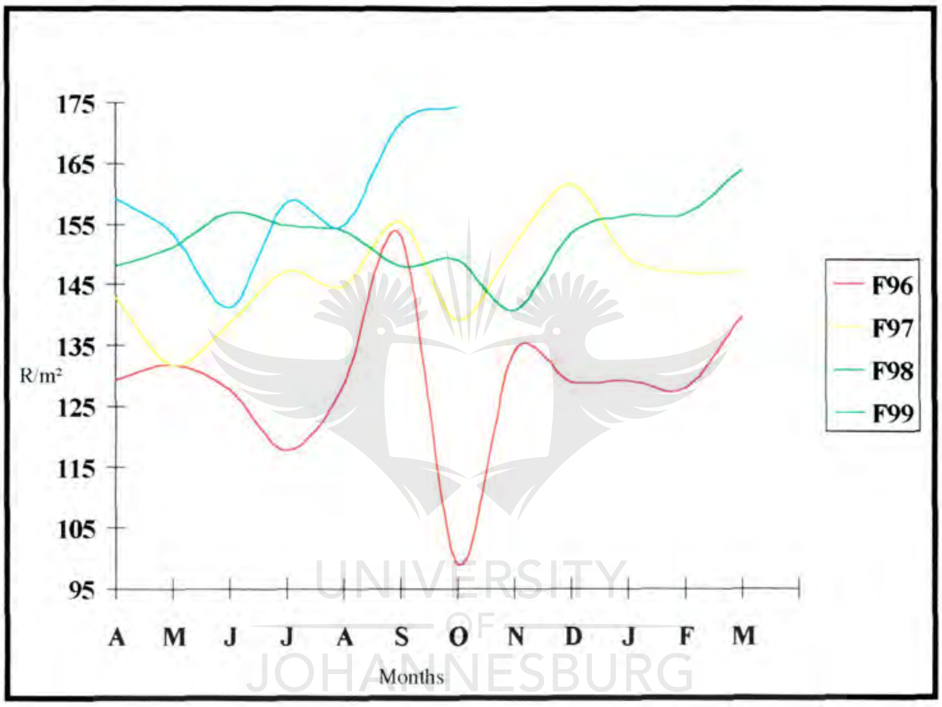


FIGURE 2.26 AVERAGE SELLING PRICE OF FORMICA WORKTOPS / M²

2.4.3 CONCLUSIONS ON THE KITCHEN INDUSTRY

When considering Porters 5 Force Model (Figure 2.27), the only force which has not altered in magnitude for PG Bison is the bargaining power of suppliers (Hafner, 1998). The factors discussed in detail in Chapter 2.4.1 to 2.4.2 has shown that the remaining four forces have altered to a great extent and are affecting PG Bison's activity in the kitchen industry.

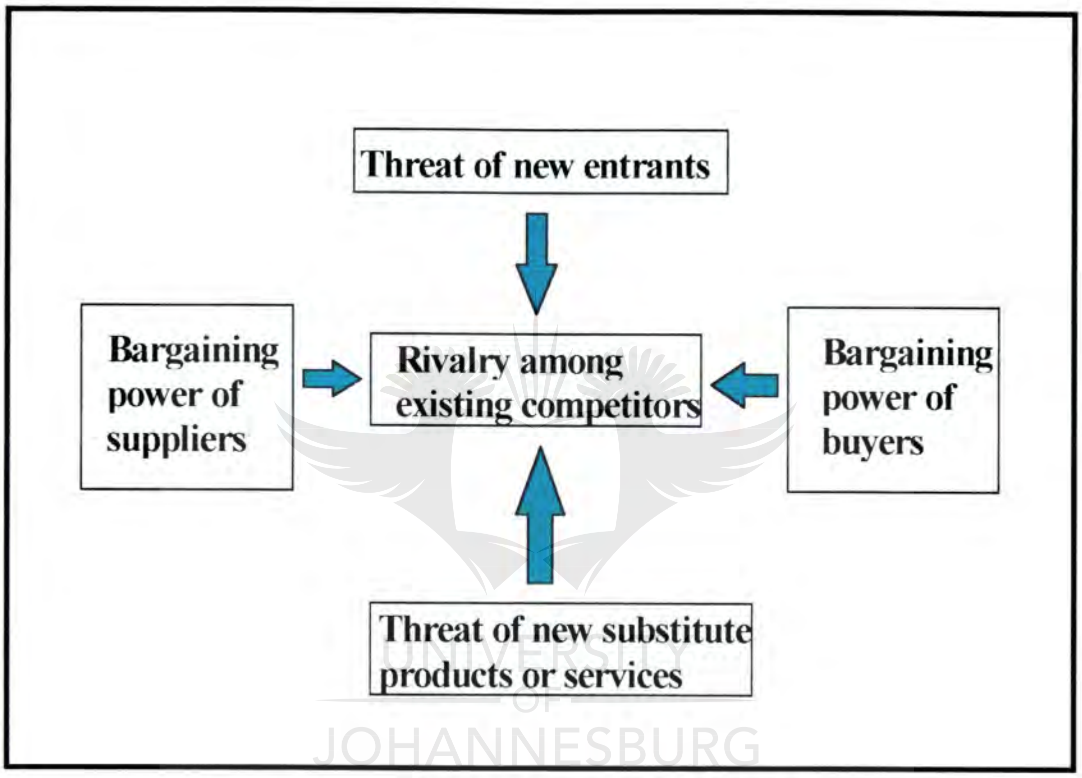


FIGURE 2.27 PORTERS 5 FORCES MODEL

This industry is under pressure for various reasons, which include:

- Rivalry among existing competitors has increased due to external environment factors, e.g. economy, downturn in consumer financial spending and a decline in the building industry (decrease in the number of buildings as well as the size of residential buildings).
- Barriers of entry have been reduced since the lifting of sanctions in 1994. This force is gaining momentum as the world economy is under threat of a recession, e.g. the Eastern crisis.

- The bargaining power of buyers increases as the number of competitors increases. This has resulted in a price war amongst competitors and the profitability of suppliers is decreasing.
- The threat of substitute products is on the increase, e.g. the price of Granite kitchen tops is currently around 40% cheaper than three years ago.

The marketing strategy of PG Bison needs to be redefined in order to once again increase the volumes sold into the kitchen industry at a profit. In the wise words of Warren Buffet: "When you find yourself in a hole, the best thing you can do is stop digging." (Hammond et al; 1998:52).

3. CHAPTER THREE

3.1 INTRODUCTION

The population in this research report consists of all owners/users of domestic kitchens. These may be in owned or rented households. Gauteng has a population of 7.3 million people and is the richest province in South Africa. The average income in this province is R33 500 per annum with an unemployment rate of 28% (Stats SA; 1996 census). A primary data source in the form of 250 questionnaires was sent out to a sample of the Gauteng population, of which 182 were returned. This gave a 72.8% return rate. The letter accompanying the questionnaire and the questionnaire itself can be seen as Appendix 1 and 2. The questionnaire was designed to be quantitative in nature using interval-scaled data and ratio-scaled data (Wegner, 1993:9-10).

3.2 ANALYSIS OF QUESTIONNAIRES

The 182 returns were broken down into five categories of household income. Eleven of the questionnaires did not stipulate their income and thus have been ignored for the analysis. The number of returns per income group were as follows:

Category 1 = <R2500 per month	11
Category 2 = <R5000 per month	40
Category 3 = <10 000 per month	51
Category 4 = <15 000 per month	16
Category 5 = >15 000 per month	53
TOTAL	171

Figure 3.1 represents the number of returns as well as the gender of the person answering the questionnaire for each income group. From the gender of the respondents, it can be seen that the kitchen is seen by

most as the 'female' domain in the household. In total, only 20% of the questionnaires were answered by males even though the envelopes containing the introductory letter and the questionnaire were addressed to the owner of the house.

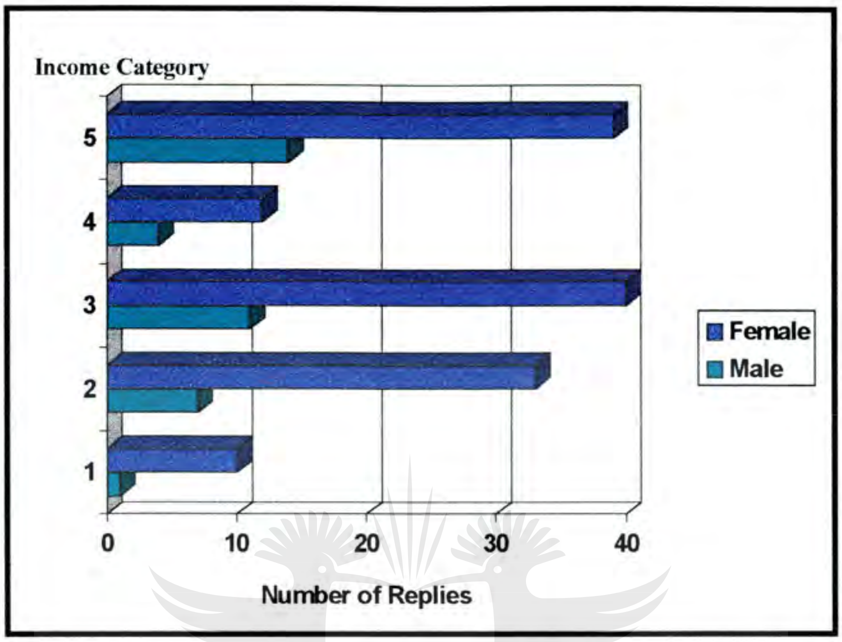


FIGURE 3.1 NUMBER AND GENDER OF REPLIES PER INCOME CATEGORY

The number of people living in the household is shown in Figure 3.2. The number of people living in the household has an influence on the design and size of the kitchen. The larger the number of occupants of the household, the more space required. If there are children in the family, a place to eat meals is required, whereas a young couple or a single person will be content with taking their meals on their laps in front of the TV. (PG Bison Marketing Business Plan, 1998).

Income Category 5 has the highest average, i.e. an average of 3.38 per household, as this includes live-in domestics. This category is the one most likely to be able to afford live-in domestics. Income Category 1 is influenced by the fact that due to poorer economical situations more than one family may be living in a household.

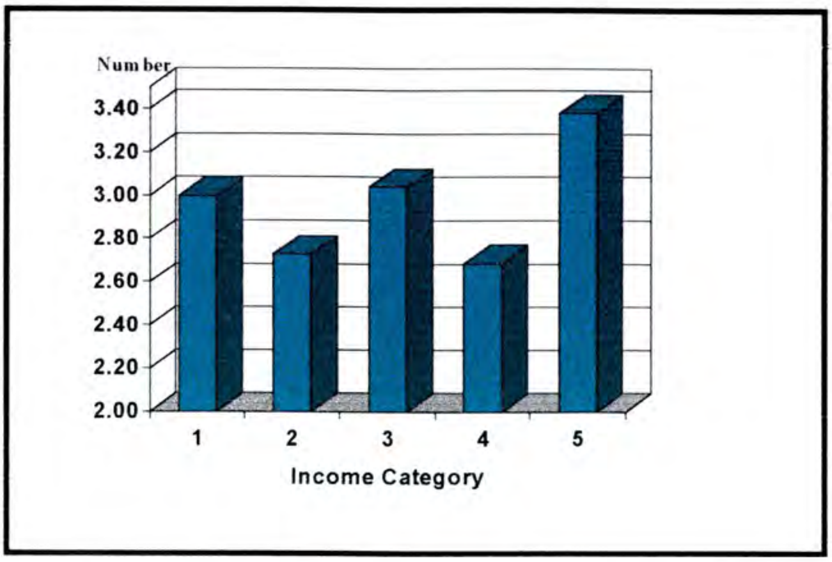


FIGURE 3.2 NUMBER OF PEOPLE IN HOUSEHOLD PER INCOME CATEGORY

The type of dwelling also has a great influence on both the type and size of the kitchen. Generally, houses will have larger kitchens than those of flats and townhouses. The design and style of the kitchens will also vary according to the type of dwelling. Townhouses are more modern, with the majority having an open plan kitchen. Thus the kitchen becomes part of the living area. The kitchen is also smaller than those in houses and the design is along the lines of maximum cupboards in a smaller area. Figure 3.3 shows the percentage of each type of dwelling per income category.

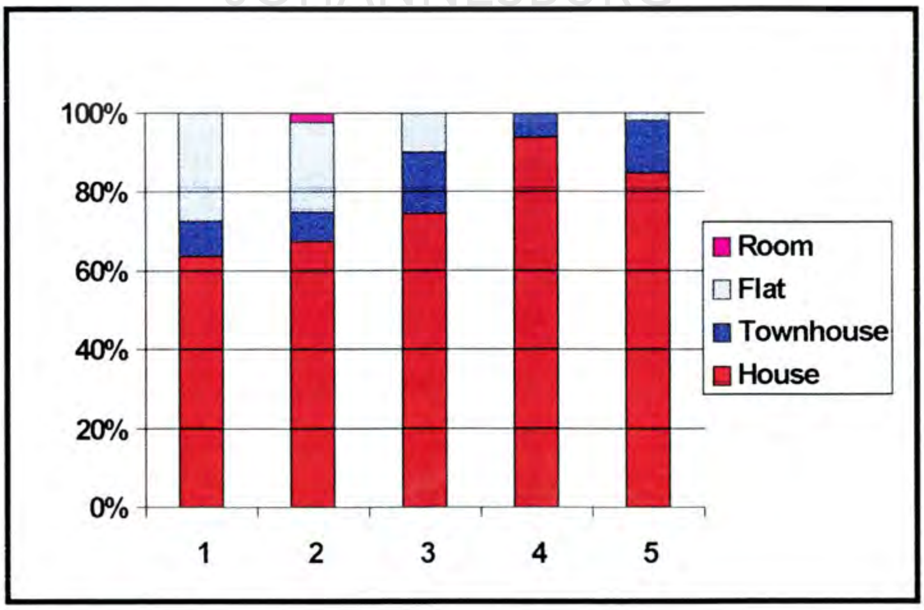


FIGURE 3.3 DWELLING TYPE PER INCOME CATEGORY

From Figure 3.3, it can be seen that the predominant type of dwelling is the house, followed by townhouse, flat, and lastly, room. The rental of rooms is mostly evident in the poorer sections of Gauteng or where the black male worker of the family is renting a room in Gauteng whilst his family live in their homeland in the country, e.g. Kwazulu Natal, Venda. (PG Bison Marketing Business Plan, 1998).

The size of the kitchen is largely dependent on the type of dwelling. Figure 3.4 shows the average size of the kitchen, measured in m², per income group. The size of the kitchen as well as the design of the house, i.e. open plan or separate rooms, dictates the design of the kitchen. A smaller kitchen allows for very little design freedom and each available square metre must be utilised for storage and cooking space. An open plan house calls for a neat, spacious, tidy kitchen which depicts the owner's taste. It now becomes part of the living area and thus must be easily cleaned and kept tidy (PG Bison Marketing Business Plan, 1998).

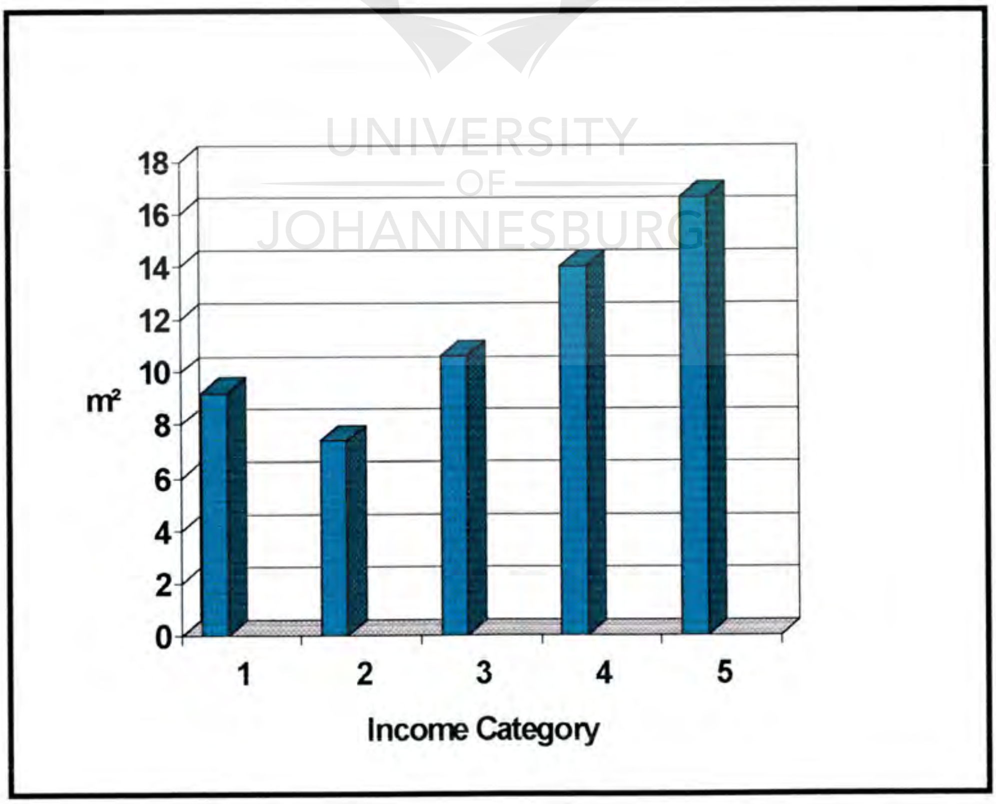


FIGURE 3.4 AVERAGE SIZE OF KITCHEN PER INCOME CATEGORY

When a person is renting a home, the likelihood of that person ever refurbishing or redesigning the kitchen is nil. Thus it is important to take note of how many people are renting and how many people actually own their own home. Figure 3.5 shows the number of those renting versus those who own their home in each income category.

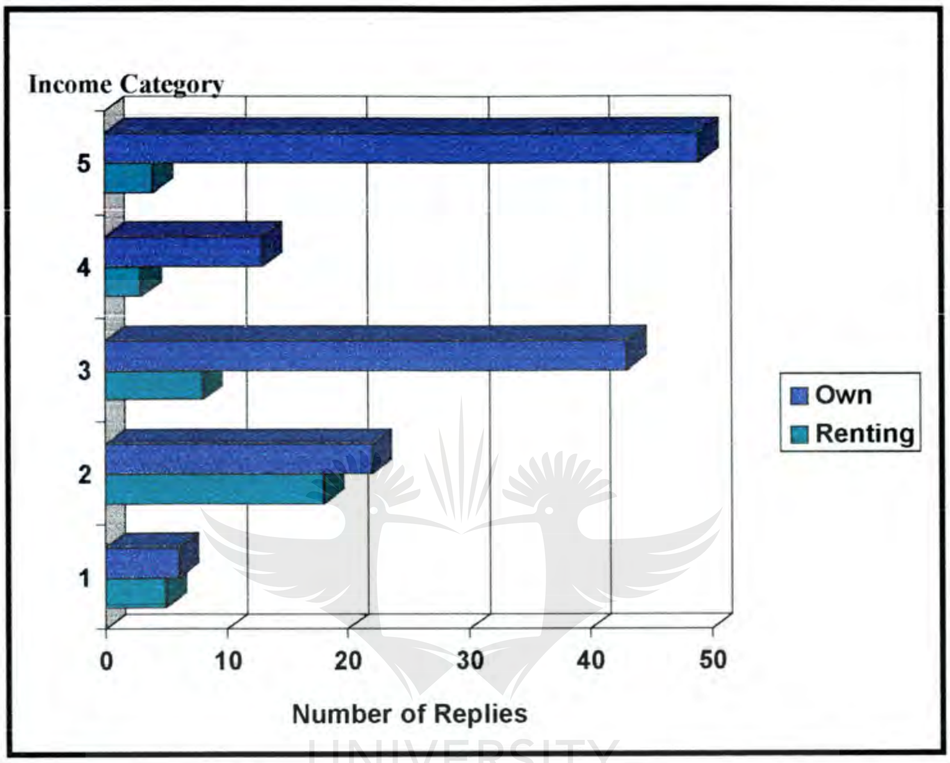


FIGURE 3.5 OWNERSHIP VS. RENTING FOR INCOME CATEGORIES

When one looks at Income Categories 1 and 2, it can be seen that there are nearly equal numbers between ownership and rentals. It is only from Income Category 3 (between R5000 and R10000 per month) that the number of owners far exceeds those of rentals. Thus the target market for the kitchen manufacturers and retailers is restricted to those owning their own home, which fortunately for kitchen manufacturers is 78% of those surveyed.

An interesting fact emerging from the questionnaires is that there are people who have kitchens that are less than a year old but would like to change one or other aspect in the kitchen. Some of the reasons given were, inter alia, design, insufficient cupboard space and poor workmanship. Figure 3.6 shows the age of the kitchens of the sample as a whole. The age links up with some of the reasons why some respondents would like to change their kitchens and others not.

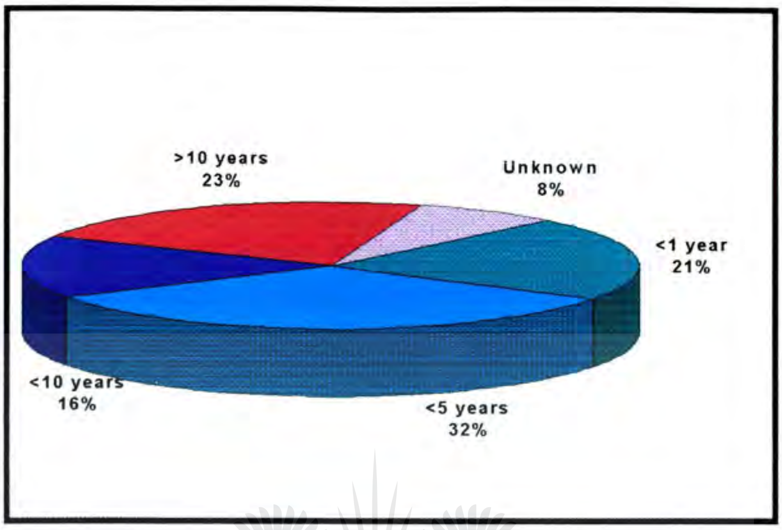


FIGURE 3.6 AGE OF KITCHENS OF RESPONDENTS

Of the total number of respondents, 52% responded favourably in wanting to change their kitchen. The most mentioned reason for wanting to change to the kitchen was to modernise the look or wanting to create a new image for the kitchen. The next most popular reason was due to the lack of space and thus require more kitchen cupboards. The third most mentioned reason was damage due to water. The kitchen cupboards and tops are mostly manufactured using chipboard as the substrate (Questionnaire). Chipboard is not water proof and thus consistent wetting and drying results in the chipboard swelling. Due to this swelling, the HPL or melamine on the doors, delaminates, thus leaving the chipboard exposed. (PG Bison Technical Brochure, 1996). The remaining reasons for wanting to change the kitchen were, inter alia, the kitchen is too small, dislike the colour, poor quality product and installation. Table 3.1 quantifies the reasons for the changes desired.

TABLE 3-1 REASONS FOR WANTING TO CHANGE KITCHEN

Reason	Number of Respondents
Modernise, old fashioned, new image	26
Need more cupboards	23
Water damage	11
Extend kitchen, too small	8
Require 'wooden' look	7
Dislike colour	6
Need practical kitchen	6
Formica damaged, burnt or delaminating	5
Kitchen is shabby	4
Poor quality installation and product	3
Woodgrains in doors collect dust	1
Not enough plug points	1
Not enough shelving	1

Table 3.2 shows what respondents would like to change in their kitchen. Nearly 42% of the respondents who answered affirmatively to wanting to change their kitchen stated that they wanted to change 'everything' in their kitchen. This shows complete dissatisfaction with what they presently have. The most mentioned item to be changed is tops, then doors and cupboards.

TABLE 3-2 ASPECTS OF KITCHEN THAT REQUIRE CHANGING

What would you change?	Number of Respondents
Tops	75
Doors	59
Cupboards	58
Design	53
Floor	58
Colour	44
Tiles	40

The most utilised kitchen top material in the respondents' kitchens at present is Formica at 60%. (Appendix 3 - Data Analysis). However, it must be noted that the majority of the population are not aware that

Formica is a brand name for HPL and often refer to all HPL as Formica, no matter who manufactures the laminate. Consumers choose the HPL top due to the colour, not due to who the manufacturer of the HPL is or the construction of the top (Verster, J; 1998). The next highest number of type of tops is 'don't know' at 15%. This is particularly important for the marketing strategy for the kitchen industry. This is followed by Melamine 10.4% and Granite 6%.

The type of doors utilised at present varied considerably, with melamine the most prominent at 39.5% (Appendix 3 - Data Analysis). Figure 3.7 depicts the types of materials used for doors. Once again it must be noted that lack of knowledge may distort the actual material used. In many cases foiled doors are conceived by the consumer to be melamine doors (Verster, 1998).

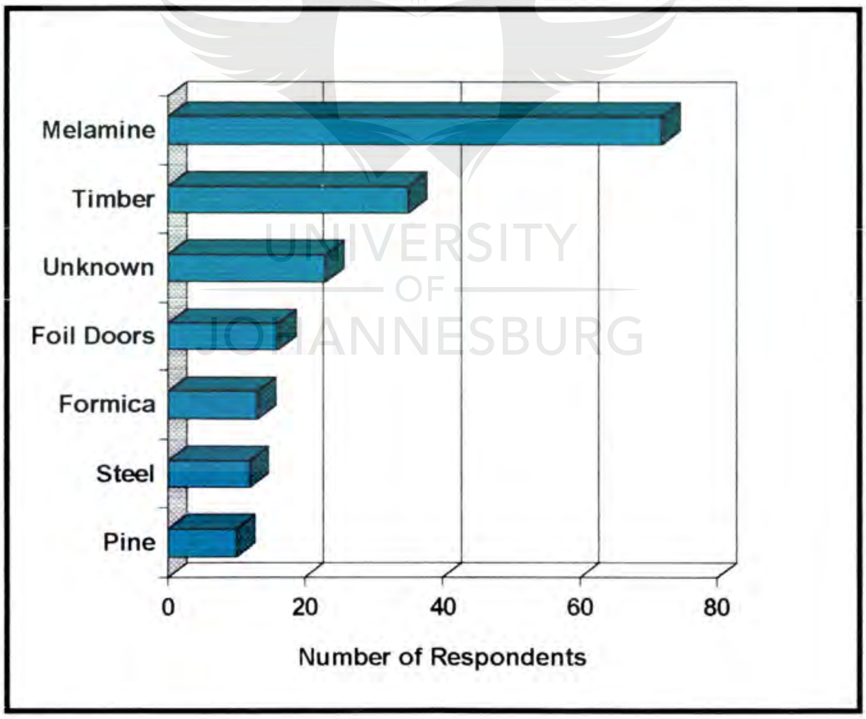


FIGURE 3.7 MATERIALS PRESENTLY USED FOR DOORS

The researcher attempted to obtain an idea of the ideal kitchen from the respondents' points of view. The question asked was 'What would your ideal material choice be for tops, doors and floor?'. The results are represented graphically in Figures 3.8 to 3.10.

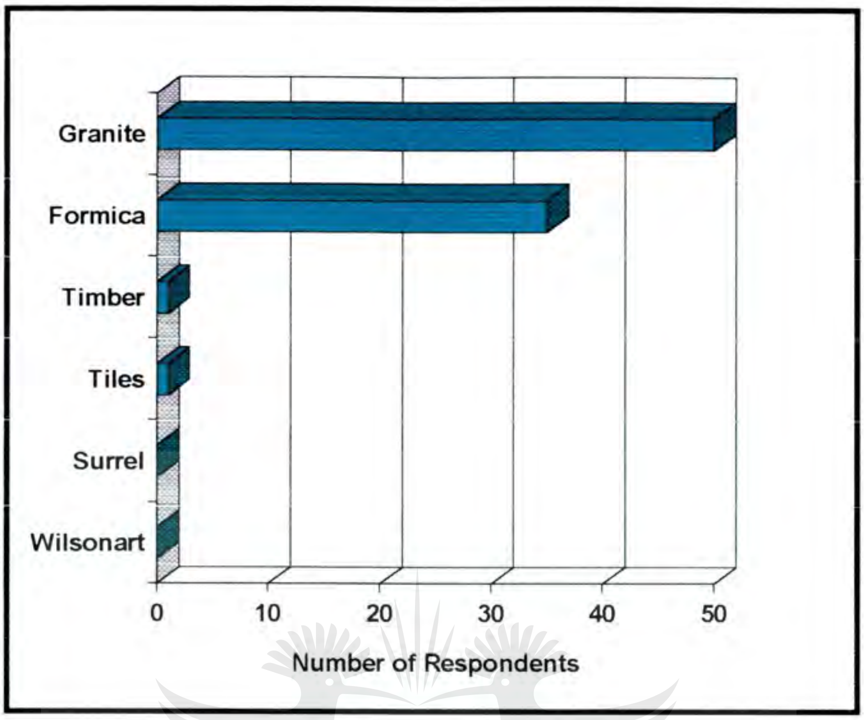


FIGURE 3.8 DESIRED MATERIAL FOR TOPS

Granite is the most favoured at 57% with Formica second at 40%. Wilsonart received zero but this again shows ignorance on the part of the consumer. Wilsonart is a brand name for HPL. A sample of Formica HPL and a sample of Wilsonart HPL were shown to ten independent samples of the population. They were asked which one was Formica. The answer in all ten cases was that both were Formica. This reiterates the point that the consumers are not aware of the different brands of HPL. This is a salient point for the purpose of this research, namely a marketing strategy for the kitchen industry.

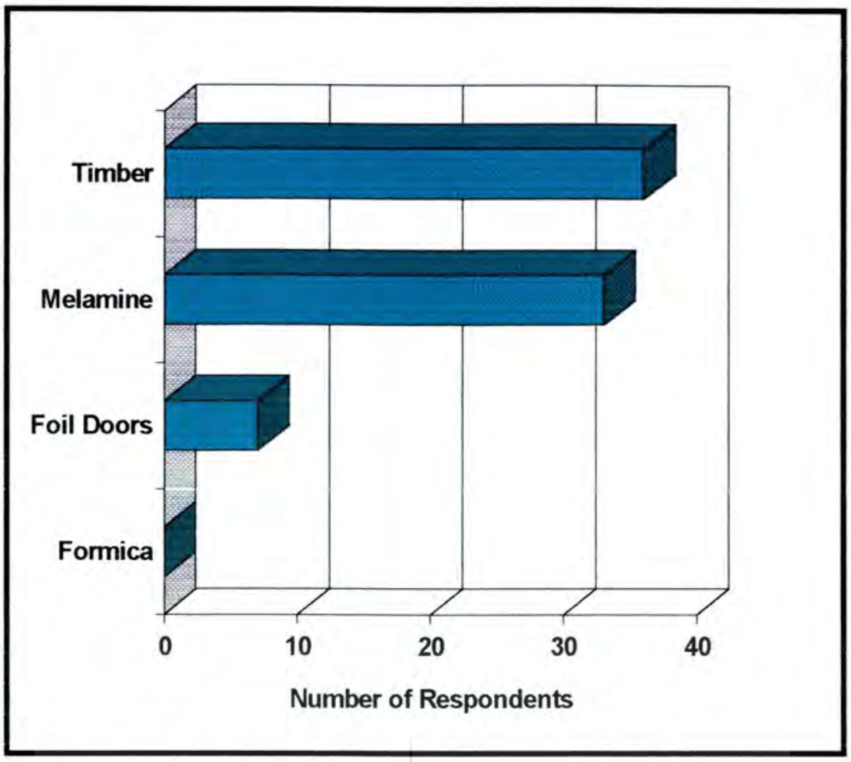


FIGURE 3.9 DESIRED MATERIAL FOR DOORS

Timber is slightly more popular than melamine, with timber receiving 47% as the favoured choice of material for doors and melamine receiving 43%.

As far as floors are concerned, tiles are the outright favourite with 83% of the respondents selecting tiles and the balance split equally between Novilon and Formica Flooring. Formica Flooring is a new product in South Africa and has only been on the market for eight months. This flooring has two grades, commercial and domestic. The domestic marketing thusfar has been restricted to advertising in magazines such as 'Home Owners' and 'Garden and Home'.

The researcher inquired in the questionnaire what products the respondents recognised. The outcome is depicted in Figure 3.10.

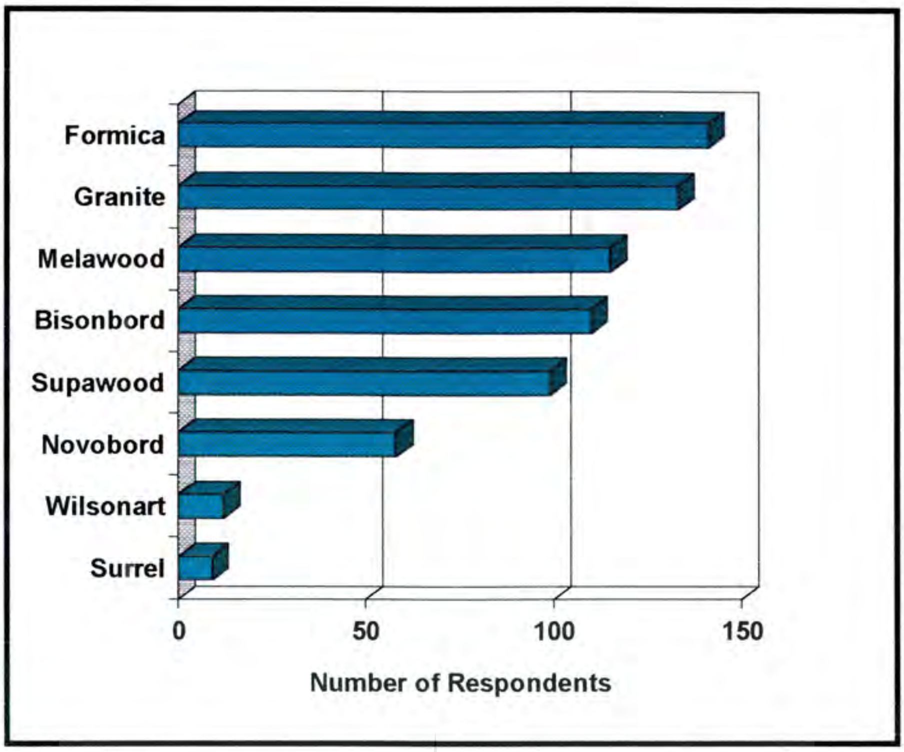


FIGURE 3.10 RECOGNISED PRODUCTS

It can be seen that Formica is a well-known name within the sample of the research. Except for Granite, which is a substitute product for Formica tops, PG Bison's products are better known than any other competitor's. This is a great strength for the organisation and cognisance must be taken of this for the marketing strategy.

Although in the survey 52% indicated that they required changes to their kitchens, only 9% answered that they were actually in the process of doing these changes. The reasons given for not undertaking these changes were:

- 70% claim it is too expensive
- 16% are renting their homes
- 5% did not know the reason

From the above information, the biggest obstacle kitchen manufacturers are facing is the perception that consumers cannot change their kitchen due to the expense involved. One way of changing the look of the kitchen, without going to the huge expense of changing everything, is by changing only the doors and the kitchen tops. When this option was proposed in the questionnaire, 52% said they would consider this option. The reasons for both affirmative and opposing answers are listed in Table 3.3.

TABLE 3-3 REASONS FOR CHANGING TOPS AND DOORS ONLY

Reason	Number	Yes	No
• Economical - cost effective	14	X	
• Will change whole look	6	X	
• Doors still in great condition	1	X	
• Start to what I would ultimately like	1	X	
• Complete refurbishment needed	12		X
• New layout required	1		X
• Metal cupboards cannot be changed	2		X

Another form of cost saving is DIY kitchen installation. When asked this question, 75% of the respondents answered affirmatively to installing their own kitchens. 60% expected a saving of greater than 30%, 16% a saving of between 21 and 30%, 18,5% a saving of between 11 and 20% and 5% expected a saving of less than 10%.

The last aspect of the questionnaire was to establish the importance of fifteen dimensions with regard to kitchen manufacturers and installers. Each point was rated on a scale of 1 to 10, with 1 being not important and 10 being very important. The results are tabulated in Table 3.4.

TABLE 3-4 RATING OF IMPORTANCE

Dimension	1	2	3	4	5
A member of the Kitchen Specialist Association	8.0	7.8	7.4	5.1	3.8
Attitude of rep / designer	9.3	9.3	8.9	7.8	8.3
Brochures of different available products	9.1	9.1	8.9	7.9	7.8
Computer Aided Design facilities	8.3	8.6	7.9	7.0	7.4
Credit Facilities	6.5	9.1	7.1	4.6	5.3
Guarantee on products and workmanship	9.7	9.7	9.1	9.0	9.5
Lead time from placement of order	9.2	9.3	8.1	8.4	8.2
Length of time the company has been in operation	9.0	9.1	7.7	7.5	7.8
One-stop-shop: building changes, plumbing, tiling etc.	8.8	9.1	7.9	8.1	6.7
Price	9.3	9.6	8.3	8.4	8.2
Quality of workmanship	9.7	9.8	9.3	9.4	9.7
Range of products e.g. colour range of doors	9.3	9.6	8.8	9.1	8.7
Reputation	9.1	9.7	9.1	9.6	8.4
Sales of appliances such as ovens, fridges etc.	8.3	8.6	6.2	5.8	5.5
Showroom appearance	9.2	8.9	8.4	8.9	7.8

The KSA (Kitchen Specialist Association) received a very low rating of importance in Income Category 5 and also had the lowest rating overall. This is obviously due to consumers not being aware of what the Association can do for them. The Builders' Association in South Africa has a strong following and many people building their own home will only utilise builders who belong to the Association. The Builders' Association has run extensive advertising and awareness campaigns. The KSA has begun to do this in the form of organising and obtaining sponsorship for the Kitchen and Bathroom Faire which is held annually in Johannesburg and recently in Durban as well. One of the key objectives of the KSA must be to inform all consumers of the merits of the organisation and what it can offer consumers (Verster, 1998)

The attitude of the representative/designer from the kitchen manufacturer scored an overall score of 8.72, showing the importance of this aspect. Consumers rely on the representative for advice, ideas and solutions for any problems they may have. This relatively high score proves the importance of having the correct representatives out in the field designing kitchens.

The availability of brochures for different products scored slightly lower than the above point, with an average of 8.56. Due to the vast number of different manufacturers of kitchen utensils such as sinks, taps, drawer runners, hinges, counter tops (colours and type of material) and doors, it is impossible for any one manufacturer to be able to display all available options. Thus, brochures will enable the consumer to see what is in fact available and then to make his/her choice. The kitchen manufacturer can then make do with a smaller showroom.

It was surprising to see that Computer Aided Design (CAD) facilities scored an average of only 7.84 points. This technology is developing at a rapid pace and when speaking to designers, they cannot imagine working without these facilities. The consumers can then see what their new kitchen will look like in three dimensions within a few minutes of having decided on their choices. The researcher is under the impression that this dimension has scored rather low due to consumer ignorance about CAD and not because the respondents knowingly rated CAD as less important.

The importance of credit facilities was rated at 6.52 overall. However, this point should be analysed per income category. Income Category 1 (household income <R2500 per month) rated it at 6.5. This category would experience difficulty in getting credit from any institute due to low income. They therefore know that any purchases they require will have to be cash. Income Category 2 (household income <R5000 per month) rates this point at the highest out of all the categories, scoring it at 9.7. Within this monthly income, they have reached the point where credit is critical to purchase anything that has value of greater than R500 and they have the income to enable them to receive credit. They live on a revolving credit basis and once one item has been paid up, they purchase the next

item. As mentioned previously, interest rates in South Africa are very high. HP (Hire Purchase) interest rates currently vary between 29 and 35% and this form of purchasing is therefore expensive. Income Category 3 (household income <R10000 per month) scored the importance of credit facilities at 7.1. Some people within this category, as with Income Categories 4 and 5, (household income >R10000 per month) have established credit with the banks in the form of credit cards, overdrafts and house bonds. They do not therefore require credit from the kitchen manufacturer but instead use the banking institutes for finance if they do not purchase for cash. Income Category 4 rated this point at 4.6 and Income Category 5 at 5.3. It is likely that within Category 5, consumers would be paying one percent or more below the banks' prime lending rate, and financing in this manner is therefore much cheaper than by HP.

Guarantee on workmanship scored an unsurprising 9.4. As with any purchases, guarantee is important to the consumer.

Lead-time from placement of order scored an average of 8.64. Consumers are not unrealistic with regard to their demands on delivery but what is required is that once a date has been given by the manufacturer, that date must be adhered to. Consumers will not, however, wait two months for their new kitchen. The norm in the industry is about 3 weeks but this is also dependent on the extent of customised work (Risely, 1998).

The length of time the company has been in operation scored an average of 8.22 but Income Categories 1 and 2 distorted the score to the higher side with their scoring at 9.0 and 9.1 respectively. The remaining three categories scored 7.7, 7.5 and 7.8. This score is also relatively low considering the number of kitchen manufacturers which have gone out of business over the last few years. Once this has happened, the guarantee is invalid and yet guarantee scored high points in importance. The lower scores for this salient point are therefore contradictory.

The one-stop-shop concept with regard to building changes, etc., as well as the sale of appliances such as ovens, fridges and other goods, can be discussed together. Both these points can be linked to credit facilities as well. The higher income categories have easy access to credit and are therefore not restricted to one supplier. The lower income categories find it easier, once they have gained credit, to be indebted to only one supplier due to the difficulty of getting credit. Thus the lower income categories would prefer the kitchen manufacturer to do the complete kitchen and pay only one account.

Price scored an average of 8.76 but once again decreased in points from Category 1 to Category 5. Income Category 5 scored the lowest of the points at 8.2. Within this category, consumers are more concerned with quality, design and aesthetic value than with price, whereas the lower income categories consider price to be very important and will shop around for the lowest price rather than the most pleasing kitchen.

Quality of workmanship was the highest scoring dimension with an average of 9.58 points. South Africa as a nation is only now starting to demand quality and service for its money. It is not surprising that this aspect scored the highest points. This point can be linked to the reputation of the kitchen manufacturer. Reputation scored 9.18, also a high score. It is human nature that if someone tells you about poor service from a manufacturer, you are unlikely to want that manufacturer to install an expensive kitchen for you. The high levels of importance scored by the respondents were therefore not unexpected.

The range of products, e.g. colours of doors and tops, scored 9.1. If a consumer is really restricted to a choice of colours or materials available from one manufacturer, the chance that the consumer will look at other manufacturers increases. However, manufacturers must also be aware that the range cannot be too wide and must also be updated with new colours continuously so as to stay competitive (Risely, 1998). A range that is too large makes choice very difficult for the consumer. As in any business today, manufacturers need to be aware of their competitors and know what is going on in the market place.

Showroom appearance scored highest in Income Category 1 and lowest in Income Category 5. Despite this, an untidy showroom with poor workmanship and very little on display will not create a good first impression for the consumer who is looking to spend money on a new kitchen. The showroom must give the consumer the feeling that they would like this specific manufacturer to install their kitchen for them. So, although Income Category 5 only scored the showroom at 7.8 points, this is still high in the level of importance and cognisance of this factor must be taken when designing a showroom.

3.3 SUMMARY AND CONCLUSION

The kitchen is seen by all as the female's domain. Gauteng's population lives predominantly in houses and 52% of the sample are not content with their kitchen. When taking into account that the population of Gauteng is 7.3 million, the demand for new kitchens is still very strong. At present, the most popular material for tops is Formica but the respondents see Granite tops as part of their ultimate dream kitchen. The Granite tops are to be accompanied by either Timber or Melamine doors. Tiles far exceed any other material for flooring.

PG Bison has competitor advantage with regard to product branding with Formica, Melawood, Bisonbord and Supawood emerging within the first five most recognised products.

The biggest problem facing the kitchen industry is that 70% of the respondents considered kitchen refurbishment as too expensive. Instead of complete refurbishment, alternate methods of refurbishment are DIY or the changing of only tops and doors. These two methods are both cheaper and will achieve the results of a new looking kitchen.

The order of importance for different selling points from a kitchen manufacturer's point of view emerged as follows:

1. Quality of workmanship
2. Guarantee on workmanship and products
3. Reputation of the kitchen manufacturer
4. Range of products on offer
5. Price
6. Attitude of representative / designer
7. Showroom appearance
8. Lead time from placement of order
9. Availability of brochures of different products
10. Length of time the manufacturer has been in operation
11. One-stop-shop: building changes, plumbing, electricity, tiling, etc.
12. Computer Aided Design facilities
13. Sales of appliances such as ovens, fridges etc.
14. Credit facilities
15. A member of the Kitchen Specialist Association

This market calls for a marketing strategy that meets the needs and demands of the consumer. The strategy needs to be moved away from production-orientated marketing to market-orientated marketing.

4. CHAPTER 4

4.1 INTRODUCTION TO STRATEGIC MARKETING

Strategy specifies direction. Strategy in a firm is "the pattern of major objectives, purposes or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be" (Andrews, 1971: 28).

A corporate strategy seeks to unify all the business lines of a company and point them all towards an overall goal. A business strategy usually covers a plan for a single product or a group of related products. The marketing function represents the greatest degree of contact with the external environment. This is the environment over which the organisation has least control over. Marketing consists of establishing a link/match between the organisation and its environment. Marketing seeks solutions to problems of deciding what business the firm is in and how the company can run successfully in a competitive environment by pursuing product, price, promotion and place (distribution) perspectives to service their target markets (Subhash, 1993: 9-10).

PG Bison's strategy requires management for competitive advantage within the kitchen industry. The main concern is to deliver the products to the market in the most profitable way. Superior performance requires doing three things better than the competition:

- The organisation must clearly designate the product/market, based on marketplace realities and a true understanding of its strengths and weaknesses.
- It must design a winning business system or structure which enables the company to outperform competitors in producing and delivering the product or service.

- Managers need to do a better job of managing the overall business system by managing not only relationships within the corporation but also critical external relationships with suppliers, customers and competitors (Subhash, 1993: 14).

Within a given environment, marketing strategy essentially deals with three forces known as the strategic three Cs, namely, the customer, the competitor and the corporation. The marketing strategy focuses on the ways in which the company can differentiate itself effectively from its competitors, using its strengths and converting its weaknesses to strengths, to deliver better value than its competitors to the customer. A good marketing strategy should be characterised by the following:

- a clear market definition
- a good match between the company's strengths and the needs of the market
- superior performance, relative to the competition, in the key success factors of the business (Subhash, 1993: 23).

Each of the three C's are dynamic entities, each with their own objectives. Positive matching of the needs and objectives of customer and corporation is required for a long lasting, good relationship. It must be understood that matching is relative and if the competition is able to offer a better match, the corporation will be at a disadvantage within time. Figure 4.1 illustrates the key elements of a marketing strategy formulation (Subhash, 1993: 23-25).

According to Subhash (1993:23), a definition of marketing strategy, in terms of these three key constitutes, is 'an endeavour by a corporation to differentiate itself positively from its competitors, using relative corporate strengths to better satisfy customer needs in a given environmental setting'.

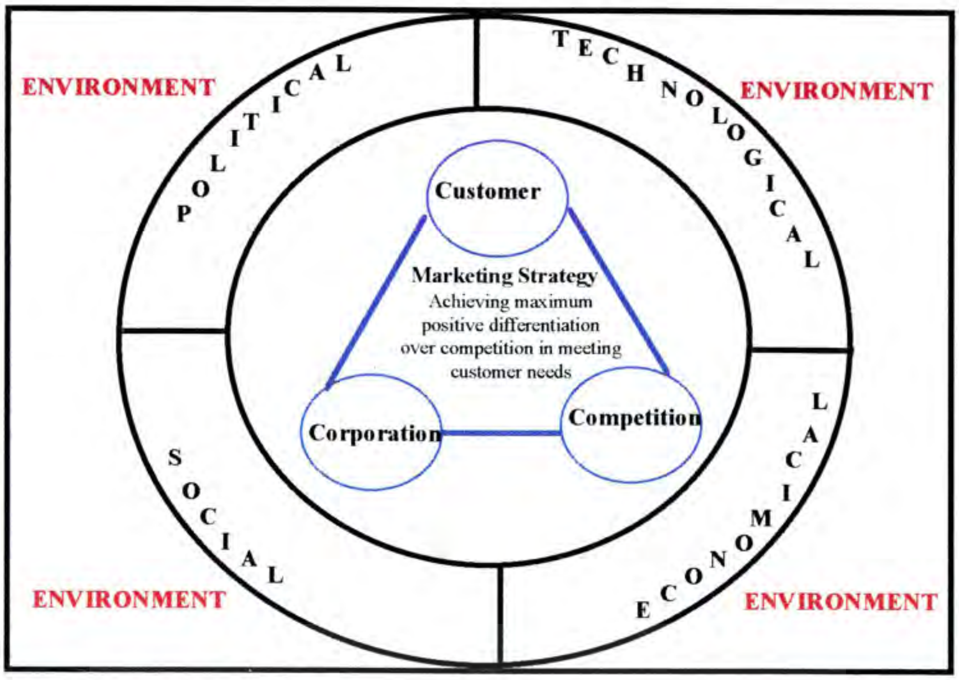


FIGURE 4.1 KEY ELEMENTS OF MARKETING STRATEGY FORMULATION

(Subhash, 1993: 24)

As discussed in Chapter 2.3.1, PG Bison, as a corporation, has the following strengths:

- Locally manufactured products
- In operation since 1966 and therefore well established with numerous mergers and buy-outs occurring along the way.
- Strong and extensive distribution network
- Brand awareness as a "Quality Product" - Bisonbord, Supawood, Formica
- Financially secure company - SAB as holding company
- High barriers of entry for new panel product manufacturers
- Large range of homogeneous, complementary products in comparison with other South African manufacturers and distributors
- Good technical back-up
- Market leaders
- Intrinsic brand names, i.e. Bisonbord, Formica, Supawood

Strategic marketing differs from marketing management in many respects: orientation, philosophy, approach, relationship with the environment and other parts of the organisation, and the management style required. Table 4.1 summarises the differences between strategic marketing and marketing management (Subhash, 1993: 33).

TABLE 4-1 MAJOR DIFFERENCES BETWEEN STRATEGIC AND MARKETING MANAGEMENT

Point of Difference	Strategic Marketing	Marketing Management
Time Frame	Long range; i.e. decisions have long-term implications	Day-to-day; i.e. decision have relevance in a given financial year
Orientation	Inductive and intuitive	Deductive and analytical
Decision process	Primarily bottom-up	Mainly top-down
Relationship with environment	Environment considered ever-changing and dynamic	Environment considered constant with occasional disturbances
Opportunity sensitivity	Ongoing to seek new opportunities	Ad hoc search for a new opportunities
Organisational behaviour	Achieve synergy between different components of the organisation, both horizontally and vertically	Pursue interests of the decentralised unit.
Nature of the job	Requires high degree of creativity and originality	Require maturity, experience and control orientation
Leadership style	Requires proactive perspective	Requires reactive perspective
Mission	Deals with primary emphasis of business	Deals with running a delineated business

When one considers PG Bison with regard to the above, it is evident that PG Bison is strong in marketing management but lacks a strategic marketing plan.

4.2 COMPETITOR ANALYSIS

The intensity of competition in a market is dependent on the moves and countermoves of various firms active in the market. There are various factors which determine the degree of competition in a given market (Subhash, 1993: 79-82). These various factors are discussed in relation to the kitchen industry in Gauteng (also see chapters 2.2 and 2.3).

4.2.1 DEGREE OF COMPETITION

4.2.1.1 Opportunity Potential

The degree of rivalry in the supply of C/B, HPL, MDF and MFC products to the kitchen and other segments has increased tenfold. The larger kitchen manufacturers such as Mr Cupboard, Meloplan, etc., have been liquidated. The employees of these companies, now unemployed, have started manufacturing kitchens on a much smaller scale. These may be in their own garages or in small factories. Their raw material supplies are vastly different from the large kitchen manufacturers. Instead of weekly deliveries of 150 sheets of MFB, these smaller manufacturers require deliveries of 10 boards every second day. This is due to space constraints as well as cash flow restrictions. Raw materials are purchased for the job on hand only. To service this smaller market segment, one requires only a small delivery vehicle. When an order is placed with the smaller distributor, this distributor collects the boards at one of the larger distributors and delivers directly to the kitchen manufacturer. Most of this business is concluded on a cash basis. These smaller manufacturers are developing all over South Africa as the economic climate worsens and more and more people are finding themselves unemployed. The larger distributors are unable to offer these smaller manufacturers the four-hourly lead time that they require. The market potential for the smaller distributor is increasing (Barnard, 1998).

4.2.1.2 Ease of Entry

Ease of entry has expanded because of the increase in the availability of supply. Up until 1994, the only three large manufacturers and suppliers were PG Bison, Sappi Novobord and CIT. Now, due to global competitiveness, the number of suppliers has increased in the form of importers. This increase in the number of suppliers has occurred in both the traditional direct factory supplies and in the distribution outlets. The larger direct factory customers have begun importing their own materials from various sources outside the South African borders. The stringent sales policies of the three manufacturing companies prior to 1995 have fallen by the wayside due to increased competitor activity and a shrinking market. As mentioned in the point above, it is easier to open a distribution outlet today than it was five years ago. (also see Chapter 2.2 and 2.4.2.)

4.2.1.3 Nature of Product

The products offered by the various suppliers are perceived by customers to be more or less similar. This is when companies are forced into price wars. This has been the case with C/B between PG Bison, Sappi Novobord and imports and with HPL between PG Bison and Wilsonart. (also see Chapter 2.4.2 and Chapter 3:53)

4.2.1.4 Exit Barriers

Very few exit barriers exist as far as the distribution outlets are concerned. The largest may be leased building agreements. The manufacturing concerns are totally on the opposite end of the scale. There are high capital investments by the three local manufacturers.

It can be concluded that the degree of rivalry amongst the competitors in this market has increased considerably over the last few years. It is for this reason that PG Bison needs to develop a marketing strategy to enable it to continue as a profitable organisation.(also see Chapter 2.4.3).

4.2.2 COMPETITIVE INTELLIGENCE

Competitive intelligence is the 'publicly available information on competitors, current and potential, that serves as an important input in formulating market strategy' (Subhash, 1993: 82).

There are three types of competitive intelligence, namely,

- Defensive intelligence - gathered to avoid being caught off balance
- Passive intelligence - ad hoc information gathered for a specific decision
- Offensive intelligence - is undertaken to identify new opportunities

(Subhash, 1993: 82).

From a strategic perspective, offensive intelligence is the most relevant. PG Bison is strong in defensive and passive intelligence but not in offensive intelligence. Knowledge about the competition may be gained from various different sources such as customers, suppliers, newspapers, advertising, personnel changes and employees. Questions that need to be asked about competitors in order to understand them are:

- Who is the competition? Now/ five years from now?
- What are each major competitors' strategies, objectives and goals?
- How important is a specific market to each competitor and what is the level of its commitment?
- What are each competitors' relative strengths and limitations ?
- What weaknesses make competitors vulnerable?
- What changes are competitors likely to make in their future strategies?
- What will the effects of all competitors' strategies be, on the industry, the market and our strategy be? (Subhash, 1993:84).

4.2.3 STRENGTHS AND WEAKNESSES OF COMPETITORS

PG Bison has different competitors in each of the products under discussion into the kitchen industry. The strengths and weaknesses of each of the competitors per product group are discussed below. (See also Chapter 2.3.1).

4.2.3.1 Chipboard

PG Bison holds a 52% market share in the chipboard market. PG Bison's main competitor is Sappi Novobord. Sappi currently has a 37% market share. (PG Bison Market Report; 1998) (Also see Chapter 2.2). The strengths and weaknesses of these two competitors are listed in Table 4.2.

TABLE 4-2 STRENGTHS AND WEAKNESSES OF PG BISON AND SAPPI NOVOBORD IN THE CHIPBOARD MARKET

Competitor	Strengths	Weaknesses
PG Bison	• Brand awareness associated with good quality • Three manufacturing plants supplying consumers on a national basis • A strong national distribution network. • Lead times can be reduced to hours due to the extensive distribution network • Full range of thicknesses available; 9mm, 12mm, 16mm, 18mm, 22mm, 28mm and 32mm. NB. PG Bison is the only source for 28mm chipboard which is used in the manufacture of doors. • Forward integration with regard to the manufacturing of MFB and kitchen tops using Formica as surface material and chipboard as substrate.	• Distribution can be costly due to double handling of the product; distributed from the respective manufacturing plant to the distribution outlet and then onto the kitchen manufacturer. • Old manufacturing lines; the latest was purchased second hand and commissioned in 1974. • High cost producer in comparison to other competitors • Lack of quantitative goals

Competitor	Strengths	Weaknesses
Novobord	• A new manufacturing line, commissioned in 1992 • Good quality product, produced at a low cost • Financially secure company - Sappi Fine Papers as holding company. • Locally manufactured products, delivery lead times of 48 hours from their White River plant to the Gauteng market. • Full range of thicknesses available; 9mm, 12mm, 16mm, 18mm, 22mm and 32mm. • Backward integration - own their own forests for the supply of the main raw material used for the manufacture of chipboard, namely Saligna timber.	• Rely on outside distributors • White River plant far from Cape regions • Slower lead times

Imports have the next highest market share at 7%. The only strength that these distributors have over the locally manufactured products is price. The price is dependent on the American Dollar to Rand exchange rate. When the Rand/Dollar exchange rate passed the R6 mark in August 1998, the imports decreased by 21% (Customs & Excise, 1998). (See also Chapter 2.1.2). The price can be as much as 20% cheaper than the locally manufactured products. The disadvantages of purchasing imported products are lead times of approximately eight weeks; large quantities (container loads) need to be purchased; there is no technical backup; and payment must be made up front. Continuity of supply cannot be guaranteed. Another disadvantage of imports from Europe is that many of the manufacturers in these countries shut down for the summer over June and July and stockpiling before this period is therefore necessary. Thus only large consumers, whether they be manufacturer or distributor, are able to import chipboard and allied products. Presently, only 16mm chipboard is being imported as the demand for other thicknesses does not warrant a container-load of these thicknesses. A container may hold up to six months supply and even a saving of 20% or more will not warrant importing due to the high interest rates prevalent in South Africa today.

CIT has a market share of 4% and their biggest strength is locally manufactured board of lower quality at a price 25% lower than PG Bison and Sappi Novobord. The quality of this board is not as good as the imported board and thus its uses are restricted.

It can be concluded that PG Bison's differentiating strengths are:

- Extensive brand awareness.
- Perceived best quality on the market
- An extensive distribution network.
- Forward integration.
- Only local manufacturer of 28mm chipboard.

4.2.3.2 Medium Density Fibreboard (MDF)

PG Bison has a MDF market share of 72%, followed by Sappi with 18% and imported MDF has a 10% market share. (see Chapter 2.2). PG Bison's strengths and weaknesses are listed in Table 4.3. (also see Chapter 2.3.1)

TABLE 4-3 PG BISON'S STRENGTHS AND WEAKNESSES IN THE MEDIUM DENSITY FIBREBOARD MARKET

Competitor	Strengths	Weaknesses
PG Bison	• Dedicated MDF manufacturing line situated in Boksburg. • Good brand recognition and once again, perceived best local quality. • Holds the SABS mark • Range of thicknesses available from 12mm to 32mm (same as chipboard range)	• Unable to manufacture thin, 3 and 6mm, MDF; a growing product in South Africa • Surface finish with 120 grit sandpaper

Sappi is disadvantaged by having to produce both chipboard and MDF on their one manufacturing line. Thus their supply of MDF is somewhat restricted. Sappi only started producing MDF in 1992, with the commissioning of their new line. For the first year of MDF manufacture, the quality was inconsistent and many consumers experienced endless problems using Sappi's MDF during manufacture. These problems were eradicated and they presently produce a good quality MDF. However, Sappi's main focus is on chipboard because higher volumes of C/B than MDF are consumed (Van Vuuren, 1998).

Imports of MDF are constantly growing. This is due to the fact that no local manufacturer has the technology to produce thin MDF (3 and 6mm thick). These products' uses are increasing rapidly, e.g. as backing for kitchen cupboards, inlays for cupboard doors and so on. The thicker imported MDF once again has a pricing advantage as well as, the final product is sanded to a finish of 150 grit. This enables the kitchen manufacturer to use the MDF immediately for doors without having to first sand the surface to 150 grit first, as is the case with the locally manufactured MDF which is only finished with 120 grit sanding.

PG Bison's distinguishing strengths with regard to this product are:

- High market share
- Brand awareness - Supawood has become the generic name for all brands of MDF available in South Africa (see also Chapter 3).
- Dedicated manufacturing line

4.2.3.3 High Pressure Laminates (HPL)

As mentioned previously, PG Bison is the only local manufacturer of HPL and thus has competitor advantage. Imports have been increasing over the last four years. PG Bison has a 74% market share, Wilsonart a 13% market share, Abett Laminates from Italy has a market share of 4%, Max Laminates from Austria a 2% share and the remaining 7% is shared amongst various other foreign suppliers. Wilsonart adopted the 'attack the market leader' strategy and created a price war to enter into the market. This has resulted in lower margins for all companies concerned. (see Chapter 2.4.2.4)

Table 4.4 illustrates the strengths and weaknesses of the two main competitors in the HPL market, namely PG Bison and Wilsonart. (see Chapter 2.3.1 and Chapter 2.4.2.4)

TABLE 4-4 STRENGTHS AND WEAKNESSES OF COMPETITORS IN THE HIGH PRESSURE LAMINATE MARKET

Competitor	Strengths	Weaknesses
PG Bison	• Only local producer • Extensive range of 137 colours available in 3 different finishes, namely loglare, glaze and gloss. • International brand name • Short lead times • Good customer relationships • Forward integration into the manufacture of Formica Kitchen Tops and Formica Door Frontals • Extensive local technical and support expertise • Product availability, convenience • Market Leaders	• Relatively expensive in comparison to competitors • Lack of marketing strategy • Size restrictions • Bastardisation of brand name Formica • Previous monopolistic attitude upset customers who now have a choice in suppliers
Wilsonart	• Lower prices - approximately 30% cheaper. • Importing colours identical or very similar to PG Bison's fast moving colours. • Maximum length of 4.1m versus PG Bison's maximum length of 3.53m. • Various widths available • Effectiveness in sales promotion	• Restricted distribution channels • Imported products, long lead times • Does not manufacture its own tops at present

PG Bison has enjoyed a monopolistic supply in the past and lapsed behind any global competitor as far as marketing is concerned. They had a production outlook towards the customer and dictated what was to be sold, when it was to be sold and at what price it was to be sold. With the increase in competitor activity, a marketing approach has had to be undertaken with the key component being the customer. PG Bison has been reactive in the market place and has only recently started to become proactive. (see Chapter 2.3).

4.2.3.4 Melamine Faced Boards (MFB)

PG Bison is the largest manufacturer and distributor of MFB boards. The competitors in this product range are Sappi Novobord, CIT and importers. Importing is restricted to the fast moving colours of white and grey and its only strength is price, once again. Sappi has a range of twelve colours and CIT has a range of four colours. The respective pricing for these products is along the same lines as chipboard in that Sappi and PG Bison are similar in price and CIT is much cheaper but lower in quality. (see Chapter 2.2 and 2.3).

PG Bison has a huge competitive advantage because of to its colour range of 163 different colours and patterns produced in three different plants nationally, namely Pietermaritzburg, Stellenbosch and Johannesburg. National coverage is once again a strong feature. (see also Chapter 1.1 and 2.3).

PG Bison is able to positively differentiate itself from its competitors in meeting customer needs. These strengths need to be constructively implemented into developing a marketing strategy for the company.

4.3 THE CUSTOMER

Satisfying the needs of customers is the ultimate test of a business unit's success. Thus the aim of any effective marketing strategy for a company is to serve those needs better than what competitors do (Subhash, 1993: 107). These customer needs give rise to a market opportunity and a market emerges. The kitchen industry is already an established market. The market potential has been defined by Kotler as "the set of consumers who profess some level of interest in a defined market offer" (Kotler, 1984:230). The survey conducted and discussed in Chapter 3 has established that 52% of the respondents wanted changes to their kitchen in one form or another. Thus a viable market potential has been established.

It must be understood that the kitchen manufacturer or dealer is only the middle man in the supply chain. These kitchens may be in the form of free-standing kitchen units for the persons renting their homes or installed kitchens for the persons who own their homes. The supply chain is illustrated in Figure 4.2 below.

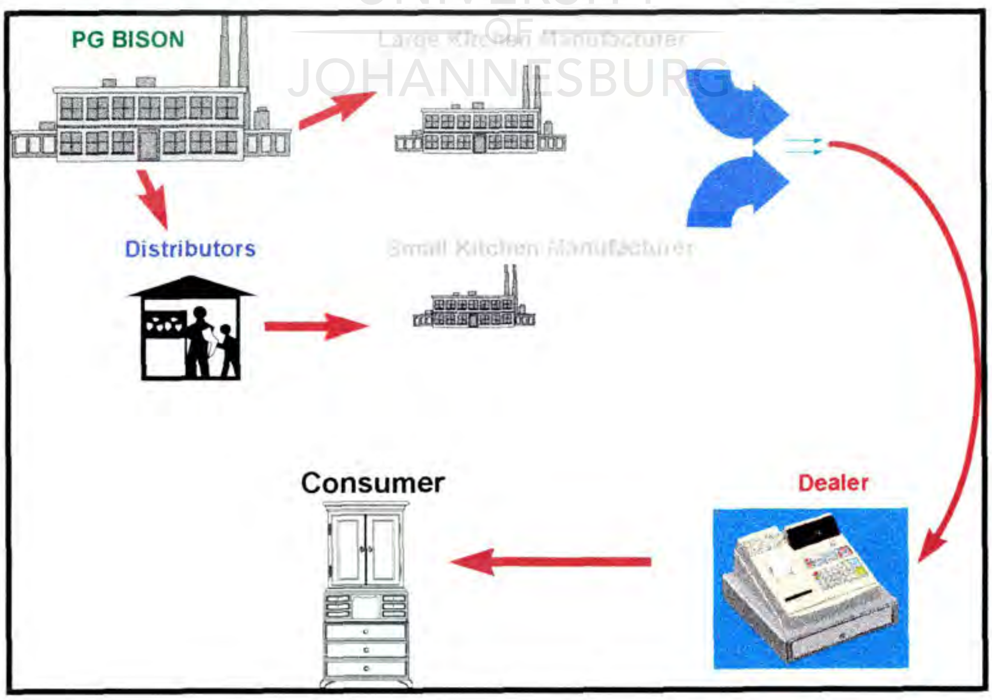


FIGURE 4.2 SUPPLY CHAIN TO KITCHEN CUPBOARD CONSUMER

It is not necessary for all the links to be present in the supply chain. Some of the larger manufacturers supply and install the kitchen directly to the consumer. This does not necessarily mean a reduction in price. The larger manufacturers have much higher overheads than the smaller ones. A consumer must be aware of fly-by-night kitchen installers who leave them with an incomplete kitchen which will cost more money to complete than if they had gone to a reputable company in the first place. This is prevalent in the lower income areas such as Soweto in Johannesburg (Risely, 1998).

The KSA has produced an extensive list of kitchen, built-in cupboards and furniture manufacturers and dealers in South Africa. Needless to say, this list is copious and in the Gauteng region alone there are 346 businesses which fit into the kitchen manufacturer or dealer category. These businesses are either current PG Bison customers or potential customers. The potential customers are the ones who need to be targeted. It must, however, be realised that PG Bison cannot be all things to all customers.

PG Bison, ultimately, has two different forms of customer, namely, the kitchen manufacturer and the consumer. There has been a new concept of marketing in the last few years called 'micromarketing' or 'segment-of-one marketing', which means a segment can be broken down to smaller subsegments or even to an individual (Subhash, 1993:123). In the case of the kitchen industry, it is not viable to go down to the individual level but subsegments definitely exist.

Micromarketing requires:

- Knowing the customers - find out who the customers are and are not.
- Making what they want - tailor products to individual tastes.
- Using targeted and new media - advertising on television and in magazines. Develop new methods to reach customers.
- Using nonmedia - sponsor events to reach local or ethnic markets.

- Reaching customers in the store - in the kitchen industry, consumers make their buying decision in the showroom. Displays, brochures and samples are therefore critical for products to be purchased. Lack of this promotional material will allow the competitor's product to be chosen.
- Sharpening promotions - price promotions are expensive and sometimes unnecessary. Price promotions must not be used on fast moving lines but on lines which are sluggish in movement and must be aimed at the competitor's customers.
- Working with manufacturers and dealers - linking up with the manufacturers' and dealers' computers. On line ordering, promotional information, technical backup, etc., are unlimited ways of tying the manufacturer or dealer in with the source of supply, in this case, PG Bison. (Subhash, 1993:124).

4.4 MARKETING OBJECTIVES AND GOALS FOR PG BISON

An organisation must have objectives and goals to direct it along its path to profitability. The objectives and goals must be stated for each of the products sold into the kitchen industry, namely, C/B, MDF, Formica and MFC. These objectives can be identified and split into three groups, viz.;

- Measurement
    - Profitability
    - Cash flow
    - Growth/Survival
    - Market standing
    - productivity
    - Innovation
    - Constraint
- Growth/Survival
    - Market standing
    - Productivity
    - Innovation

- Constraint
    - Capitalise on research in certain technologies
    - Avoid style business with seasonal obsolescence
    - Assume responsibility to public

Specific targets and time frames for achievement of each of the above objectives must be set. (Subhash, C.J.; 1993; 207-208).

Each of the above objectives are necessary for change to the existing tendencies in sales and performance by PG Bison in the kitchen industry.

4.5 STRATEGY SELECTION FOR PG BISON

The kitchen industry in South Africa is in the mature stage of industry development. PG Bison needs to formulate a combination of Renew and Turn Around strategies.

4.5.1 RENEW STRATEGY

Definition: To restore the competitiveness of a product line in anticipation of future industry sales.

Objective: To overcome weakness in product/market mix in order to improve share or to prepare for a new generation of demand, competition or substitute products.

Requirements: Strong enough competitive position to generate necessary resources for renewal efforts; capital and expense investments; management capable of taking risk; recognition of potential threats to existing lines.

Expected results: Short-term decline in sales, then sudden or gradual breakout of old volume/profit patterns. (Subhash, 1993:247).

PG Bison has been stagnant in its product/market mix. The only aspects that have changed over the last few years are the colours offered in its MFB and Formica ranges. Both competition and substitute products have been eating away at its sales. Granite, a substitute product, has decreased in price over the last three years. Where a linear metre of granite would previously have cost in excess of R1500, it is currently available for as little as R800. This is due to new technology used for the mining, cutting and polishing of granite. It has now become accessible to more consumers in the kitchen industry.

PG Bison is in a strong enough competitive position to generate necessary resources for the renewal requirements. It is also a financially sound company with the backing of South African Breweries.

4.5.2 TURN AROUND STRATEGY

Definition: To overcome inherent weaknesses in performance within a limited time.
Objective: To halt further declines in share and/or volume; to bring about at least stability or, preferably, a small improvement in position; to protect the line from competition and substitute products.
Requirements: Fast action to prevent disaster; reduction or redirection to reduce losses; change in morale.
Expected results; Stable condition and average performance. (Subhash, C.J.; 1993; 249).

Both these strategies will need to be implemented by PG Bison to prevent further reduction in market share, sales and/or profit.

4.6 THE MARKETING MIX

The marketing mix operates within a business environment and is dependent on continual market information and research. Marketing must be dynamic in a dynamic environment. Figure 4.3 illustrates where the marketing mix fits into a firm's the marketing strategy.

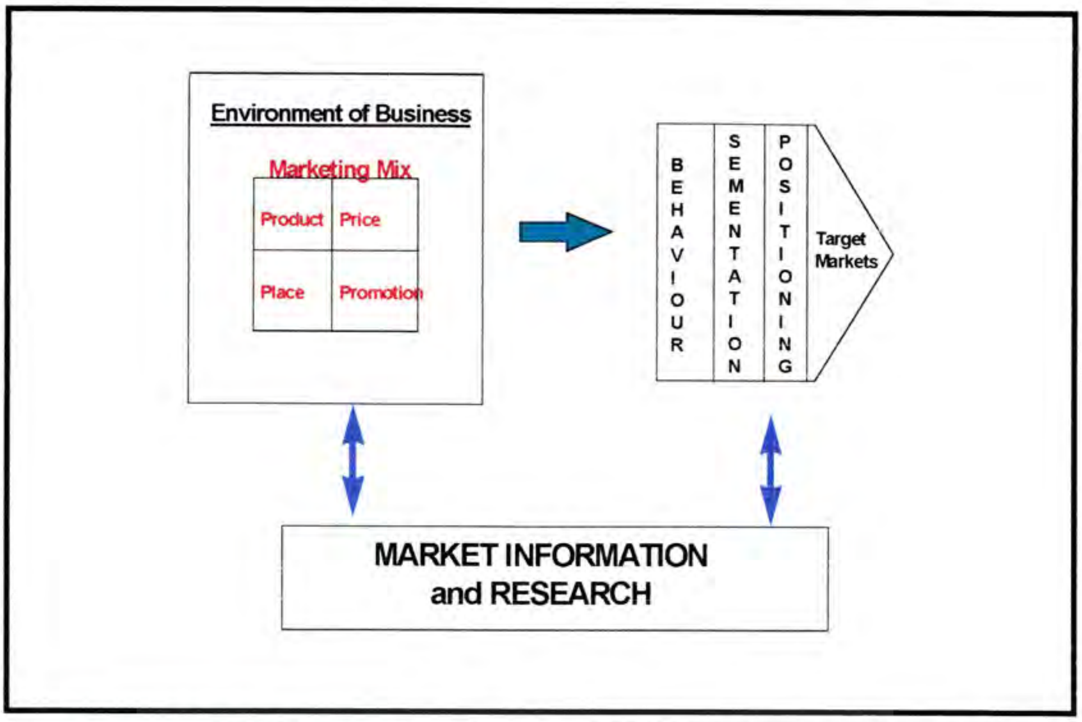


FIGURE 4.3 THE MARKETING MIX INCORPORATION INTO MARKETING STRATEGY

PG Bison has concluded that both C/B and MDF have become commodity products to the kitchen industry in that very little product differentiation exists between the different manufacturers. The differentiation is in price and availability (Van Vuuren, C. Sales Director; PG Bison, 1998). These two products are used for carcass material for cupboard manufacturing, shelving and the substrate for the manufacture of doors. The purchasing of these two products must become the 'add-on' to the marketing package of Formica and Melawood to the kitchen industry. But if the quality, price or availability of these products are not competitive or become unsuitable to the manufacturer, these would not be considered as part of the package.

For this reason, being a commodity product, the product, pricing, distribution and promotional strategies will be discussed for Formica and Melawood only. C/B and MDF are used as substrates in the manufacture of Melawood and Formica tops.

4.6.1 Product Strategy

PG Bison needs to adapt a product-positioning strategy. From the needs expressed in the kitchen survey and the fact that 70% of the respondents identified cost as the main reason for not doing any required changes to their kitchens, multiple brand positioning is required. These multiple brands will serve to satisfy the needs in the different subsegments of the market. This product strategy is an option because, although Formica and Formica tops have a high market share, competitors are chipping away at this share with products which are not identical to Formica or Formica tops. It is understood that some cannibalism will be unavoidable.

Product positioning for Formica tops can be achieved by product features and guarantees. The present Formica top is sold as a "Formica Lifeseal Top". However, very few of the consumers know what this means or what this product has to offer.

Many of the competitors' HPL tops do not have the same construction as the Formica Lifeseal Top. This top is manufactured using moisture resistant Bisonbord as a substrate (the only top in South Africa using this substrate). Both the decorative surface and the backer (balancing material on the underside of the top) are Formica HPL. Many of the competitors use a normal brown paper backer (not impregnated with melamine) which does not increase the water resistancy of the top or balance the top (same material on both surfaces) to prevent warping. The Lifeseal Top also has a strip of sealant along the postformed edge to seal the Formica and Backer joint. This is to prevent water seeping into the joint and causing the C/B to swell. The guarantee given on these tops is ten years, the longest guarantee in the industry. However, this guarantee is not advertised effectively to the consumer though. All these features differentiate it from competitors' tops but also add costs.

Multiple brand positioning can be achieved by changing some of the distinguishable features of the tops. Some suggestions on positioning are illustrated in Figure 4.4

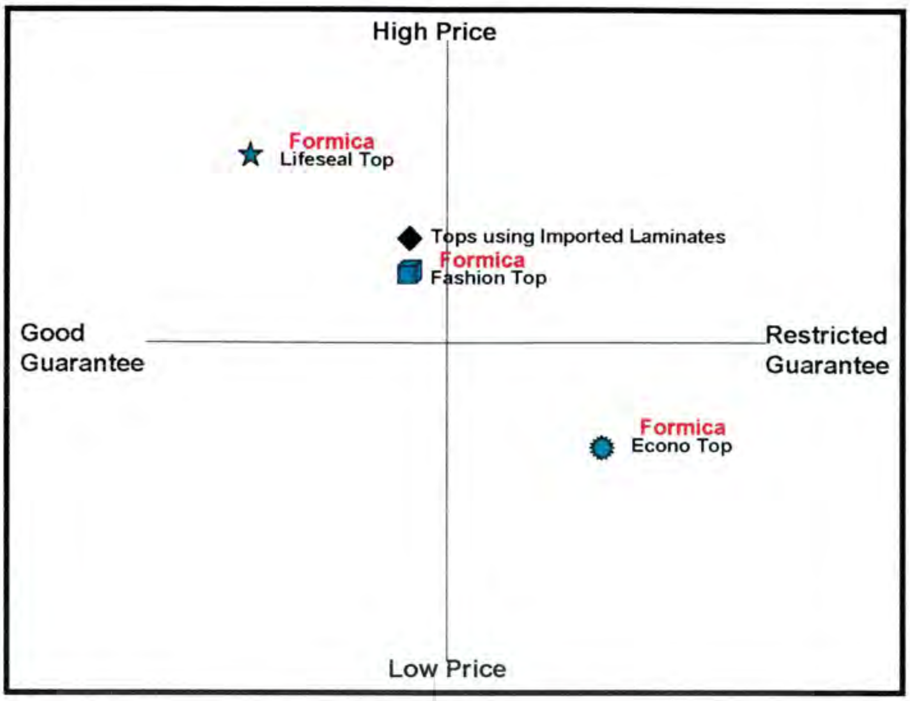


FIGURE 4.4 SUGGESTED MULTIPLE BRAND POSITIONING FOR FORMICA TOPS

The tops manufactured locally using imported laminates as the decorative surfaces have varying quality. The quality is dependent on the manufacturer, the raw materials being utilised as well as the production process.

The positioning of these products in the different subsegments is to be achieved by product features and promotion. The promotional aspects of these tops will be discussed under promotion strategies in section 4.6.4.

These different product features are described in Table 4.5.

TABLE 4-5 MULTIPLE BRAND FEATURES

Feature	Lifeseal Top	Fashion Top	Econo Top
Substrate	Water resistant C/B	Water resistant C/B	Normal Bisonbord
Decorative Surface	Formica HPL	Formica HPL	Formica CPL
Backer	Formica HPL	Formica CPL	No backer
Sealant	Elastomeric Sealant	No sealant	No sealant
Guarantee	10 years	5 years	No guarantee

These new brands will not require any additional process or capital expenses but will cut the variable costs on the products. All raw materials are presently manufactured by PG Bison.

Communication in this form of product positioning is critical. The consumer must be told at all times what is to be expected from the product.

The same multiple brand concept can be adapted for Melawood. The colours which are offered solely by PG Bison can still secure high prices. Where there are competitor products that are of the same colour and quality, a Demand Range can be introduced and the Econo Range kept for carcass material. The possible positioning of the multiple brands is illustrated in Figure 4.5.

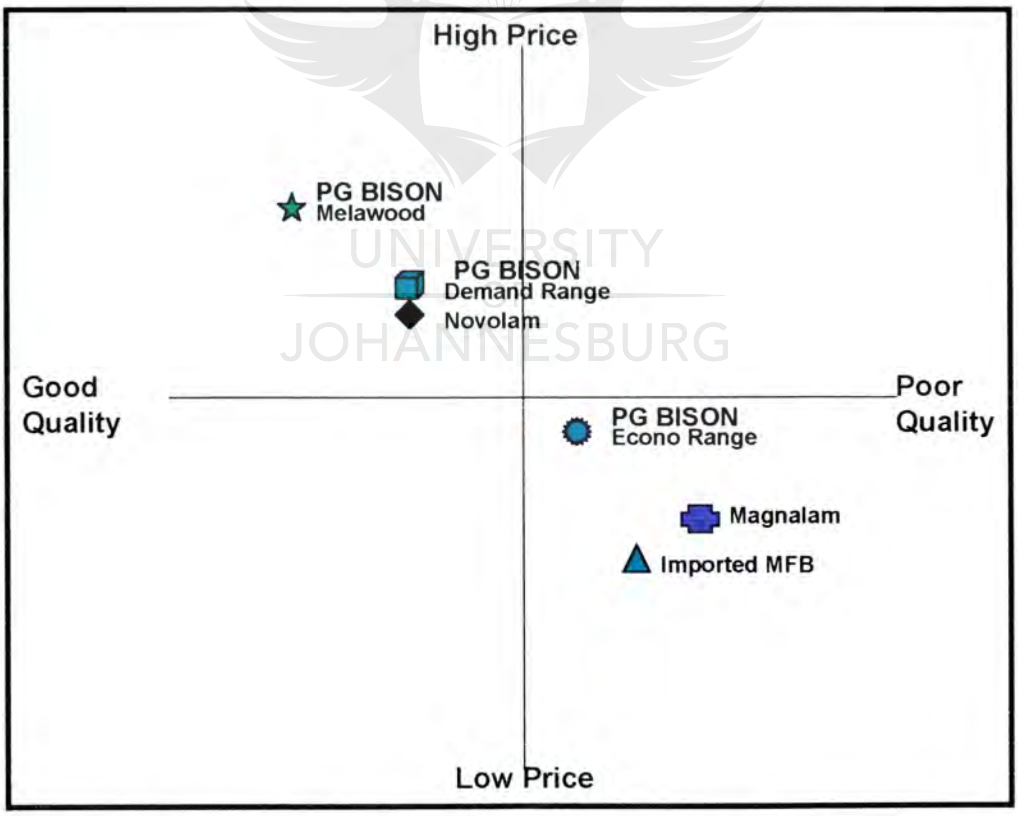


FIGURE 4.5 SUGGESTED MULTIPLE BRAND POSITIONING FOR MELAMINE FACED BOARD

Besides investing heavily in research and development to formulate different resins to enable a reduction in cycle times used for pressing the MFB, the only quick solution to reduce the costs for the manufacturing of the Demand Range and the Econo Range is to use a thinner grammage decor paper. Once again this is at no extra expense to PG Bison as the thinner grammage paper is already used to press white carcass material.

Included with the multiple brand positioning strategy, PG Bison must deploy a value marketing strategy (Subhash, C.J. 1993; 416-423). Today both the kitchen manufacturer and the consumer demand value for money. They want the right combination of product quality, good service and timely delivery. Customers are looking for the quality and service that the supplier says it can deliver, nothing more and nothing less. Quality is not restricted to the physical product, but to service, back-up support, human contact, etc. No company can claim to never make a mistake, but how the mistake is rectified is what service is all about.

Another aspect of value marketing is time. To implement a time-based strategy, the entire production, ordering, logistics, accounts administrative and the distribution processes need to be redesigned for speed. This is a painstaking process and the culture within PG Bison needs to be susceptible to change.

It can be concluded that PG Bison does not need to go to great expense or make drastic changes to adapt these product strategies. All that is required is competitor research, customer research, clear objectives and goals, and employee culture and morale to make the strategy work.

"The global economy has given them (customers) a sultan's power to command exactly what they want, when they want it and at a price that will make companies weep" (Jacob,1993:8)

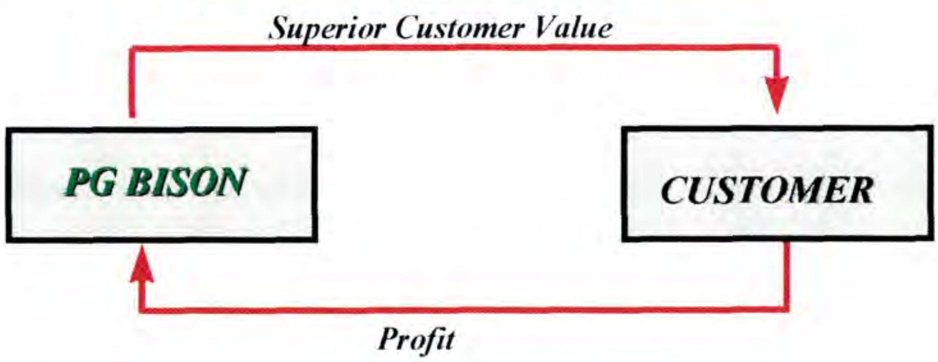
4.6.2 Pricing Strategy

There are four factors to be considered before arriving at the price for a product, namely, pricing objectives, cost, competition and demand. (Subhash, 1993:433-441).

Historically, when PG Bison received an increase of 10% from its' suppliers, this increase was passed onto the customer as a price increase of 10 - 12%. This practice was followed by most businesses operating in the protected borders of the South African market. However, in 1998, South African businesses find themselves trading in the global market and realism has hit hard. One can no longer simply pass the costs of operating inefficiencies on to the customer. There is no longer a choice of one or perhaps two suppliers, the list is now endless. The power has moved from manufacturer to buyer. PG Bison has felt these changes over the last three years where it hurts most, the bottom line.

PG Bison's profitability has decreased over the last three years for various reasons, inter alia:

- local manufacturers increasing their product range
- increased competition due to imports
- very little customer loyalty
- lower prices in the market due to increased competition
- world wide economic decline
- operated in a protected market and did not keep up with technological changes taking place in the rest of the world



Price must be aligned with perceived quality.

4.6.2.1 Pricing Objectives

Pricing objectives can be either profit-orientated or volume-orientated. PG Bison's pricing problems are:

- Decline in sales
- Higher prices than those of competitors
- Imbalance in product line prices
- Frequent changes in price without any relationship to environmental realities except competitor comparisons. Certain kitchen manufacturers are paying lower prices now than they did three years ago.

Other potential pricing objectives are:

- Maximum long-term profits
- Maximum short-term profits
- Growth
- Stabilise market
- Desensitise customers to price
- Discourage entrants
- Be regarded as 'fair' by customers (ultimate)

4.6.2.2 Cost

Fixed and variable costs are the major concerns for determining the price for a product. To study the impacts of costs on pricing strategy, the following three relationships may be considered:

- The ratio of fixed costs to variable costs. If the fixed costs of a company in comparison to its variable costs form a high proportion of its total costs, adding sales volume will be a great help in increasing earnings. This is the case with Formica top production. The fixed costs are high due to the new technology deployed in this area.
- The economies of scale available to the firm.
- The cost structure of a firm in comparison to competitors. When comparing the costs of manufacturing in South Africa to those of other countries, South Africa's costs are relatively high. This is due to the exchange rates (importing of capital equipment), labour costs taken in

conjunction with productivity levels and the size of the market. Economies of scales play much bigger roles in large markets such as USA and Europe.

4.6.2.3 Competition

Certain information, listed below, is required to formulate pricing strategy.

- Published competitive price lists and advertising
- Competitive reaction to price moves in the past
- Timing of competitors' price changes and initiating factors
- Information on competitors' special campaigns
- Competitor product line comparisons
- Assumptions about competitors' pricing/marketing objectives
- Expected pricing retaliation
- Competitors' reported financial performance
- Estimates of competitors' costs - fixed and variable
- Analysis of competitors' capacity to retaliate
- Financial viability of engaging in a price war
- Strategic posture of competitors
- Overall competitive aggressiveness

Most of this information is known to employees of PG Bison but is not consolidated into one central point. PG Bison has a sales complement of over 100 people, excluding management, spread over the country. Each and every sales person has some information on the competitors, but this information is kept locally. The pieces of this puzzle need to be combined into one big puzzle in one place. This information flow must be a continuous, two way process. A sales person will be better equipped if he/she knows what the competitors' strategies are.

4.6.2.4 Demand

Once again, information is required before one can analyse demand. (Subhash, 1993:438-439). Some of the required information is listed below.

- Ability of customers to buy
- Willingness of customers to buy
- Benefits the product provides to customers
- Prices of substitute products
- Potential market for the product
- Customer behaviour in general
- Segments in the market

As ascertained from the survey conducted in the kitchen industry and the environmental scanning (see Chapter 2 and Chapter 3), some of this information is already available.

Customers' buying capacity has decreased somewhat due to a decrease in disposable income and increases in interest rates and retrenchments which are inherent in this country at present. The willingness of customers to buy was established in the survey although this is reduced by the ability to buy. The pricing strategy of PG Bison must then incorporate these two factors when establishing prices for their multiple brands. The potential market was also established in the survey with 52% of the respondents wanting to change their kitchens in some form or other. The segments in the market are divided according to income for the consumer and according to size of manufacturing outlet for the kitchen manufacturer.

Kitchen prices can be considered to be elastic when a consumer is wanting to refurbish or change an existing kitchen. But when a new home is being built, the price elasticity moves towards the inelastic end of the scale. If the price of the kitchen is too high, a change in products may be selected, design may be changed or the size of the kitchen changed.

PG Bison needs to return to being the dominant leader in the kitchen industry. It needs to become proactive in pricing. The complete marketing mix, not pricing alone, must be differentiated from competitors in order to regain this position. PG Bison needs to answer the questions (see Appenix 4) in order to establish its competence in price setting (Subhash, 1993:446). The answers should be 'no' to the first ten questions and 'yes' to the next ten to claim to be a keen price strategist.

As can be seen from the answers to the questions in Appendix 4, PG Bison needs to take a serious look at its pricing strategy. It cannot continue along the lines of historical pricing or costs. This full analysis of pricing is beyond the scope of this report and it is suggested that this task be undertaken by the relevant management within PG Bison.

Some different pricing strategies that PG Bison can undertake are listed below:

- Reducing the price
    - to act defensively and cut price to meet the competition
    - to act offensively and attempt to beat the competition
    - to respond to a customer need created by a change in the environment
- Flexible pricing strategy : charging different prices to different customers for the same product and quantity.
    - to maximise short term profits and build traffic by allowing upward and downward adjustments in price depending on competitive conditions and how much the customer is willing to pay for the product.
- Price leadership strategy : used by the leading firm in the industry in making major price moves, which are followed by other firms in the industry.
    - to gain control of pricing decisions within an industry in order to support the leading firm's own marketing strategy (i.e. create barriers to entry, increase profit margin, etc.) (Subhash, 1993:448).

4.6.3 DISTRIBUTION STRATEGY

A distribution channel is sometimes a tightly co-ordinated system. In other cases it consists of independent and conflicting distributors. Whatever the specific situation, for a product to reach its intended market, a channel of distribution needs to be well managed (Stanton, et al, 1992:325).

As illustrated in Figure 4.2, page 77, PG Bison does not supply the ultimate consumer directly but through independent kitchen manufacturers and dealers. The distribution channel network within PG Bison is one of its greatest strengths as it covers the whole country as well as Botswana, Zimbabwe, Lesotho and Swaziland. These distribution outlets vary in size, layout, products offered, size of delivery vehicles etc. The larger distributors do not cater for the DIY calling customer, but instead deal in break bulk deliveries, approximately eight tons at a time. These loads can be of one product or a mixture of products making up the eight tons. An example of one of the bigger distributors is PG Bison Germiston. A smaller distributor deals with some break bulk deliveries but also caters for the smaller calling customer and DIY customers. The product mix in these outlets will include hardware accessories such as C/B screws, wood glue, sand paper, wood paint, etc. They operate with smaller delivery vehicles and will do 'milk run' deliveries. An example of this type of smaller distributor is PG Bison East Rand.

PG Bison utilises intensive distribution in that competing distributors in the same area will carry PG Bison's products. This includes both independent distributors and PG Bison's own distribution outlets. This leads to channel conflict between the distributors and continual price wars are evident in these areas.

PG Bison has no control over the delivery channels after it has reached the kitchen manufacturer. This then becomes the manufacturer's and the dealer's concern.

PG Bison has a good distribution network and policy and this area needs only fine tuning with regard to strategy.(see Chapters 1.1 and 2.3).

4.6.4 Promotion Strategies

Promotion strategies deal with the planning, implementation and control of persuasive communication with customers (Subhash, 1993:508). PG Bison has utilised varying forms of promotional mix strategies. Its largest concentration is in personal selling. This is in the form of external and internal sales people. Little advertising has been done in the past.

This advertising has been in the form of print in magazines, such as *'Garden and Home',* 'Home Owner', etc. Promotional materials in the form of brochures and samples are distributed to kitchen manufacturers and distributors. This is, however, a high maintenance programme. Sample and brochures have to continually be replenished and due to a shortage of both these items, the sample stands are often only half complete. This looks tardy and does not create a good impression on the consumer.

As has been discussed in this report, the brand recognition of Formica, Bisonbord, Supawood and Melawood is very high. However, consumers assume that all HPL is Formica, all MDF is Supawood, etc. It is extremely difficult to tell the difference in products such as C/B and MDF. Formica and Melawood are easier to distinguish through the colour of the decor paper. However, when a competitor has exactly the same colour and finish as PG Bison, this, once again, becomes impossible for the consumer. An advertising campaign to inform the end users of the different types of product available in the market may be necessary.

PG Bison's promotional activities have been restricted almost entirely to the kitchen manufacturer rather than the ultimate consumer. That is to say they have been absorbed in a 'push' rather than a 'pull' strategy . These two strategies are illustrated in Figure 4.6 (Stanton, et al, 1992: 441)

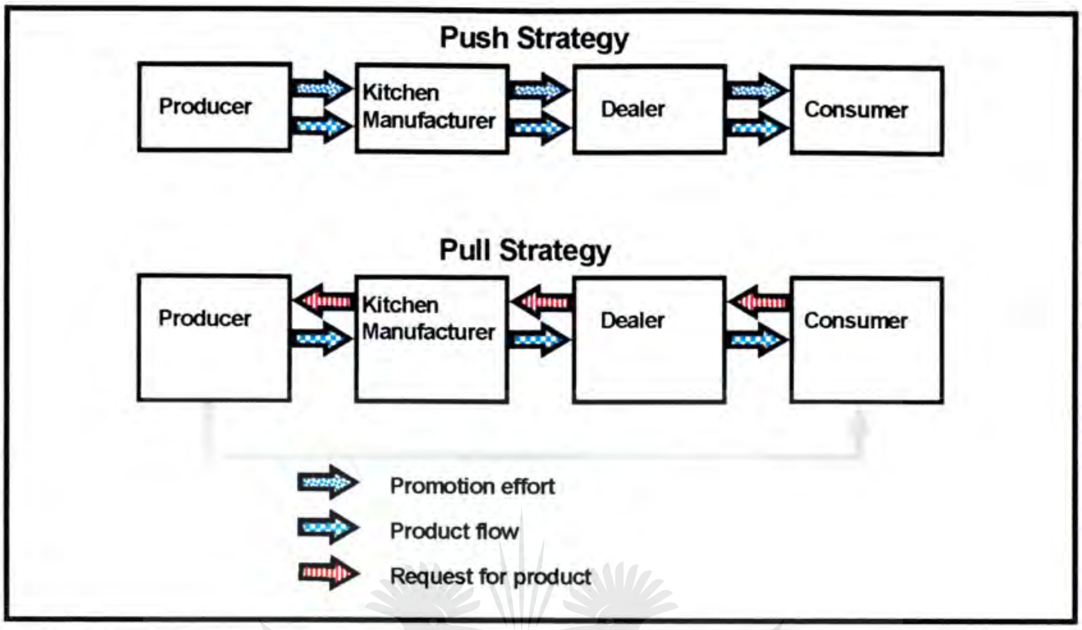


FIGURE 4.6 'PUSH' AND 'PULL' PROMOTIONAL STRATEGIES

PG Bison needs to direct its promotional efforts towards the 'push' strategy. This can only be achieved through communication. Advertising can be through visual material (television), media (local newspapers and magazines) and audio (radio). The chosen form of advertising will have to be localised depending on the type of consumers targeted.

Point of difference advertising is what is required to inform the consumers of the difference between PG Bison's products and those of its competitors. Comparative advertising is still in the embryonic stages in South Africa. Care must be taken when designing this type of advertising, but differences may be mentioned subtly.

Another form of 'push' promoting is by commissioning an information technology company to develop a CAD (Computer Aided Design) programme which incorporates all PG Bison's products into it. This CAD software will allow any operator to present a potential customer with a 3D picture of a yet to be built kitchen. The customer will then be able to choose from the full range of colours and finishes available from PG Bison and not be restricted to the samples or displays available within the kitchen manufacturer's showroom. This software can be made available, either on disc or CD, free of charge. The initial development costs will be high but should be realised within a short period of time by the increase in demand and, thereafter, sales.

The promotional strategy of PG Bison needs to be redefined and implemented. It is felt that this is one of the areas that can assist PG Bison in realising the objectives of regaining market share at a profit to the organisation.

5. CHAPTER FIVE

5.1 CONCLUSIONS

This research report has explored the kitchen industry in Gauteng, South Africa. It has focused on what the consumer is actually seeking in a kitchen. The needs differ within income categories and with the correct marketing strategy, PG Bison can once again increase its sales and profitability in this segment of the market.

Chapter 2 has established that the business environment in South Africa is dynamic and the changes have increase in magnitude since South Africa entered the Global market in 1994. The economic environment in South Africa shows that the country is entering a recession and with increased competition in the board industry, PG Bison needs a marketing strategy enabling it to continue as a going concern.

The kitchen industry in South Africa is a viable industry as concluded in Chapter 3. However, the needs of the end user have changed with the smaller, open plan kitchen being the modern trend in building homes today. Once again these changes in the end user's needs and the increased competition for PG Bison, a need for a marketing strategy is evident.

It was concluded in Chapter 4 that a combination of Renew and Turn Around strategies be implemented at PG Bison. This is to implemented together with the changes to the marketing mix strategies as discussed in this chapter.

5.2 RECOMMENDATIONS

It is the view of the researcher that there is an urgent need to appoint either a Marketing Manager or Director. The functions of this position are currently fulfilled by the Manufacturing Site Directors. It is recommended that such a Marketing Manager/Director accept responsibility for the marketing strategy within the framework of the corporate strategy. The recommended organogram is illustrated in Figure 5.1. Certain positions already exist within the organisation such as Franchise Manager for Timbercity and Formica Flooring, but more focused leadership is required. Support personnel are already in place such as Merchandising Manager, Sample Co-ordinator and Secretaries, but these functions need to be formalised into a constructive department. Each of the Brand Managers will co-opt the necessary personnel and skills onto task teams for market research etc.

FIGURE 5.1 RECOMMENDED ORGANOGRAM FOR MARKETING

Once this has been accomplished the marketing strategy can be formulated and implementation can take place.

It is recommended that a combination of Renew and Turn Around Strategies be implemented in PG Bison. PG Bison needs to be aware of the following formulation and implementation problems associated with marketing strategies: (Subhash, 1993:37-38).

- Too much emphasis on 'where' to compete and not enough on 'how' to compete. 'How' PG Bison is to compete in the kitchen industry is much more difficult information for the competitor to acquire than 'where' PG

Bison is to compete. New technology and the fact the world is becoming smaller as far as the market is concerned ensures that competitive information is readily available.

- Too little focus on uniqueness and adaptability in strategy. PG Bison is unique in South Africa in that it is the one and only company which offers the manufacturers all the board and allied products used in the manufacture of kitchens. Ideas and uniqueness may flow from unknown sources and PG Bison must be sensitive and explore all possibilities.
- Inadequate emphasis on when to compete. The optimum time to compete must be the time when objectives of the company can be achieved.

It is essential that PG Bison addresses the following concerns when implementing the marketing strategy for the kitchen industry:

- Develop attainable goals and objectives.
- Involve key operating personnel.
- Avoid becoming so engrossed in current problems that strategic planning is neglected and thus becoming discredited in the eyes of the others.
- Must not keep marketing strategy separate from the rest of the management process.
- Avoid formality in strategy formulation that restrains flexibility and inhibits creativity.
- Avoid creating a climate that is resistant to strategic planning.
- Must not assume that strategy development can be delegated to a planner.
- Must not overturn the strategy formulation mechanism with intuitive, conflicting decisions (Subhash, 1993:39).

The suggested marketing strategies in Chapter 4 are to be viewed as guidelines only. These strategies need to be fully analysed, understood, formulated, implemented and monitored by the responsible people within the company. Greater depth of information and analysis is required for the marketing strategy for the kitchen industry and needs to be completed with urgency to secure business continuity.

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7. GLOSSARY

7.1 ABBREVIATIONS

ANC	African National Congress
BIC	Built-In-Cupboard
C/B	Chipboard
CPL	Continuous Pressure Laminate
DIY	Do-It-Yourself
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HPL	High Pressure Laminate
LSM	Living Standard Measures
MDF	Medium Density Fibreboard
MFB	Melamine Faced Boards
PF Worktop	Post Formed Worktop
RDP	Reconstruction and Development Programme
SACOB	South African Chamber of Business
USA	United States of America

7.2 GLOSSARY

Bisonbord

Brand name for PG Bison's chipboard

Bisonlam

Brand name for PG Bison's melamine faced board

Carcass

Cupboard framework

Chipboard

Particleboard

End user

Manufacturer of goods using panel products as a raw material e.g. kitchen manufacturer, furniture manufacturer, etc.

Formica

Brand name for PG Bison's high pressure laminate

Kitchen Industry

All manufacturers and installers of kitchens and built-in-cupboards, including free standing kitchen equipment i.e. tables, chairs and bic's.

Magnalam

Brand name for Chipboard Industries melamine faced board

Medium Density Fibreboard

Woodfibre pressed with resin, pressure and heat and has a density of between 600 and 800kg/m^3

Melamine Faced Board

Chipboard laminated with melamine impregnated paper on both surfaces of the board

Melawood

Brand name for PG Bison's melamine faced board

Novobord

Brand name for Sappi Novobord's chipboard

Novolam

Brand name for Sappi Novobord's melamine faced board

Novowood

Brand name for Sappi Novobord's medium density fibreboard

Panel Products

Flat sheets in the form of chipboard, medium density fibreboard, melamine faced boards, high pressure laminates, etc.

Postformed top

Chipboard, rounded along one or both edges and laminated with high pressure laminate

Supawood

Brand name for PG Bison's medium density fibreboard

8. APPENDICES

8.1 APPENDIX 1: LETTER ACCOMPANYING QUESTIONNAIRE

8.2 APPENDIX 2: QUESTIONNAIRE

8.3 APPENDIX 3: DATA ANALYSIS

8.4 APPENDIX 4: PRICING QUESTIONNAIRE

APPENDIX 1: LETTER ACCOMPANYING QUESTIONNAIRE

MASTERS DEGREE IN BUSINESS ADMINISTRATION
Witwatersrand Technikon
Underwritten by: **University Of Wales**

KITCHEN SURVEY

13 October 1998

Dear Consumer

I am requesting your assistance in conducting a Kitchen Survey – which will take just a few minutes of your time. I am in the process of doing my thesis for my Masters Degree in Business Administration. The topic under research is the Domestic Kitchen Industry. As we are all aware, trends, new products, fashions and applications are constantly changing. With today's interest rates hovering in the mid twenties, it is not always possible to enjoy your "Dream Kitchen". I have enclosed a questionnaire that would take no more than fifteen minutes of your time to answer. I have also enclosed a self addressed stamped envelope to enable easy return. It would be appreciated if your return could reach me by 4 November 1998.

The information returned to myself is anonymous and will not be used for any other purpose other than a tool to enable me to complete my thesis.

Thank you for the courtesy of your assistance.

Yours faithfully

Sharyn Taylor
MBA Student - University of Wales

MY KITCHEN

I live:
Suburb : ....

City : ....

1 Are you:
- Male? ☐
- Female? ☐

2 Your Age group:
- 16-24 years ☐
- 25-34 years ☐
- 35-49 years ☐
- 50+ years ☐

3 Number of people living in household
- 1 ☐
- 2 ☐
- 3 ☐
- 4 ☐
- 5 or more ☐

4 Type of dwelling
- Room ☐
- Flat ☐
- Townhouse ☐
- House ☐

5 Is your home ....
- Rented? ☐
- Owned? ☐

6 Total household monthly income
- < R2500 ☐
- R2500-R5000 ☐
- R5001-R10000 ☐
- R10000-R15000 ☐
- >R15000 ☐

7 Estimated size of kitchen
e.g. 4metres x 2 meters = 8 m² ☐

8 How old is your kitchen?
- <1 year ☐
- < 5 years ☐
- < 10 years ☐
- 10 years or more ☐
- Don't know ☐

9 Please indicate all products you recognise/know.
(Mark as many as you recognise/know)
- Formica ☐
- Wilsonart ☐
- Granite ☐
- Surrel ☐
- Melawood ☐
- Supawood ☐
- Bisonbord ☐
- Novobord ☐

10 What type of tops do you have?
- Formica ☐
- Wilsonart ☐
- Granite ☐
- Surrel ☐
- Solid Timber ☐
- Other ☐
- Don't know ☐

Specify ....

11 What type of doors do you have?
- Formica ☐
- Foil Doors ☐
- Solid Timber ☐
- Melamine ☐
- Other ☐
- Don't know ☐

Specify ....

12 Is there anything you would like to change in your kitchen?
- Yes ☐
- No ☐

If the answer is "No", please go to **question 19**

MY KITCHEN

13 If the answer is "Yes", what?

- Tops
- Doors
- Cupboards
- Design
- Floor
- Colour
- Tiles
- All the above

14 Why would you like to change?

15 What would your ideal material choice be?

Tops : e.g Granite, Formica, etc
Doors e.g Timber, Melamine etc
Floor e.g Tiles, Formica Flooring, Novilon etc
Preferable Colour

16 Why have you not done these changes?

- In the process
- Too expensive
- Not my house
- Don't know

17 Would you consider only refurbishing your kitchen doors or tops?

- Yes
- No

18 Why? Explain your answer

19 Please indicate all Kitchen Manufacturers you recognise/know.
(Mark as many as you recognise/know)

- Sembel-It
- Tekton
- Whitehouse
- Optima
- Euroline
- Mr Cupboard
- Easy-Fit
- Other

Specify ....

20 Would you install your own cupbaords (or hire a carpenter) to save money if products were available in Easy-To-Assemble packs?

- Yes
- No

21 How much money would you expect to save?

- <10%
- 11-20%
- 21-30%
- >30%

MY KITCHEN

Please indicate the importance of the following dimensions on a ten point scale. Place an X in the appropriate column.
1 = not important **5 = fairly important** **10 = very important**

Dimension	1	2	3	4	5	6	7	8	9	10
A member of the Kitchen Specialist Association										
Attitude of rep / designer										
Brochures of different available products										
Computer Aided Design facilities										
Credit Facilities										
Guarantee on products and workmanship										
Lead time from placement of order										
Length of time the company has been in operation										
One-stop-shop:building changes, plumbing, tiling etc.										
Price										
Quality of workmanship										
Range of products e.g. colour range of doors										
Reputation										
Sales of appliances such as ovens, fridges etc.										
Showroom appearance										

Thank you for your time and effort and if you have not already got your dream kitchen, hopefully the marketing plan resulting from this survey will enable you to get one soon.

APPENDIX 3: DATA ANALYSIS

ITEM	0	<2500	<5000	<10000	<15000	>15000	TOTAL
No of replies	11	11	40	51	16	53	**182**
Male	0	1	7	11	4	14	**37**
Female	11	10	33	40	12	39	**145**
16-24 years	1	2	2	0	3	1	**9**
25-34 years	6	2	12	8	5	20	**53**
35-49 years	1	5	22	36	7	24	**95**
50-80 years	3	2	4	7	1	8	**25**

Living in household							
1	0	1	6	7	2	1	**17**
2	4	4	12	10	5	13	**48**
3	4	2	11	14	5	14	**50**
4	2	2	9	14	4	15	**46**
5 or more	1	2	2	6	0	10	**21**

Type of dwelling							
Room	0	0	1	0	0	0	**1**
Flat	2	3	9	5	0	1	**20**
Townhouse	2	1	3	8	1	7	**22**
House	7	7	27	38	15	45	**139**
Rented	2	5	18	8	3	4	**40**
Owned	9	6	22	43	13	49	**142**

Size of kitchen m²	**10**	**9.2**	**7.4**	**10.6**	**14**	**16.6**	
How old							
<1 year	1	0	10	17	3	8	**39**
< 5 years	4	2	13	18	6	16	**59**
< 10 years	2	2	7	4	2	12	**29**
10 years or more	1	4	9	10	3	14	**41**
Don't know	3	3	1	2	2	3	**14**

Recognised products							
Formica	8	9	29	42	12	41	**141**
Wilsonart	0	4	1	4	0	3	**12**
Granite	5	7	28	39	13	41	**133**
Surrel	0	0	2	2	2	3	**9**
Melawood	6	9	27	38	7	28	**115**
Supawood	4	6	26	33	8	22	**99**
Bisonbord	5	7	24	38	6	30	**110**
Novobord	3	5	9	13	7	21	**58**

Tops at present							
Formica	4	5	24	35	8	34	**110**
Wilsonart	0	0	0	0	0	0	**0**
Granite	0	0	1	1	1	8	**11**
Surrel	0	0	0	0	0	0	**0**
Solid Timber	1	1	3	7	0	2	**14**
Melamine	1	2	5	6	3	2	**19**
Don't know	4	3	7	2	4	7	**27**
No cupboards	1	0	0	0	0	0	**1**

Doors at present							
Formica	1	0	2	5	2	3	**13**
Foil Doors	0	0	3	10	0	3	**16**
Solid Timber	4	0	6	8	3	14	**35**
Melamine	2	4	18	21	7	20	**72**
Steel	1	2	7	0	2	0	**12**
Don't know	2	3	4	3	2	9	**23**
Pine	0	2	0	4	0	4	**10**

Change your kitchen							
Yes	6	7	21	21	8	32	**95**
No	5	4	19	30	8	21	**87**
What?							
Tops	5	7	19	19	5	20	**75**
Doors	3	7	19	16	4	10	**59**
Cupboards	5	7	16	8	6	16	**58**
Design	3	7	10	10	5	18	**53**
Floor	3	7	14	16	5	13	**58**
Colour	3	6	8	7	4	16	**44**
Tiles	3	5	10	7	4	11	**40**

Ideal Kitchen							
Tops							
Formica	4	4	14	6	2	5	**35**
Wilsonart	0	0	0	0	0	0	**0**
Granite	1	3	5	12	3	26	**50**
Surrel	0	0	0	0	0	0	**0**
Solid Timber	0	0	0	1	0	0	**1**
Other	0	0	0	0	1	0	**1**
Doors							
Formica	0	0	0	0	0	0	**0**
Foil Doors	0	0	3	2	0	2	**7**
Solid Timber	0	2	7	9	3	15	**36**
Melamine	5	5	9	5	4	5	**33**
Other	0	0	0	0	0	0	**0**
Floor							
Tiles	2	6	12	13	7	20	**60**
Formica Flooring	0	1	1	2	1	1	**6**
Novilon	1		1	1	0	3	**6**

Reason not doing the changes							
In the process	1	1	2	1	1	2	**8**
Too expensive	2	6	14	14	6	20	**62**
Not my house	2	1	4	4	0	3	**14**
Don't know	0	0	0	1	1	3	**5**

Only change your tops or doors							
Yes	1	6	6	9	4	18	**44**
No	4	1	11	9	4	11	

Recognised manufacturer							
Sembel-It	7	8	35	51	14	52	**167**
Tekton	4	5	15	17	6	13	**60**
Whitehouse	2	3	11	9	2	9	**36**
Optima	1	2	15	16	3	7	**44**
Euroline	0	5	15	24	3	7	**54**
Mr Cupboard	7	11	32	50	14	45	**159**
Easy-Fit	6	8	16	23	5	22	**80**
Risely	2	1	5	8	4	19	**39**
Others - Scorptio, Kitchen Family				2		1	**3**

Install own cupboards							
Yes	9	10	36	42	10	29	**136**
No	2	1	4	9	5	24	**45**
Saving							
<10%	1	0	1	2	0	4	**8**
11-20%	2	1	3	5	3	15	**29**
21-30%	4	3	3	3	2	10	**25**
>30%	4	7	33	34	7	10	**95**

		No. of respondents
Why? (Change kitchen)	Need more cupboards	22
	Better Look	2
	Poor quality installation and product	2
	Wooden look	3
	User friendly	4
	Shabby	4
	New Image	4
	Old fashioned	5
	Formica burned delaminating	5
	Dislike Colour	6
	Practical	6
	Too small	7
	Water Damage	11
	Modernise	16
	Not our choice or liking	2
	Extend Kitchen	1
	Colour Discontinued	1
	More space for appliances	1
	Need room for washing machine	1
	Woodgrain in doors collects dust	1
	Not enough plug points	1
	Bad workmanship	1

Only change tops/doors	Economical Cost Effective	14
	Complete refurbishment needed	12
	Metal cupboards cannot be changed	2
	A start to what I would ultimately like	2
	Will change whole look / Modernise just by the tops & doors	6
	Cupboards still in great condition	7
	New layout required	1
	Doors still in great condition	1

KSA	0	<2500	<5000	<10000	<15000	>15000	Total
1	2	0	4	5	4	21	36
2	1	1	1	1	0	2	6
3	1	1	0	1	2	3	8
4	1	0	1	1	0	7	10
5	2	0	6	8	3	9	28
6	0	0	1	2	2	1	6
7	1	1	1	1	1	1	6
8	2	0	0	1	1	2	6
9	0	0	0	3	0	0	3
10	1	6	26	27	3	7	70
	4.8	**8**	**7.8**	**7.4**	**5.1**	**3.8**	

REP							Total
1	0	0	0	1	1	3	5
2	0	0	0	0	1	1	2
3	0	0	0	0	0	0	0
4	0	0	0	0	0	2	2
5	2	0	2	2	1	2	9
6	1	0	1	1	1	0	4
7	0	0	1	3	1	6	11
8	2	3	1	5	2	5	18
9	2	0	7	3	2	6	20
10	4	6	28	35	7	28	108
	8.1	**9.3**	**9.3**	**8.9**	**7.8**	**8.3**	

Brochure							Total
1	0	0	0	0	1	3	4
2	0	0	0	0	0	0	0
3	0	0	0	1	1	2	4
4	0	0	1	0	0	1	2
5	2	1	2	3	2	4	14
6	0	0	0	2	0	2	4
7	0	1	1	4	2	2	10
8	1	0	5	5	0	16	27
9	3	0	5	2	2	4	16
10	4	7	26	34	8	19	98
	8.5	**9.1**	**9.1**	**8.9**	**7.9**	**7.8**	

CAD							Total
1	0	0	3	2	2	3	10
2	0	0	0	0	0	1	1
3	1	0	1	0	0	0	2
4	0	2	1	2	1	3	9
5	1	1	1	5	2	6	16
6	3	2	0	4	2	0	11
7	1	0	2	3	1	7	14
8	2	0	3	7	1	11	24
9	0	0	7	1	1	4	13
10	3	5	23	26	6	17	80
	7.2	**8.3**	**8.6**	**7.9**	**7**	**7.4**	

Credit							Total
1	0	0	1	5	3	13	22
2	1	0	0	0	0	1	2
3	1	1	0	3	0	4	9
4	0	2	1	1	0	2	6
5	0	4	0	8	2	9	23
6	4	0	1	2	0	2	9
7	0	0	2	2	0	6	10
8	1	1	4	5	0	5	16
9	0	0	3	1	0	3	7
10	3	2	28	23	6	8	70
	6.7	**6.5**	**9.1**	**7.1**	**4.6**	**5.3**	

Guarantee							Total
1	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0
4	0	0	0	1	0	0	1
5	0	0	1	2	2	3	8
6	1	1	0	0	0	1	3
7	0	2	1	2	1	0	6
8	1	1	0	1	1	1	5
9	1	0	3	2	1	6	13
10	7	6	35	41	11	42	142
	9.3	**9.7**	**9.7**	**9.1**	**9**	**9.5**	

Lead Time							Total
1	0	0	0	1	0	0	1
2	0	0	0	0	0	1	1
3	0	0	0	0	0	0	0
4	0	0	0	1	0	2	3
5	2	0	3	5	2	6	18
6	2	1	1	3	0	3	10
7	0	1	1	2	3	4	11
8	0	0	2	5	3	9	19
9	2	0	2	4	0	5	13
10	4	7	31	28	8	23	101
	8	**9.2**	**9.3**	**8.1**	**8.4**	**8.2**	

Operation							Total
1	0	0	0	0	0	1	1
2	0	0	0	0	0	0	0
3	0	0	0	0	1	0	1
4	0	0	0	2	2	2	6
5	3	1	4	9	1	10	28
6	1	0	1	2	2	2	8
7	1	1	0	4	0	4	10
8	2	0	4	4	3	10	23
9	2	1	2	4	2	8	19
10	1	6	29	23	5	16	80
	7.2	**9**	**9.1**	**7.7**	**7.5**	**7.8**	

1 Stop							Total
1	0	0	0	2	1	2	5
2	0	0	0	1	0	3	4
3	2	1	0	1	0	2	6
4	0	0	0	0	0	2	2
5	0	0	3	7	1	12	23
6	1	1	1	1	2	2	8
7	0	0	0	4	1	4	9
8	3	0	7	4	3	10	27
9	2	0	4	6	0	5	17
10	2	7	25	24	8	11	77
	7.4	**8.8**	**9.1**	**7.9**	**8.1**	**6.7**	

Price							Total
1	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0
3	0	0	0	1	0	0	1
4	0	0	0	0	0	2	2
5	1	0	1	1	1	7	11
6	0	1	0	2	2	3	8
7	0	0	2	1	3	4	10
8	0	1	1	6	1	8	17
9	1	0	3	4	1	7	16
10	8	7	33	35	8	22	113
	9.4	**9.3**	**9.6**	**8.3**	**8.4**	**8.2**	

Quality							Total
1	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0
5	0	0	0	0	1	2	3
6	0	0	1	1	0	0	2
7	0	1	0	1	0	0	2
8	0	0	1	5	1	2	9
9	2	0	1	1	2	4	10
10	8	8	37	41	12	45	151
	9.8	**9.7**	**9.8**	**9.3**	**9.4**	**9.7**	

Range							Total
1	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0
4	0	1	0	0	0	1	2
5	1	0	0	1	1	6	9
6	0	0	0	2	0	1	3
7	1	0	2	3	2	3	11
8	1	0	4	7	1	10	23
9	1	0	4	3	2	2	12
10	6	8	30	33	10	30	117
	8.9	**9.3**	**9.6**	**8.8**	**9.1**	**8.7**	

Reputation							Total
1	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0
3	0	0	0	0	0	1	1
4	0	0	0	0	0	0	0
5	1	1	0	2	0	6	10
6	0	0	0	1	0	3	4
7	1	1	1	3	0	5	11
8	2	0	3	4	1	7	17
9	2	0	3	6	4	5	20
10	4	7	33	34	11	26	115
	8.6	**9.1**	**9.7**	**9.1**	**9.6**	**8.4**	

Ovens etc.							Total
1	0	0	1	1	1	9	12
2	0	0	0	1	1	2	4
3	0	1	1	2	0	4	8
4	2	0	0	1	0	4	7
5	1	1	4	7	3	10	26
6	2	0	0	4	7	3	16
7	1	1	2	23	0	5	32
8	1	0	6	5	3	6	21
9	1	0	2	2	1	2	8
10	2	6	24	3	0	8	43
	6.9	**8.3**	**8.6**	**6.2**	**5.8**	**5.5**	

Showroom							Total
1	0	0	1	1	1	1	4
2	0	0	0	1	0	0	1
3	0	0	0	0	0	4	4
4	0	0	0	0	0	0	0
5	2	0	5	4	0	5	16
6	1	0	0	2	1	3	7
7	0	1	2	6	0	2	11
8	1	2	2	4	0	14	23
9	2	0	0	3	4	6	15
10	4	6	30	29	10	18	97
	8.2	**9.2**	**8.9**	**8.4**	**8.9**	**7.8**	

APPENDIX 4 : PRICING QUESTIONNAIRE

1. Is your market share constant or declining while prices are falling in real terms?
   Yes

2. Do you have a nagging suspicion - but no real evidence - that you are regularly bidding far too high for contract? Yes

3. Do your sales people keep complaining that your prices are several percentage points too high? Yes

4. Do your contribution margins for the same product vary considerably from customer to customer? Yes

5. Are you unsure who is the industry price leader? Yes

6. Do your pricing approval levels seem to be functioning more as a volume discount device than as a control mechanism? Yes

7. Do you find that too many pricing decisions seem to be aimed at gaining volume, despite an overall non-volume strategy? No

8. Are most of your prices set at minimum approval level? Yes

9. Would you have trouble describing your competitors' pricing strategies?
   No

10. Do your competitors seem to anticipate your pricing actions with ease, while theirs often take you by surprise? No

11. Do you have a planned method of communicating price changes to customers and distributors? Yes

12. Do you know how long to wait before following a competitor's price change?

No

13. Are your prices set to reflect such customer specific costs as transport, set-up charges, design costs, warranty, sales commissions and inventory?

No

14. Do you know how long it takes one of your competitors to follow one of your price moves?

Yes

15. Do you know the economic value of your product to your customer?

No

16. Do you use the industry's price/volume curve as an analytical aid to price setting

No

17. Do you know if you would be better off making a single large price change or several small changes?

Yes

18. Do you know how to go about establishing price leadership in your industry?

No

19. Are your prices based strictly on your own costs?

Yes

20. Do you have a consistent and effective policy for intracompany pricing?

No