PRODUCT MANAGEMENT STRATEGIES IN A "DOLLARIZED" ECONOMY. A CASE STUDY OF ZIMBABWE'S CONSUMER PRODUCTS MANUFACTURING SECTOR (2009 – 2014)

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Abstract

The purpose of this study was to establish product management strategies that can be employed by firms operating in a multi-currency economic system which is also experiencing depressed demand for consumer goods. The study was based on two cases of the largest consumer goods manufacturers in Zimbabwe. The study's proposition was that the two firms had adopted aggressive product management strategies which made their products competitive. The results of the study were based on in-depth interviews with marketing executives in both cases and other field observations. The findings confirm that the firms operating in such a restrictive can survive by adopting aggressive product management strategies which include adding new product features, qualities and extending their product lines.

Key words*: deflation; product mix; product range; dollarization; product management*

1. Introduction

The survival of business organizations is closely dependent on their ability to meet customer needs through the provision of products that are better than those offered by competitors(Czepiel, 2012; Kotler, 2004;Pride and Ferrell, 2008). Business organisations can also out-compete their rivals if they are able to develop effective product management strategies(Schnaars, 2005). This paper seeks to examine the product management strategies that were crafted and applied by manufacturing firms in Zimbabwe after the economy had been "dollarized"and had entered into a period of "economicdeflation" and depressed demand.

2. Background to the study

On the 12th of April 2009, the Reserve Bank of Zimbabwe formally suspended the Zimbabwe dollar as legal tender. Though a basket of several foreign currencies, among them the United States dollar (USD) and the South African Rand, was formally adopted to replace the Zimbabwe dollar, informally Zimbabwe became a "dollarized" economy due to the relative popularity of the USD in comparison with other currencies. This "dollarization" was adopted in the wake of a decade of economic decline characterised by hyperinflation. It is reported that the average inflation rate in Zimbabwe during the period 1999 to 2009was more than 52,000 percent before reaching an all-time high of 231 million in 2008 when the Reserve Bank of Zimbabwe was then forced to abandon the local currency(Fashoyin, 2008).

The major effect of the "dollarization" of the economy was the decimation of the productive capacity of manufacturing firms in Zimbabwe due to the subsequent influx of imported consumer goods which eroded of the competitiveness of the local manufacturing sector.The manufacturing sector survey released in October 2014by the Confederation of Zimbabwe Industries (CZI, 2014) reported that manufacturing capacity utilization rate had dropped by an average of 13% per year between 2012and 2014 and stood at a mere 36.60% by September 2014. Lack of production in the manufacturing sector led to high levels of unemployment with the general level of unemployment rising to more than 80% in the formal sector. The subsequent erosion of disposable incomes resulted in depressed demand for consumer goods produced by local manufacturing firms. During the same period, the inflation rate began to tumble rapidly, reaching a record low of - 7.50 percent in December 2009. By February 2015 the inflation rate had gained slightly to -1.40 percent (RBZ, 2015).

As shown in Table1, advanced economies generally have higher average income levels per household and lower inflation rates compared to the less developed African economies. The

average GDP per capita based on a sample of six African economies including Zimbabwe was 1,403USD in February, 2015 (with Zimbabwe falling below the average at 441USD) whereas the average for a selected group of advanced economies was 39,900USD. The average general inflation rates were 8.38 percent in Africa and 0.50 percent in the advanced economies, with food inflation being slightly higher in both cases.

Table 1: Inflation Rates and GDP per Capita: Zimbabwe versus other economies

Country	GDP Per Capita (USD)	General Inflation Rate (%)	Food Inflation Rate (%)
Ghana	766	16,50	7.00
Kenya	632	5,61	8.70
Malawi	224	21.20	22.10
Mozambique	436	3.99	4,21
South Africa	5,916	4.40	6.50
Zimbabwe	441	-1.40	-2.75
Australia	37,493	1.70	-0.18
UK	37,955	0.30	-2.50
Germany	38,292	0.09	-0.18
USA	45,863	-0.10	3.20

Source: Trading Economics (2015)

The figures in Table1 show that in Zimbabwe, whereas the income per household was very low and less than the African average, the inflation rate was also very low and typical of high-income economies. Thus, the Zimbabwean economy exhibited the general inflation characteristics of a high-income economywith low-to-negative inflation rates when infact it was very low-income economy. This state of "deflation" meant that even though there was a general downward pressure on the prices of the consumption goods manufactured in Zimbabwe, there was no demand for them due to the low incomes. Thus, the downward pressure on prices led to the squeezing of profit margins for the firms in the face of depressed demand.

3. Statement of the problem and proposition of the study

Dollarization opened up the economy and enabled Zimbabwean consumers to freely access imported products, thus exposing Zimbabwean manufacturing firms to stiff competition from foreign manufacturers. This problem was compounded by depressed demand due to low incomes and low profit margins resulting from falling prices.

The proposition behind the study was that manufacturing firms in Zimbabwe can achieve profitability and competitiveness in the face of stiff competition from imported products,depressed local demand and falling prices through the adoption of appropriate product management strategies.

4. Purpose and objectives of the study

The purpose of the study was to establish the most appropriate product management strategy for Zimbabwe's manufacturing firms under these circumstances. The study therefore proceeded on the basis of the following objectives:

- to establish the relative competitiveness of Zimbabwe's consumer products manufacturing firmsafter the dollarization of the economy;
- to examine the nature and effectiveness of the post-dollarization product management strategies adopted by Zimbabwean manufacturing firms in general and consumer products manufacturers in particular;
- torecommend the most effective product management strategies that can be used by manufacturing firms in a dollarized economy such as Zimbabwe.

Though the study was limited to the consumer products manufacturing sector, it is of great significance in that it provides an empirical view to the operations of firms in an economy "open" economy with depressed demand for locally produced products.

5. Research questions

The study used the following three research questions.

5.1. How did the post-dollarization competitiveness of firms in the consumer products manufacturing sectorcompare with that of the other manufacturing firms in Zimbabwe?

5.2. What were the product management strategies that were adopted by firms in this sector during this period?

5.3. To what extent can these strategies be linked to the competitiveness of the firms?

6. Literature review

6.1. Assessing the competitiveness of the firm

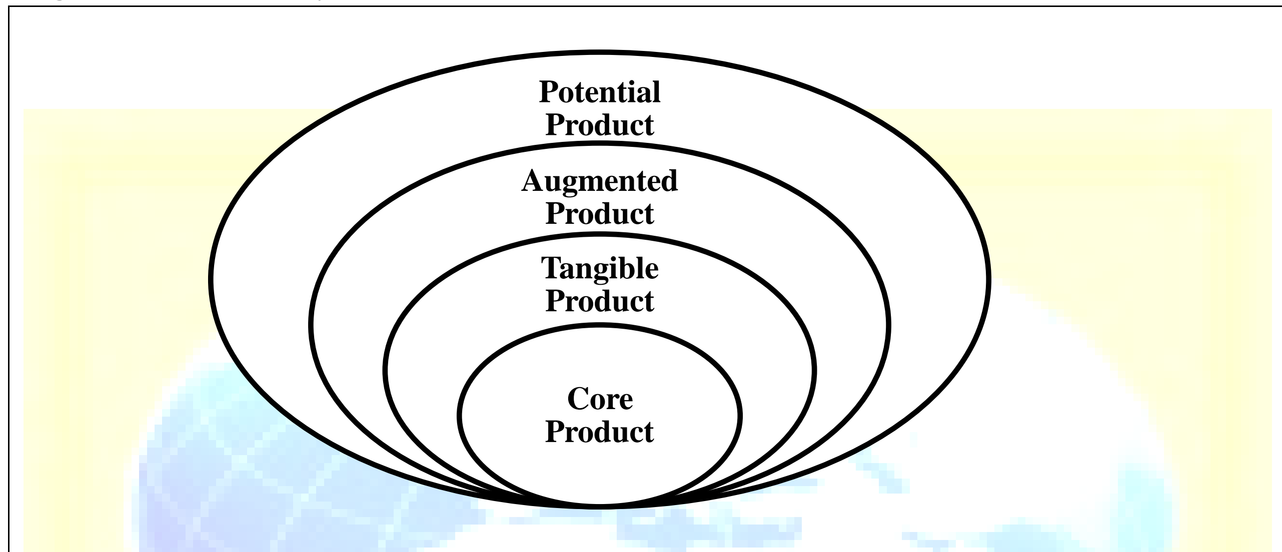
The "competitiveness" of a firm can be defined in three different but related ways. Firstly, it can be defined as the market share that the firm commands, where the market share is the amount of sales that the firm is generating relative to its competitors. Secondly, it can be defined in terms of the adequacy of the returns that the managers are providing to their shareholders. The returns to shareholders can be measured in several ways, for example using the return on equity, which relates the net profit to the shareholders' equity investment in the business. Thirdly, competitiveness can be assessed by measuring the efficiency with which the firm is generating profit from a dollar of sales. This is done by relating the profit to the amount of sales generated by the business during a given period(Brigham and Gapenski,2009).

The third measure, being sales-based, is the most appropriate for a study on product management since sales are directly related to the way in which the firm manages its products.

6.2. Definition of a product

A product consists of a series of "layers" that provide competitive advantages to the organisation: the core product; the tangible product; the augmented product and the potential product.

Figure 1: Product "layers"



Adapted from: Ennew and Waite (2007:126)

The **core product** represents the basic need that the product is supposed to meet. For example, in the case of toothpaste the core product is "dental hygiene". Thus, all organisations in the market for the same product are basically similar at the core-product level. The **tangible product** includes those features, facilities, brand name, etc that are added to the product by a particular organisation to make it identifiable and different from those of other organisations. These differences, however, may not be of much significance from the perspective of the consumer as they represent the minimum level of consumer expectations regarding the product. Thus it would really be difficult for the organisation to gain significant competitive advantage merely on the basis of these differences. The **augmented product**is represented by those features that make the organisation's product truly distinct from those of other organisations. The product is augmented by adding special features that competing products do not offer, such as special customer service offered to the consumer of the product. The **potential product** includes the possibilities that the product can potentially offer to the consumer but are not yet incorporated into the product (Ennew and Waite (2007).

6.3. Product management strategies

The product is an integral part of the "marketing mix" in the firm's marketing strategy. In the context of the marketing strategy, the term "product" includes many variables, such as the range

of products offered, their features, quality, packaging,warranties, terms and conditions of sale (Shepherd, and Scoones, 2005).

Decisions about the products offered by the organization can also be used to define the firm's market segment and to target the customers in that market accordingly (Bayus and Putsis, 2009). This can be achieved through emphasising those variables that define the utility thatconsumers seek to gain from the consumption of the product. This is then followed through by targeting the consumers and intensifying their interaction with the product. The product can also be used to position the firm or its brand. Positioning involves decisions onhow best the firm should present itself, either as a corporate or as a specific brand, to the target consumer in the identified segment of the market. Positioning is achieved when the firm is able to use its products to convey perceptions about itself or its brand in the minds of its target customers.

The firm can use two approaches to manage its products in order to achieve these strategic objectives. These involve decisions to do with the management of the existing product lines and decisions to do with the management of the product range(Bhuiyan,2011; Kotler and Keller, 2006).

6.3. 1. Managing existing product lines

The management of existing product lines involves decisions to do with product design, product modification and product line stretching or product proliferation(Bayus and Putsis, 2009; Mironov, 2008). Product design is concerned with managing product features, product quality, product branding and points of differentiation. Product modification is the process of continuously checking productperformance and making adjustments to product design where necessary.

Productline stretching or productproliferationis the process of adding new products to an existing product line. It involves the identification of different segments among the consumers of the product and then developing variantsof the existing products in order to meet the needs of these segments.Since product line stretching is a form of new product development ina market with which the organization is familiar, the risk of failure tends to be low. However, there may be dangers associated with overstretching the product line. For example, if the identified segments are not large enough or distinct enough to be viable, then the effect of stretching the product line may be to increase costs without increasing revenue. The firm will end up with too many different variants of a product. The product line will be too long and difficult tomanage, resulting in confusion amongst the consumers who will be facing to wide a choice (Vilas-Boas,2004; Wind and Claycamp, 2009).

6.3.2. Managing the product range

Product range management focuses on decisions regarding the range of products that the organisation can offer. This also includes decisions to do with the introduction of new products and the removal of older, non-performing products from the product range. Theintroduction of new products ensures that the product range is up to date, innovative, and meets changing consumer needs. Two decisions are involved: major innovations and new product lines (Canon, 2008; Fernandes et al., 2012).

Product innovations can take the form of products that are new both to the organization and tothe market. Such innovations require a large amount of investment and may call for the use of different technologies. Thus, while they may offer great promise in terms of returns, they can also be risky due to the amount of investment required. Their introduction may also require the firm to move into areas in which it is lacks the requisite experience(Springand Dalrymple, 2004; Soomroand Mushtaq, 2012). Product innovation may also involve the introduction of new product lines. These are typically products that are new to the organization but not new to the market. Such products are often to as 'me too' products. Because such products face competition from others that are already established in the market, their potential returns may be lower. However, since the firm is moving into market in which it is considerably familiar, the risk is lower (Sreenivas andRao,2013;Tzokas et al, 2004).

7. Research method

The findings of the study are based on an analysis of the financial statements of companies listed on the Zimbabwe Stock exchange which were used to establish the post-dollarization profitability and competitiveness in the manufacturing sector in general and the consumer products sector in particular. In-depth interviews with marketing executives from two case studies of the two largest consumer products manufacturing firms in Zimbabwe, Unilever Zimbabwe and Lyons Zimbabwe, were carried out in order to establish the post-dollarization product management strategies used in these firms. The study also employed the non-participatory observation (observations) method in collecting data. The researches randomly selected a sample four leading retail outlets in Harare's Central Business District to observe the firm's products on the shelves.

Unilever Zimbabwe, a company listed on the Zimbabwe Stock Exchange, is part of a big family of Unilever subsidiaries. Unilever itself has a portfolio of 400 brands consisting of food products, ice creams, soaps, shampoos and everyday household care products. The company realized a turnover of €48.4 billion in 2014 and employs more than 172,000 people worldwide. Unilever Zimbabwe is a subsidiary within Unilever East and Southern Africa (ESA), operating in Kenya, Uganda, Tanzania, Zimbabwe, Zambia, Mozambique and, Malawi. Unilever Zimbabwe was founded in 1943 and its main products in Zimbabwe are soaps and foodstuffs. The company has recently started exporting some of its products to Zambia and Malawi.Unilever produces 400

different types of products in the food and drink, home care and personal care ranges and Unilever Zimbabwe produces 52 of the 400 Unilever products locally and imports another 72 from the parent company. After the dollarization, the company stepped up its local production, with 50 percent of its turnover now coming from locally manufactured products. The other 50 percent of the company's turnover comes from imports, which cannot be produced locally.

Lyons (Pvt) Limited in indirectly listed on the Zimbabwe Stock Exchange as it is a wholly-owned subsidiary of another listed company, Dairibord Holdings Limited, after the latter acquired 100% ownership in Martindale Trading (Private) Limited t/a Lyons in 2001.J.Lyons, the company after which Lyons is named was established in Zimbabwe (then Southern Rhodesia) in 1950. Lyons manufacturers and markets a wide range of beverage products consisting of ready-to-drink cordials, teas, coffees, syrups, seasonings and sauces as well as many varieties of ice creams. These products are for the Zimbabwean market as well as for the export market. A total of 33 different products are produced.

The findings of the study are based on the strategies employed with respect to the 52 products produced locally by Unilever and the 33 products produced by Lyons.

8. Findings

8.1. Competitiveness of Unilever and Lyons versus other manufacturing firms.

Zimbabwe's gross domestic product (GDP) grew by just about 3.4% per year during the six-year period from 2009 to 2014 after the dollarization of the economy. During this period, however, the contribution of manufacturing to the GDP fell drastically by at least 40% per year (Table 2), reflecting the decreasing significance and size of the sector relative to the other economic sectors.

Table 2: Contribution of manufacturing to GDP (%)

	2009	2010	2011	2012	2013	2014	Growth Rate
Manufacturing	17.0	2.0%	13.8	5.3	1.5	3.2	-28
GDP at Market prices	5.4	11.4	11.9	10.6	3.4	6.1	3.4

Source: Zimstat, 2014)

Whilst the manufacturing sector as a whole was shrinking in size, its profitability and competitiveness remained very low. The average net profit per firm *increased*slightly at a rate of 2.6% per year from $1.88 million to $2.03 million during this period whilst the average net profit margin per firm*decreased* drastically at a rate of 42% per year during the same period. This decrease in the profitability of the firms can be attributed to increased competition which forced most firms to reduce their selling prices and also to rising manufacturing costs.

Table 3: Relative Profitability and Competitiveness of Lyons and Unilever

	Net Profit (US$m)				Net Profit Margins (%)			
	2013	**2012**	**2011**	**2010**	**2013**	**2012**	**2011**	**2010**
Lyons	5.63	2.32	2.11	3.21	6	8	6	9
Unilever	7.43	1.92	2.43	2.43	9	8	8	6
Astra	1.69	1.52	0.95	1.20	4	5	4	6
Lafarge	3.49	4.63	3.50	2.68	5	7	7	6
Turnall	-2.56	1.06	3.97	3.42	-6	2	8	10
Powerspeed	0.47	0.54	0.32	0.29	2	2	1	2
Medtech	0.10	0.03	0.00	-0.52	1	0	0	-3
Zimplow	-0.02	-0.09	2.73	2.34	0	-1	8	9
AVERAGE	**2.03**	**1.49**	**2.00**	**1.88**	**1.11**	**3.88**	**5.25**	**5.63**

Source: ZSE (2013)

During the time when the rest of the firms in the manufacturing sector were experiencing an erosion of their profitability, Lyons and Unilever managed to consistently realize increasing and above-average net profits and net profit margins per year. For example, in 2013, when the average net profit was $2.03 million, Lyons and Unilever achieved net profits of $5.63 million and $7.43 million respectively. When the average net profit margin was 1.11%, Lyons and Unilever achieved net profit margins of 6% and 9% respectively. The net profit for Lyons increased 21% per year during this period whilst the net profit for Unilever grew at a rate of 45% per year during the same period.

8.2. Product management strategies used by Unilever and Lyons

The product management strategies used by both firms during the period 2012 to 2014 were analysed under three categories:

- product design and modification (the introduction of products with improved or new features and qualities and products with new branding and points of differentiation);
- product-line stretching (the introduction of new products to existing product lines) and
- product innovation (the introduction of products that are new to both the market and the organisation or products that are new to the firm but known to the market).

The findings are presented in Tables 4-6 below.

Table 4: Product design and modification (Unilever: N = 52; Lyons: N = 33)

	Products with improved or New Features	Products with Improved or New Qualities	Products with New Branding and Points of Differentiation	TOTAL (%)
Unilever	21	9	6	69
Lyons	13	4	2	56

In-depth interviews with respective marketing executives from the organisations under study revealed that added product features were mainly on the tangible product. The focus was on packaging and the shape of the product. Unilever for example improved the shape of one of their bath soaps to make it user friendly by making it fit in the palm of the user thereby improving the grip. This improved shape reduces or eliminates the possibility of the bath soap from slipping out of the hand while bathing. Besides improving the shape of their product, Unilever also discarded the transparent plastic that they had used in packaging their bath soaps opting to adopt a thicker and non-revealing plastic that preserves the soaps' fragrances and protects them from the weather conditions.

On the other hand, Lyons changed the packaging of its tomato sauces, mayonnaises and salad dressings from glass bottles to plastic ones. The new bottles were fitted with flip tops instead of the screw tops that characterised the previous bottles. This improvement was also aimed at creating customer convenience the elimination of the possibilities of breakages in distribution and as the customer used the product.
The interviews also revealed that the two firms added new qualities to their products. For instance Unilever on their part added plant oils and fragrances to their soaps. This move resonated well with most of their soaps' users who are becoming more health conscious. Oils and fragrances like lemon, cocoa butter and roses were added.
Lyons on the other hand introduced new flavours to their real fruit juices products. They introduced the mango and pine apple flavours.

The foregoing discussion reflects that the two firms sought to effectively rebrand their products as user friendly that can be used by any age group within a household with no risk to the user. The firms also rebranded their products as addressing health concerns of their consumers thereby matching the general global trends.

Table 5: Product-line Stretching(Unilever: N = 52; Lyons: N = 33)

New products Added to an Existing Product Line		TOTAL (%)
Unilever	9	17
Lyons	13	39

Asked if the firms under study had added any new product lines to their existing products, the respondents affirmed. The response from Unilever was that they had added new product lines from their other Strategic business Units within the African regionlike Kenya, South Africa and Nigeria. Examples of these new products ranged from bath soaps, cooking mixes deodorants and shampoos.

Lyons on the other hand added new products in the ice cream, fruit juices, and mayonnaises ad salad dressings.The main focus by Lyons was to target the weight watchers through innovation of existing products to be fat free.

The foregoing discussion reveals that the firms under study added adopted the product line extension through either introducing new products from other markets or outright innovation of existing products. These findings are also captured in **table 6** below.

Table 6: Product Innovation: Introduction of New Products (Unilever: N = 52; Lyons: N = 33)

	New to both the market and the Firm	TOTAL (%)	New to the Firm but known to the market	TOTAL (%)
Unilever	14	27	18	35
Lyons	8	24	23	70

The researchers then took a tour of randomly selected four leading retail outlets to confirm the interview findings through observing the two firms' products displayed on shelves. The observations confirmed the packaging improvements, the product line extensions and the product innovations mentioned in the in-depth interviews.

9. Conclusions and Recommendations

The findings reveal that Unilever and Lyons in Zimbabwe have posted profits from sales of their products while other manufacturers have been experiencing an erosion of the in profits. This can be attributed to Unilever's and Lyons' products being preferred by the market compared to their competitors. The researchers conclude that one of the reasons that the two manufacturers have managed to ride the bad economic tide that Zimbabwe is currently experiencing is because the firms' products have managed to meet customer expectations. This ability is attributed to the firms' product management strategies by the researchers.

Thus it is recommended that other manufacturers in Zimbabwe who are experiencing poor market performance adopt aggressive product management strategies to turn around their fortunes.

However since firms profitability is not only a function of sales but also the ability to manage expenses, the researchers recommend that further studies be carried out in understanding how the two firms managed their operating costs during the period under study.

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