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Strategic responses expected from retail organisations due to the acquisition of MassMart by Wal-Mart

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Strategic responses expected from retail organisations due to the acquisition of MassMart by Wal-Mart

A research report submitted by

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DECLARATION

I declare that this report is my own unaided work. It is being submitted in partial fulfilment of the degree of Master of Business Administration to the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination to any other University.

Graeme Campbell .....

.....day of 2013

Abstract

South Africa is classified as an emerging economy and emerging economies are perceived as being less risky than established first world economies in the current economic climate. This perceived low risk results in emerging economies attracting global organisations that are wishing to capitalise on this growing economy. Additionally many of these emerging markets have a large population base that have limited income, but the sheer size of this market makes it very attractive for organisations that wish to leverage economies of scale.

As strategy deals with the future and the future is unknown, strategic planning and reaction time is critical in the current fast moving world of retail. This research report will investigate the strategic alternatives retail organisations will pursue based on the emergence of a new large international competitor in the market place, namely Wal-Mart. The strategic alternatives investigated are high level and revolve around choosing to react or wait for the uncertainty to disappear, how the chosen entry method affected their strategy and what resources will be deployed to overcome this new competitor. As the chosen entry method of Wal-Mart allowed the organisation to overcome the barriers to entry all the retailers investigated chose to react immediately and adopt a focused type of strategy, deploying their resources in carefully selected area's to combat the strengths of the new competitor. Restructuring took place, supplier power increased and new resources were acquired. The local retailers acknowledged the greatest threat of Wal-Mart lay not in South Africa but on the rest of the African continent and this was where their primary focus would be. The study utilised qualitative research methods which involved semi structured interviews

Dedication

To my wife, Nicole who stood by me for the duration of my degree and my son Sebastian who turned my world upside down.

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1 INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to determine the strategic alternatives facing retail organisations when a new competitor formed from a merger or acquisition emerges in the market place.

1.2 Context of the study

The research will be conducted in the South African environment. After the 1994 elections South Africa emerged as a democracy which resulted in a chaotic period for many aspects of business with the lifting of sanctions and allowing of foreign direct investment. The retail sector remained relatively unaffected by foreign direct investment, but there was a significant amount of mergers between the various retail outlets as the organisations attempted to deal with a changing market place.

With the developed countries markets becoming saturated and having very little room for growth and with the latest economic crisis that has resulted in turmoil and confusion on the political, economic, social and technological front (Sumon Kumar and Gelb, 2005; Keegan, 2011; Ray, 2011). These circumstances are making MNC's turn their attention to emerging economies, examples of these economies are: India, Indonesia, Brazil (London and Hart, 2004; Sumon Kumar and Gelb, 2005). These economies have a large untapped market potential that lies at the base of the economic pyramid. South Africa is also classified as an emerging economy with a large untapped market at the bottom of the pyramid (Sumon Kumar and Gelb, 2005).

With Africa showing some form of governance beginning to form and a large emerging middle class in South Africa the large retail organisations have a vast untapped market at their doorstep. This local market has even allowed some of the retailers, namely Shoprite, to expand into Africa and achieve large economies of scale.

With South Africa being identified as an emerging economy and the emerging economies have not been affected as severely as first world economies by the recent global crisis (UnitedNations, 2010), much attention has been given to these emerging markets. Many large international organisations see this as vital to their survival as these markets are still experiencing growth making them key focus areas for international organisations. These international organisations are attempting to enter these markets through various forms, such as exporting, alliances, joint ventures, mergers and acquisitions, with mergers and acquisitions being the focus of this research. A survey undertaken by PriceWaterHouseCoopers (PWC) indicates that the current global financial crisis has halted the expansion into the African market, however the South African media is still of the opinion that there will be opportunities for mergers and acquisitions in the market that could occur in the foreseeable future (Metcalfe, 2009).

This results in a dynamic environment that poses many challenges to the management of organisations operating in these markets. The threat of new entrants with international backing is high and current organisations need to establish a strategy to either prevent new opposition from forming or, if prevention is impossible, they will require a strategy to confront the new entrant in their market place. The final alternative facing the organisations is to become part of a merger or acquisition themselves and so be able to compete with the other players in the market, however this will result in further strategic moves from the opposition. This paper will present a model that can be used to assist management of these organisations in formulating a strategy for the circumstance where prevention is impossible and a new competitor, emerging from a merger and acquisition, has entered the market place.

1.3 Problem statement

1.3.1 *Main problem*

Identifying the strategic responses retail organisations may adopt when facing new competition as a result of the merger and acquisition of Massmart with Wal-Mart.

1.4 Significance of the study

In the past decade a number of large foreign organisations have shown interest in Africa, particularly South Africa, with some organisations that previously pulled out of the country due to apartheid now re-entering the market place through a merger or acquisition, a good example of this is the banking industry (KPMG, 2004).

The retail sector in South Africa has remained untouched from international organisations and this has allowed the five large local retail giants to enjoy a situation that is very reminiscent of an oligopoly. Due to these circumstances the environment in which the retailers operate in has become somewhat stagnant as they have only been competing against each other.

The study fills a gap in providing a framework for establishing a strategy in dealing with new competitors in the market place that have emerged from a merger or acquisition in the South African retail market. Typically this merger and acquisition takes place between an existing firm operating in the market place and a large international retailer and is a result of certain factors such as profitability, market share, compatibility, economies of scale (Kalpic, 2008). This new entrant will want to gain additional market share with the increase in resources and may deploy ruthless tactics in order to gain ground on the existing competitors (Kalpic, 2008).

It will draw from various models that exist in the theoretical world and from practical case studies. The approach to be deployed in evaluating the proposed model will be a case study, case studies tend to involve exploratory, descriptive or

explanatory research (Yin, 1981). Yin (1994:3) summarizes a case study as “an investigation to retain the holistic and meaningful characteristics of real life events”.

The study will provide guidance to senior management of retail organisations and additionally it will assist most businesses in formulating a strategic response to new competitors that have emerged from a merger and acquisition. It will provide a framework indicating which decisions should be made and in which direction the company should focus its attention in order to minimize the damage the new competitor will do to their market share, suppliers and customer base.

1.5 Delimitations of the study

This research will only cover the South African retail sector and focus on the four large retailers, namely Pick n Pay, Shoprite, Spar and Woolworths, any other retailer will be excluded from this research.

The Paper will only cover the merger between Massmart and Wal-Mart and the expected strategic responses from the competitors during the entrance phase of Wal-Mart.

The strategic responses that this paper will cover will only go up to phase two of the five phases of the managerial process of crafting and executing a company’s strategy (Hough, Arthur, Strickland and Gamble, 2011) as per figure 1 below:

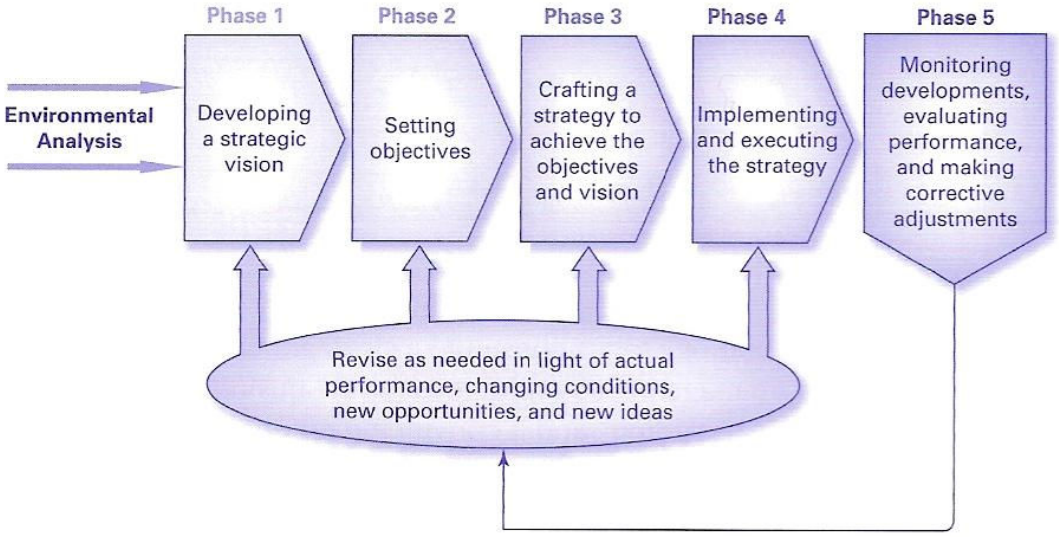


Figure 1: the strategy-making, strategy-executing process (Hough et al 2011)

The paper will only cover the strategic responses done at head office and will not include the strategic responses from individual shops that may be privately owned as is the case with some of the retailers.

1.6 Definition of terms

BOP – Bottom of the pyramid

EM – Emerging markets

MNC – Multi National Corporations

FDI – Foreign direct investment

1.7 Assumptions

The following assumptions have been made in relation to this study:

- That there is sufficient information to examine the responses
- When the interviews are conducted, the answers given will be honest and truthful
- All local retailers are in phase five of the managerial process of crafting and executing a company's strategy

2 LITERATURE REVIEW

2.1 Introduction

According to Michael Porter (1987) there is almost no consensus about corporate strategy and what corporate strategy is, and there is even less consensus about how a company should formulate it. Based on this confusion and difficulty in understanding strategy how do organisations respond to a rapidly changing external environment due to a merger or acquisition that has occurred in their market place. To compound the issue South Africa is classified as an emerging economy making strategy formulation increasingly difficult as the environment is constantly changing.

With a vast customer base that is typical of an emerging market many organisations from developed economies attempt to enter emerging markets as these economies have typically not been as adversely effected by the recent financial global crisis (London and Hart, 2004; Sumon Kumar and Gelb, 2005; Kalpic, 2008). However these are difficult markets to enter with large risk associated with the entry and the choice of entry is critical to ensure the MNC new venture is a success (Meyer and Estrin, 2001).

Selling the same products in the same market place some organisations manage to outperform other organisations, what makes one organisation outperform the other? A philosophy adopted by many is the resource based view of the organisation to explain this difference. This view is one of identifying key resources critical to the success of the organisation and ensuring correct deployment and effective development of these key resources, thus allowing the organisation to achieve and sustain a competitive advantage (Mahoney and Pandian, 1992; Clulow, Barry and Gerstman, 2007)

2.2 Background discussion.

The retail sector in South Africa can be broken into three sectors, with the corporate highly efficient retail giants at the top, the moderately performing small and medium enterprises in the middle and the large and generally underperforming informal retail sector. Black South Africans are the major players in the informal sector. The entire sector is characterised by intense rivalry and is typically low margin high volume type business.

On the 11th February 2011 Wal-Mart, the world's largest retailer moved another step closer to entering the South African retail market. The acquisition of MassMart by Wal-Mart has been the focus of much attention with the South African competition commission getting highly involved to ensure a smooth transition. The fear of Wal-Marts entry is that it will not allow South African labour unions to enter the workplace, the large amount of sourcing Wal-Mart does internationally especially from China and the effect it will have on local producers.

Wal-Mart was founded in 1962 with one discount store based in Rogers Arkansas. On 31 October 1969 the company incorporated as Wal-Mart stores Inc and was listed on the New York Stock Exchange in 1972. Wal-Mart serves customers more than 200 million times per week in more than 9029 retail stores under 60 different banners in 15 countries with a turnover of $405billion it is the world's largest retailer (www.walmart.com)

The local retailers such as Shoprite, Pick n Pay, Spar and Woolworths cannot match the scale Wal-Mart has on global sourcing, technology deployed and the advanced logistic capability and will have to resort to other methods to ensure their survival.

2.3 Strategy

Hofer and Schendel (1978:11) define strategy as "the match between an organisations resources and skills and the environmental opportunities and risks it faces and the purposes it wishes to accomplish". Many decisions are made in any

type of organisations daily, in order to guide these decisions and ensure the correct decision is made and is consistent with the organisations goals is to provide some form of framework, strategy assists in providing this framework (Hax and Majluf, 1988). Mintzberg (1978:935) states that strategy can be defined as "that of a deliberate conscious set of guidelines that determines decisions into the future"

2.3.1 *Definition of Strategy*

According to Hax and Majluf (1988) strategy is a complex mix that embraces all the critical activities of the organisation and provided it with an ability to make sound decisions, giving the organisation purpose, direction and unity in an environment that is changing. In additionally Hax and Majluf (1988) state strategy can be defined as:

- Providing a unifying and integrative method of decision making;
- Determines the organisations purpose in long term objectives and critical resource allocation;
- Defines and selects the business the organisation operates in.
- Defines the kind of economic and human organisation the company is or intends to be;
- Attempting to gain a long term sustainable advantage in each of its businesses by responding correctly to opportunities and threats in the organisations external environment and by looking internally at the organisations strengths and weaknesses;
- It engages all levels in the organization;
- It establishes the economic and non economic contributions to the organisations share holders.

2.3.2 *Strategy formulation*

Strategy formulation is often poorly done in many organisations and ineffectively implemented. Many corporate executives focus on individual elements of strategy

and could not incorporate these elements in an integrated whole (Collis and Montgomery, 1998)

In order to form a good effective strategy Mintzberg (1978) states that it is a function of three forces, these forces are the environment, the organisations operating system or bureaucracy and leadership.

The environment the organisation operates in is dynamic, this environment is subject to change on an ad-hoc basis and the rate of change is never constant. The environment may be stable for a long period and then suddenly undergo massive changes in it over a sudden period of time or it may change continuously.

The organisations operating system or bureaucracy attempts to maintain balance and provide some form of stability in this environment that is constantly changing.

The leadership of the organisation is the force that balances the environment and bureaucracy. This is done by ensuring the stability of the organisations operating system while ensuring the organisation is adapting to changes in its environment.

Further to these three forces Mintzberg (1978) identified how human nature affects the strategy formation process. As human beings react to change in many different ways, with some individuals taking a cautious approach of smaller incremental steps while others take a large leap forwards. This can be seen in strategy formulation when the organisation is undergoing change, some organisations do not seem to respond to the change whereas other organisations have radical changes.

2.3.3 *Strategy under uncertainty*

The future is always uncertain and unpredictable, as strategy has to plan for the future and these unknown events it follows that the strategic context of a company is always uncertain. The first decision a company must make in the face of all this uncertainty is when to act, the company has a choice of either waiting for the uncertainty to be partially or fully resolved or the company can choose to act now. If the company decides to act early during uncertainty it must decide where to allocate the resources at the company's disposal and ensure flexibility of the organisation, all of these decisions must be made while the company's competition is still active thus complicating the decision making process even further (Wernerfelt and Karnani, 1987).

When faced with uncertainty and an organisation focuses its resources on a particular area or technology the organisation is faced with two possibilities, it can either become the market leader in that particular product or technology provided it chose the correct one to focus on, this is a very risky strategy as the decision cannot be made on any actual data. Alternatively the organisation can chooses to cover several products or technologies lowering the risk of choosing the incorrect one and maintaining flexibility in the market place but this strategy will never allow the organisation to become a dominant market leader. Flexibility is advantageous in an environment that has a large degree of uncertainty but will bring no benefit to environment that has a large degree of certainty attached to it. If the future is known as the organisation has chosen to wait, focusing resources will assist in moving down the experience curve faster and realise economies of scale. This highlights the trade off between focus and flexibility in uncertain conditions. The final option an organisation has when faced with uncertainty is to wait until all uncertainty is removed and then act (Wernerfelt and Karnani, 1987). According to Cyert and March (1992) organisations try to avoid uncertainty and will only act when the environment is certain thus lowering the organisations risk exposure.

Wernerfelt and Karnani (1987) have developed a decision making tool to assist organisations in deciding when to act in uncertain circumstances. This is depicted in figure 2 below

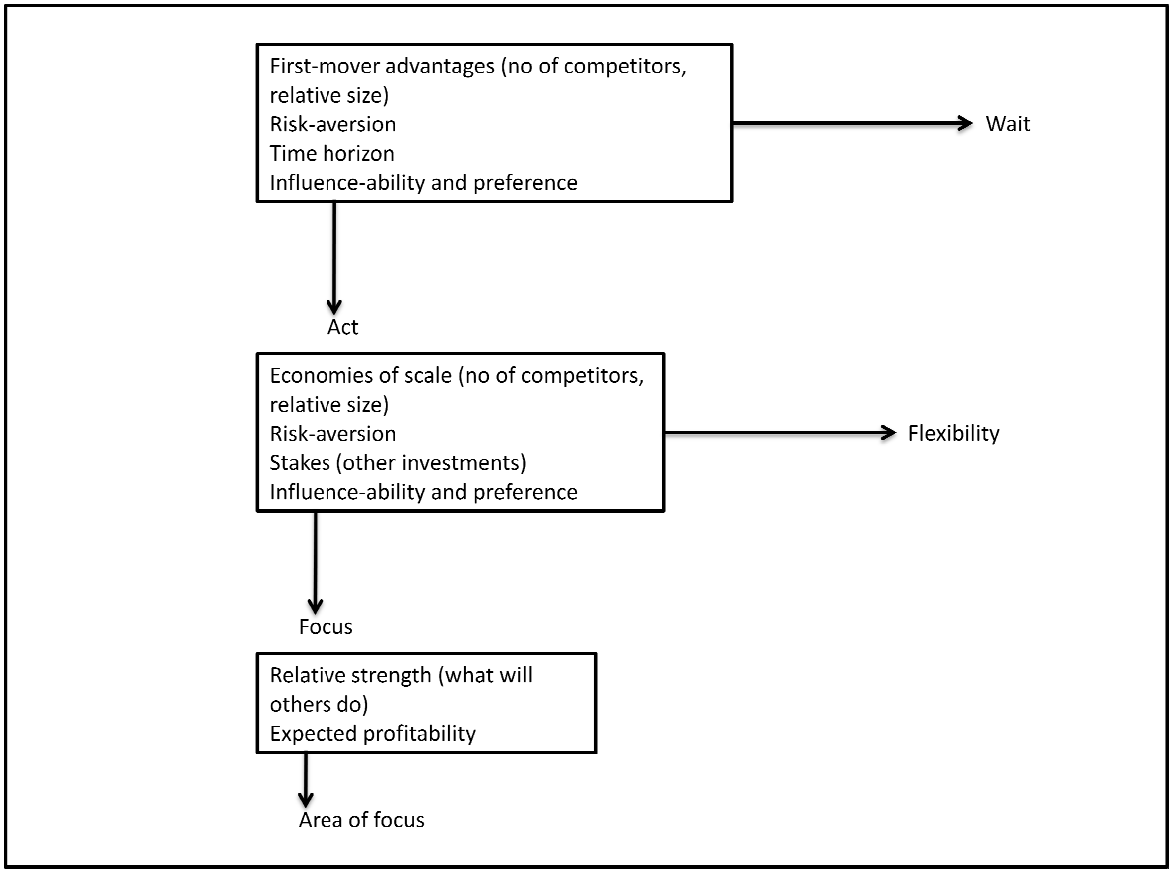


Figure 2 Decision model for strategy under uncertainty (Wernerfelt and Karnani, 1987)

In order to understand a competitive strategy an organisation has to understand the sources of the uncertainty it is facing and some of the key characteristics of this uncertainty, Wernerfelt and Karnani (1987) state that uncertainty has four distinct sources, firstly, demand structure, secondly supply structure, thirdly competitors and finally externalities.

Demand uncertainty can be brought about by inaccurate information pertaining to market size, what will demand for the goods or services be and when would this demand start. The product life cycle curve is a good indicator of where the goods

or service is in its life cycle and aids in decision making. To compound the issue uncertainty could surround distribution channels and their reliability.

Supply uncertainty can be found from two sources, internally in the operations of the organisation and externally from the suppliers feeding the operational side with raw material. Internally the uncertainty arises from choosing the best process and technology to get the job done, the success of technology in this area is dependent on the amount of investment the organisation is prepared to invest in this field. Externally uncertainty arises from the suppliers of raw material, doubt may exist if the organisations suppliers will be able to meet the demand of the organisation to ensure continued uninterrupted production.

A critical point that is highlighted in the model above is when to act? This is one of the first decisions an organisation has to make. The organisation can either choose to act immediately or wait until the uncertainty has disappeared or partially disappeared. However the organisation needs to determine what the advantages are of being a first mover, if these advantages prove to be large, the more important it is for the organisation to act quickly, advantages could come from moving down the experience curve faster, patent protection or trying to gain access to scarce resources. By adopting a strategy to move first it is a far riskier strategy than opting to wait and a risk adverse organisation may not choose to enter the market. According to Wernerfelt and Karnani (1987) in situations that a first mover advantage is not clear the organisation should still act quickly due to the following two reasons:

- The organisation wants a particular outcome and can influence the industry by being the first to enter it;
- The organisation can influence an outcome in the industry to suit the particular wants and needs of the organisation.

If the organisation does choose to act and enter the market it must choose between a focus or flexibility approach. Where focus is based on taking all the resources available and focusing them on one particular scenario or the flexible approach where the resources are spread amongst several different scenarios to

ensure adaptability should one of the scenarios prove to be correct. The greater the return is one on particular scenario the greater is the advantage of the focus strategy, however with any large reward there is large risk associated with it. A risk adverse organisation would choose flexibility over a focused approach to ensure resources are not wasted on the incorrect scenario, however by utilizing valuable resources to cover many areas the organisation runs the risk of losing out on any market share due to these resource constraints.

All of the above points have ignored one key point namely competitors and how these competitors influence the decisions made. Wernerfelt and Karnani (1987) state that the greater the number of competitors, the greater is the incentive to act early rather than to wait for clarity. Additionally with an increase in the number of competitors the greater is the incentive to focus rather than to opt for flexibility. By pursuing this option the organisation has the possibility of being the dominant force in the market provided the correct focus is chosen, if the organisation opts for the flexible approach it is not possible to achieve a dominant position and the organisation will always be number two in the market.

If an organisation has large resources at its disposal it may be able to adopt a wait strategy and not pursue entering the market to gain first mover advantages. This type of organisation can make use of its resources, provided the resources are large enough in quantity, to overcome the other entrant's gains by being the first mover and learn from the first mover mistakes. The best scenario for an organisation as powerful as this is to wait and then it can overtake the weaker competitors once it enters the market.

Once the organisation has entered the market place and decided to focus on a particular are the next problem faced is which area to focus the resources on? If all scenarios prove to look equally attractive and have the same possible outcome the organisation should focus its resources on a particular scenario where its strengths lie relative to those of its competitors (Wernerfelt and Karnani, 1987).

Under certain circumstances regardless of the size of the organisation a focus type of strategy appears to be the best option for a new entrant to pursue and the

focus area must be in one of the areas the organisation has a strength, the organisation must pay attention to the competitors and number of competitors in the marketplace as this will determine if a change in strategy is required.

2.3.4 *Research Question 1*

What strategy will the four retailers adopt with the emergence of Wal-Mart and the uncertainty surrounding the issue?

2.4 Emerging markets and the required entry mode

According to Kumar and Gelb (2005) at the end of the twentieth century FDI had replaced trade as a driver of economic growth in less developed and emerging economies. The importance of FDI comes from the ability of MNC transferring their technology into the new markets they enter and this allows for a general improvement of the country receiving the FDI. A further advantage of FDI from a MNC is it allows the local organisations to benchmark themselves against a MNC and allows for improvement in their processes and technologies (Patibandla and Peterson, 2002).

One of the biggest drivers attracting MNC to emerging markets is the large, but poor consumer base which is typical of these markets, depicted below in figure 3

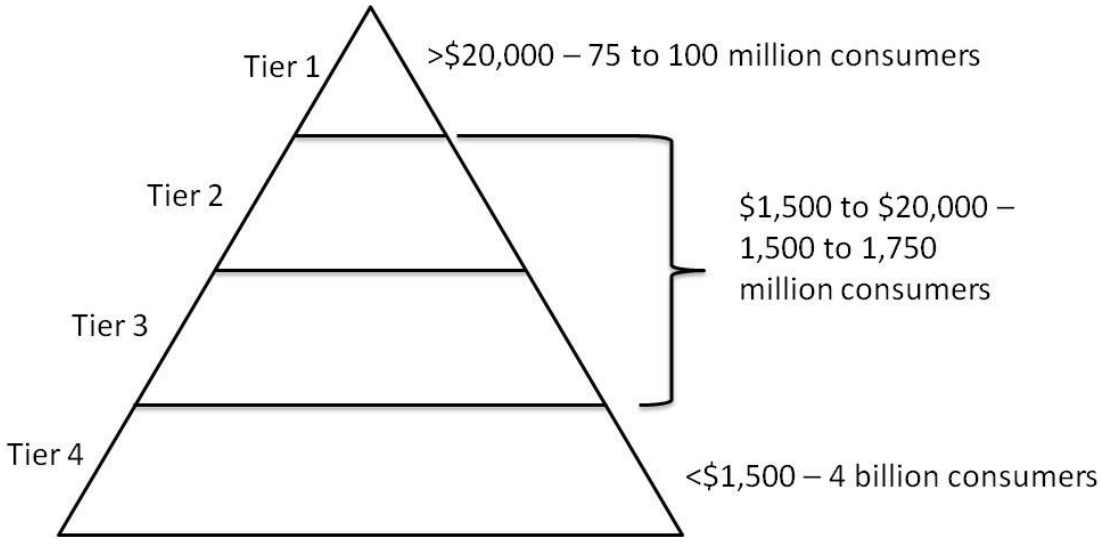


Figure 3 The fortune at the bottom of the pyramid (Prahalad, 2006)

Hamann, Woolman and Sprague (2008) expand on this BOP approach in Africa regarding the vast potential the continent has in terms of resources, these resources are not only raw materials but also in its population, and additionally the population results in a large customer base for any organisation present in this market.

South Africa is classified as a quasi industrialised country with a relatively good infrastructure in comparison to other emerging markets and has played host to many MNC in its past (Sumon Kumar and Gelb, 2005). The vast majority of literature done on entry mode for a MNC has been on MNC from a developed country entering other developed countries, typical examples of these are Argarwal and Ramaswani (1992); Caves and Mehra (1986); Hannart and Park (1993). There has been very little research done on a MNC entering an emerging market. The following sections discuss the factors and decisions a MNC is faced with when entering an emerging market.

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2.4.1 *Factors affecting entry mode in emerging markets*

The choice of entry mode is a critical one for a MNC, as some require large investment and a large amount of risk, while other entry modes lower the level of risk by reducing the amount invested in the new market. However there is a relationship between the amount invested in the new market and the return of that investment coupled with the growth the firm can achieve in that particular investment. Other points to consider are obtaining first mover advantages versus the trade off to pioneering costs (Hill, 2011).

There are six different entry modes for a MNC to enter a new market and according to Hill (2011) each with their own advantages and disadvantages.

- Exporting – This entry mode reduces the amount of investment required by eliminating manufacturing facilities in the new market and helps the MNC move down the experience curve quicker due to economies of scale. However the MNC is exposed to transport costs, tariffs and payment to agents for clearing the goods through customs.
- Turnkey Projects – Done by organisations that specialize in the design, construction and start up of turnkey plants. This is a way of exporting technology to other countries. However there are three major drawbacks: it does not allow for any long term investment in the country, by exporting the

propriety technology the organisation may create a new competitor and finally by selling this proprietary technology is selling the organisations competitive advantage.

- Licensing – whereby the licensor grants the rights to manufacture the goods to another entity and receives royalties for each unit sold. This allows for very low investment in the new market and limited exposure to risk. Unfortunately pursuing this route the licensor loses control over manufacturing and marketing of the goods and allows for technological knowledge transfer to the new entity.
- Franchising – this is very similar to licensing as the entry costs are lowered and risk shared between the two parties. As franchising is mainly used by service organisations the disadvantages are not similar to that of licensing. The only major disadvantage to franchising is quality control and damage to the MNC brand.
- Joint Ventures – This allows for the MNC to benefit from the local organisation knowledge pertaining to the market conditions, cultural differences and any language barriers that may exist and allows for sharing of costs lowering the risk of entering a new market. As with Licensing a risk of a joint venture is knowledge transfer from the MNC to its partner and additionally the MNC cannot coordinate attacks on competitors as it has very limited control of the partner and has to rely on their market knowledge to gain market share.
- Wholly owned subsidiaries – The MNC owns one hundred percent of the stock of the company. This can either be done via a Greenfield venture or the MNC can acquire an established company in the host nation. This is the correct entry mode when the MNC competitive advantages are based on technological competencies, it also allows for tight control over operations in different countries which is necessary for global strategic coordination. This is the most costly entry method as all costs have to be carried by the MNC, by acquiring an existing corporation overcomes the risk of learning to do business in a new culture.

With a Greenfield investment, market penetration is typically very slow as the MNC has to start everything new, an acquisition speeds the process up but as Meyer and Estrin (2001) highlight that the acquired company may require such deep restructuring to overcome a lack of fit to suit the new parent company that it almost resembles a Greenfield investment. This is very typical of a MNC acquiring a company in an emerging market and they have termed this hybrid type of entry mode a Brownfield investment.

In order to determine which entry mode to use, one must first understand the strategic intent of the MNC wishing to expand into other markets and the resources available in the MNC as well as in the new market. Meyer and Estrin (2001) state that three important resource factors must be considered when choosing an acquisition strategy:

- The sources of resources that the MNC has it its disposal, typically these resources are:
    - Knowledge based capabilities which can be redeployed in other markets without incurring any sunk costs for their development. Typical examples of these are technological knowhow and access to a global network of production and distribution channels.
    - A large pool of management resources that can be drawn upon to facilitate a smooth acquisition and management of the newly acquired company.
    - Financial resources available to the MNC, external investors may be reluctant to invest in a Greenfield operation where there are difficulties faced in evaluating and obtaining information for these markets. Acquisitions are far more attractive as the companies will have a proven track record.
- Resources of local firms may make the firms even more attractive to a MNC this is typically the case in an emerging market where resources are difficult to obtain.

- For a Greenfield investment a MNC will have to purchase a large number of assets in the form of property, business licenses, local workers and suppliers of raw materials required. In emerging markets there availability is unknown and uncertain.

Meyer and Estrin (2001) highlight the importance of strategic control of critical resources in oligopolistic markets and how foreign investors attempt to gain control of these resources. The strategic intent of these investors often determines the choice of entry mode. They may be attempting to gain access to existing markets, distribution networks or a brand. An MNC may attempt to build these markets or distribution networks by themselves with pursuing a greenfield investment but this is risky and very slow and the best route to follow to gain quick access to an existing market is through an acquisition of an existing organisation.

As Brownfield entry strategies reduce some of the transactions costs of entering a new market by increasing the MNC exposure to resources that could possibly not be available to a MNC pursuing a Greenfield investment, the disadvantage is the integration costs are very high due to the extensive restructuring that is required and the transfer of resources from the parent company (Meyer and Estrin, 2001). Brownfield acquisition is unique as the deep restructuring that is required of the acquired organisation is planned from the beginning and is implemented with the initial integration and strategy of the takeover (Meyer and Estrin, 2001)

Meyer and Estrin (2001) developed a two stage decision tree to assist MNC in determining which entry mode would be the best, this is illustrated below in figure 4.

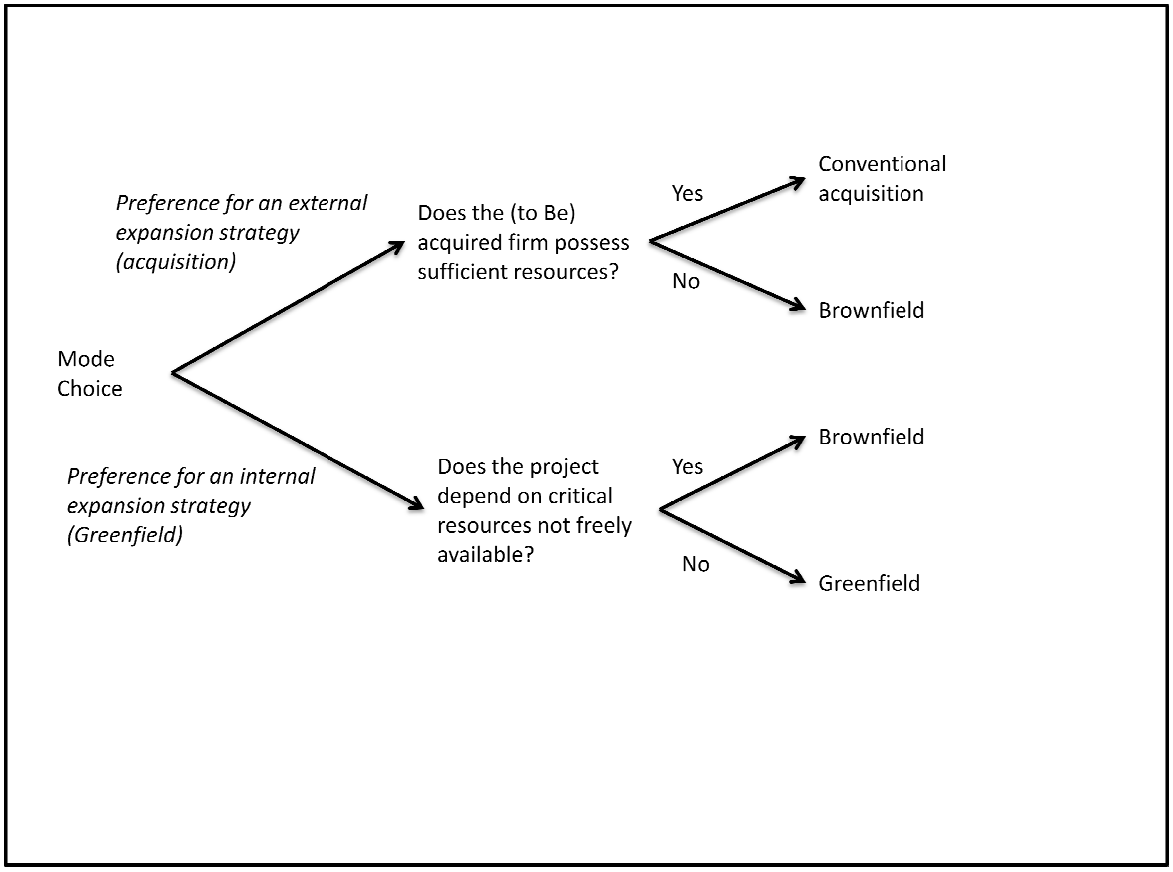


Figure 4: A model of entry choice (Meyer and Estrin, 2001)

Resources are a key determinant when choosing an entry mode and Meyer and Estrin (2001) indicate these resources can take the form of three specific forms for the investing organisation:

- Organisational specific resources such as technological knowhow, previous experience
- Excess managerial resources that can be redeployed in new ventures that can stimulate the growth of the organisation.
- Financial resources

But, the acquiring organisation resources must be examined as well, as these resources may be the reason the investor is willing to acquire the organisation. In

emerging markets there may be very few organisations with suitable resources to be acquired but competition is often very limited as the markets are typically not concentrated or saturated and this lowers the risk of retaliatory moves from the competition (Yip, 1982). Typically in an emerging market the communication network is poor and literacy level is low making it very difficult for companies to reach and communicate with the target market for their goods and further compounding the issue is law enforcement agencies are typically weak thus affording little protection to patents (Bhattacharyya and Rahman, 2003). As the product markets are not fully developed any MNC wishing to enter these markets will have to carry the cost of developing these markets while at the same time having to compete with a local company that has an existing market share and is known to the consumers. The local company faces an even further advantage in the form of scarce resources and the utilization of these scarce resources (Bhattacharyya and Rahman, 2003). However in emerging markets existing organisations already have business licences, supply chains in place, distribution networks and knowledge of the local operating conditions and this makes acquisition a far better prospect than a Greenfield investment for investors. A further advantage of a Brownfield project is drawing on resources from many different areas thus allowing projects to proceed that neither the local organisation nor the MNC could achieve by themselves

Meyer and Estrin (2001) state that there is a “critical asset” that drives the acquisition and results in many Brownfield projects, Brownfield entry modes are ideally suited to MNC that have core competences based on international resources and local firms that have specific resources suited to the local market.

2.4.1 *Research Question 2*

How does Wal-Marts chosen method of entry affect the strategy of the other four retailers?

2.5 The resource based view of the organisation

A question that is often raised is why do some organisations outperform others in the same market place with the same goods? Wilk and Fensterseifer (2003) explain that one of the possible explanations of this is to pay attention to the internal environment in the organisation, specifically looking for knowledge and other intangible strategic assets. These resources allow an organisation to gain a competitive advantage in the market place. A resource may be classified into three main categories (Barney, 1991):

- Physical resources, such as land and equipment, natural resources or raw materials
- Human resources, labourers, production staff, technical and managerial staff
- Organisational resources, systems or procedures that have been established over time based on the organisational history

Some resources are tangible and be measured and evaluated but other resources are intangible and have no means of measure or evaluation method, examples of these intangible resources are an organisations culture, reputation of the organisation. Resources and capabilities become strategic when they are rare inimitable, non substitutable or vague to competitors (Gatignon, Anderson and Helsen, 1989; Oliveria Wilk and Fensterseifer, 2003)

The resource based view of the organisation has attracted the works of many scholars, namely, Wernerfelt (1984), Rumelt (1991), Grant (1991), Barney (1991) amongst others. However there was a need for evaluating if a resource is strategic or not.

Margret Peteraf (1993) developed a model that help explain this situation by developing a model based on four cornerstones to explain an organisations competitive advantage. The four cornerstones are resource heterogeneity where an organisation can create ricardian or monopoly rents, ex post limits to competition that prevent rents earned from being destroyed by competition,

imperfect factor mobility ensuring valuable factors remain in the organisation and the rents are shared and, finally, ex ante limits to competition limits the costs from offsetting the rents (Peteraf, 1993). This model is depicted below in figure 5:

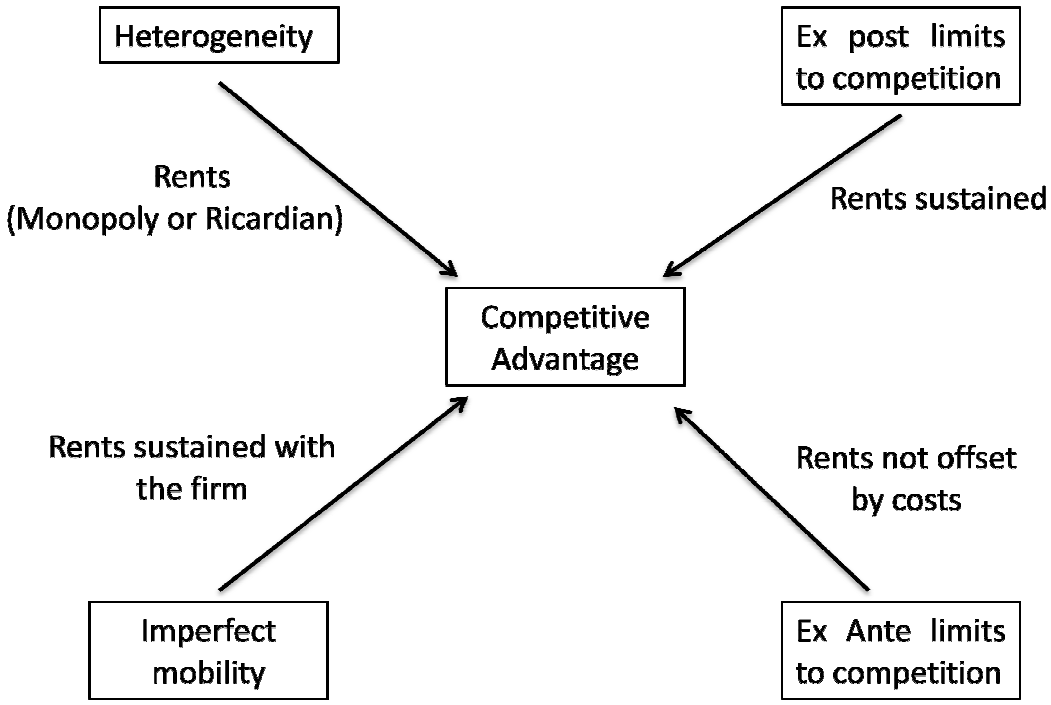


Figure 5: The cornerstones of competitive advantage (Peteraf, 1993)

2.5.1 *Heterogeneity*

According to Barney (1991) an assumption made for all resources and capabilities that form the basis for production are heterogeneous for all organisations that compete against each other. Some may be highly efficient while others may be inefficient, the organisations that are more efficient than others are able to produce goods at a cheaper rate and able to satisfy customers needs or wants in a superior way. The implication of heterogeneity is that differing organisations are able to compete in similar market spaces and at the worst case break even while other organisations may earn economical profits (Peteraf, 1993).

These type of organisations may indicate superior production factors which may be limited in supply, and as this supply cannot be increased easily these organisations cannot meet demand and so other less efficient organisations join the market to meet demand, what is key to note is that superior resources remain limited in supply and the efficient organisations that own these scarce resources can sustain their competitive advantage in the market place (Peteraf, 1993; Rumelt, 2003). If supply should outstrip demand the inefficient organisations would not be able to withstand a price decrease as these organisations do not have any scarce resources that will ensure their survival. If an organisation has a monopoly it will earn profits as a result of a restriction on output thus increasing demand and ultimately increasing price, not as a result of owning scarce resources. Ricardian rents are earned by the organisation that have superior resources over the competition and have lower production or average costs compared to their competition, an example of a resource that meets these criteria is valuable land, location, patents or copyrights.

2.5.2 *Ex post limits to competition*

In order to ensure sustained competitive advantage heterogeneity must be maintained or preserved, if heterogeneity is a fleeting phenomenon the economic rents will not be sustainable and will soon disappear. As strategists are primarily concerned with earning economic rents over a long term the heterogeneity must be durable to add value to the organisation. Before an organisation gains a superior position and earns economic rents there must be forces which limit competition for these rents, if these forces do not exist the increased competition will dissolve these rents and may increase the supply of scarce resources, Peteraf (1993) termed this phenomenon Ex post.

There are critical factors that limit Ex post competition, imperfect imitability and imperfect substitutability. Substitutes reduce rent by altering the demand curves for organisations and substitutes make the demand curves far more elastic. Rumelt (2003) developed a phrase he termed isolating mechanisms, these mechanisms protect the organisation from imitation and preserve their income or

rent earned thus ensuring imperfect imitability. Examples of these mechanisms are, but not limited to, producer learning's, buyer switching costs and economies of scale. Dierickx and Cool (1989) explored this area and took a different perspective on the imitability, they make mention that many areas in an organisation are unable to be reproduced or copied as these areas have a certain intangibility to them, the imitabilty of the asset depends on how that asset was derived or accumulated in the first place. These assets defy imitation as they have been built up over time and have a strong tacit dimension as well as being socially complex, these assets are made from the organisation's skill and corporate learning as the organisation has grown in the industry (Peteraf, 1993). As they are based on past experiences learnt from the organisations history imitators cannot mimic these attributes as there are difficulties in discovering how these changes were made and what brought these changes about.

2.5.3 *Imperfect Mobility*

If a resource cannot be traded or exchanged it is regarded as perfectly immobile, however some resources can be described as imperfectly mobile. Imperfectly mobile resources are tradable but are more valuable to the organisation that owns them than they would be to other organisations, these imperfectly mobile resources are specialized to that particular organisations requirements (Peteraf, 1993). As these resources cannot be sold they are bound to the organisation and are available for use in the long run, thus they can be a source of sustained competitive advantage and the opportunity cost of their use is far less than the value to the organisation, with the opportunity cost measured as the value the resource has to its next possible user that wishes to use the resource in exactly the same manner (Klein, Crawford and Alchian, 1978; Peteraf, 1993). Peteraf (1993) defines the difference between the value of the resource and this opportunity cost is in itself a form of rent for the organisation, this is termed quasi rents and are defined as the excess value of the asset over its salvage or its value in its next best use. These rents are shared between the owners of the resource producing the particular rent and the organisation employing them.

In order to ensure sustainable competitive advantage scarce resources must be imperfectly mobile and will remain available to the organisation, additionally these rents earned are shared by the organisation. The three factors mentioned, heterogeneity, ex post limits to competition and imperfect factor mobility combined are still not sufficient to ensure sustained competitive advantage.

2.5.4 *Ex ante limits to competition*

In order for an organisation to achieve a superior position relative to the other organisations there has to be limited competition for that particular space. If an organisation manages to achieve a certain position that allows them to gain superior advantage over the competitors there would be fierce competition as all the organisations attempt to achieve this position, this results in a situation where any expected returns are diminished to a point where the businesses are not viable. For an organisation to achieve a superior position it would need to have acquired that position in the absence of competition, other organisations would have seen the rent that the first organisation is achieving and that would attract them resulting in competition, the fundamental difference in this situation is the competition arrives at a later point not as in the example given above.

The rents earned from deploying a strategy must be offset by the costs associated with deploying those strategies as resources have been used in the process. As some organisations earn higher rents than others indicate there are imperfections in the market place and the deployment of certain organisations strategies. An ideal situation is when there is a difference between the ex post value of a venture and the ex ante cost of acquiring the resources to accomplish the venture (Peteraf, 1993), an example of ex ante resource is the good will of clients. It is very difficult to anticipate or measure the value of these resources, just as it is equally difficult to anticipate how effective organisations will be in accumulating these resources, demonstrates that there are limits to ex ante competition as well (Peteraf, 1993).

2.5.5 *Summary of the Peteraf model*

This model highlights the importance of each of the four cornerstones but also clearly indicates for an organisation to achieve a sustainable competitive advantage it requires each cornerstone to be met. The model demonstrates how each cornerstone is interlinked with the other cornerstones and the relationship formed to ensure competitive advantage for an organisation.

2.5.6 *The resource based view of the organisation and strategy*

Typically an organisation will select its strategy to earn rent based on the resources at its disposal and organisations that achieve this correctly have a strong competitive advantage (Mahoney and Pandian, 1992; Peteraf, 1993; Oliveria Wilk and Fensterseifer, 2003). Expanding on this Mahoney and Pandian (1992) state that an organisation with a distinct competence or superior organisational routines in one or more of the organisations value chain may enable the organisation to generate rents above the normal rents earned for that particular market.

Management plays a crucial role in ensuring these rents are sustained, this is done by placing the correct resources at the correct locations and ensuring the resources are used effectively. Wernerfelt (1984) expands on managements decisions on the resource allocation as the strategy is determined by the resources at the disposal of the organisation and these resources will in turn influence the direction of diversification the organisation will have.

These resources define the strategy of the organisation on many different levels as it is the resources available to the organisation that determine which markets the organisation can enter and the expected profits or rents earned from these markets (Wernerfelt, 1984). Typical key resource restraints according to Mahoney and Pandian (1992) are:

- Shortage of labour or physical inputs

- Shortage of finance
- Lack of suitable investment opportunities
- Lack of sufficient managerial capacity

From the above points it is clear that the growth of an organisation is limited in the long run by its internal resources and use of them. The final point mentioned, the lack of sufficient managerial capacity is a constraint that is a double edged sword. On the one side management is focused on running the organisation effectively at its current size but management has to look towards the future and possible expansion of the organisation with entering new markets or launching new products. This results in management being pushed to the limits and may require management taking on new recruits, however even though the addition of new management results in an increase in the growth potential of the organisation, new management hinders the existing management as they require training and integration into the culture of the organisation (Mahoney and Pandian, 1992).

A study done by Lemelin (1982) supports the theory mentioned that an organisations existing resources will drive the organisations diversification strategy. The study indicates that organisations that were involved in consumer convenience goods are most likely to diversify into other industries that fall into the same category and that this pattern is consistent with the theory that organisations attempt to transfer intangible capital among related activities. This was further backed up by other researchers where the finding was that organisations are most likely to enter industries that are related to their primary activities.

2.5.7 *Research Question 3*

What strategic resources will the four retailers use to their advantage with Wal-Marts imminent entrance to the South African retail market?

2.6 Conclusion of Literature Review

Strategy formulation under uncertainty is a very difficult decision management has to make, it is not always in the best interest of an organisation to wait for the uncertainty to disappear as the external environment the organisation operates in is changing constantly or could be changed dramatically with an announcement of a merger or acquisition in their market place. This forces the organisation to react and make a decision and this decision for a response will be made on limited information and will allocate critical resources to a new objective.

As all organisations have a finite amount of resources available to their disposal the correct allocation of these resources is vital to ensure the organisation can overcome a new competitor or changing external environment. The resources also in turn dictate where the organisation can operate and into which markets or products the organisation can expand into. Peteraf (1993) developed a model with four cornerstones to fully understand the resource based view of the organisation, with the four cornerstones being

- resource heterogeneity
- ex post limits to competition
- Imperfect factor mobility
- Ex ante limits to competition

The model demonstrates that each of these cornerstones must be met by an organisation to ensure competitive advantage and the linkages of each of the cornerstones with the other cornerstones.

With finite resources available to an organisation, the organisation must carefully choose which markets to enter and how to enter these markets to prevent focusing resources on unnecessary objectives. Entry mode is critical to the success of the organisation entering a new market and there are many options available to the organisations that have advantages and disadvantages. The market chosen to be entered must also be carefully selected as there must be

minimal competition, a large customer pool and demand for the products the organisation produces.

2.6.1 *Research Question 1:*

What strategy will the four retailers adopt with the emergence of Wal-Mart and the uncertainty surrounding the issue?

2.6.2 *Research Question 2:*

How does Wal-Marts chosen method of entry affect the strategy of the other four retailers?

2.6.3 *Research Question 3:*

What strategic resources will the four retailers use to their advantage with Wal-Marts imminent entrance to the South African retail market?

3 RESEARCH METHODOLOGY

Methods to measure intangible items such as the environment and resources at an organisations disposal are very difficult to implement as the majority of these measures are intangible. As the organisations strategy is dependent on these intangible items and it is the difficulty of measuring these systems that gives them strategic value. The same problem that is faced by competitors in trying to imitate these organisations are the same problems faced by researches attempting to gain information in these areas (Oliveria Wilk and Fensterseifer, 2003).

Feurer and Chaharbaghi (1995) explain that research into dynamic strategy formulation and implementation has become one of the main focus areas of industry and academia. This area of research encompasses a wide range of issues which include the study of competitive environments, values, goals, capabilities, structures and processes and finally potential courses of action that may result in a desired outcome (Feurer and Chaharbaghi, 1995).

Previous research done has focused mainly on a specific area of the organisation and has not looked at the organisation as a whole functional unit and the interrelationships that are formed between the various layers and departments in an organisation. The different business units in an organisation are subjected to different conditions and need to respond to these changing conditions. In order to overcome this problem a simultaneous consideration must be done for the organisation and the environment in which the organisation is operating in (Feurer and Chaharbaghi, 1995).

Feurer and Chaharbaghi (1995:18) further stress the need to take the dynamics of change into account in strategy formulation and state it as the following “in highly dynamic and uncertain environments there is no single method with which to conduct research” Different methods have different advantages and disadvantages. Feurer and Chaharbaghi (1995) explain under the following conditions qualitative research is most advantageous:

- Research that cannot be done experimentally for practical or ethical reasons;
- Research that delves into complexity and processes;
- Research for which relevant variables have yet to be identified;
- Research on unknown societies or innovative systems;
- Research on informal and unstructured linkages and processes in organisations;
- Research on real as opposed to stated organisational goals.

Researching strategy formulation and implementation will require the correct balance between a qualitative method and a quantitative method. In a highly dynamic environment a qualitative method is the best method while in a static type of environment a quantitative method is the best approach and best suited for testing and validating existing knowledge (Feurer and Chaharbaghi, 1995). This is best described by way of a model. This model is depicted in figure 6 below.

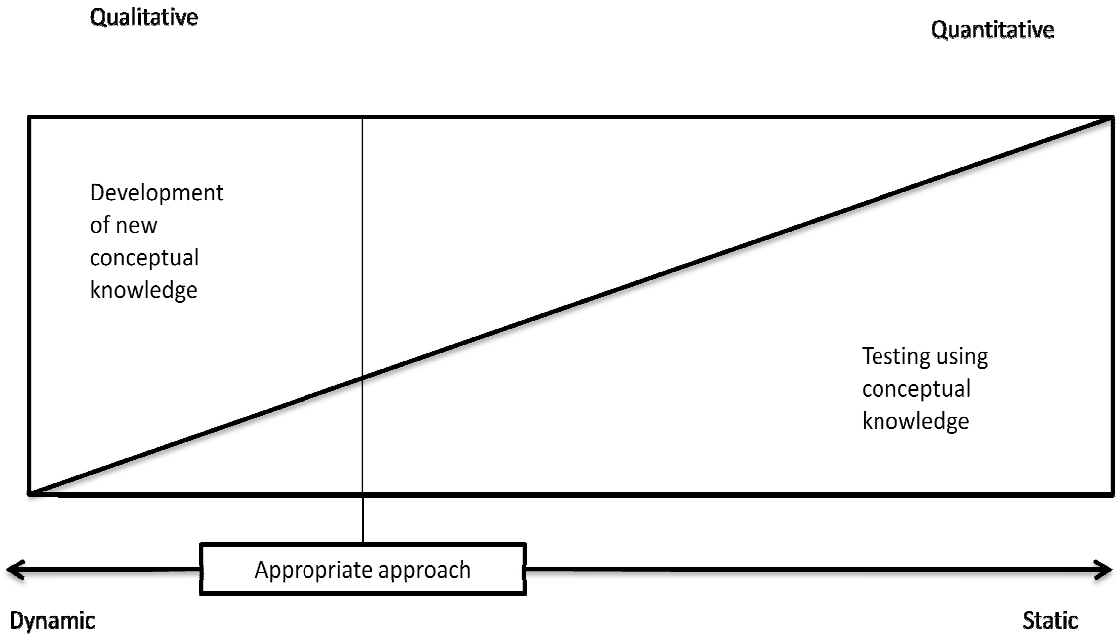


Figure 6: Contingent approach to research (Feurer and Chaharbaghi, 1995)

In order to overcome these shortcomings in researching dynamic environments Feurer and Chaharbaghi (1995) proposed the following framework:

- The research should focus on the elements of strategy formulation and implementation that yield high performance;
- The research should analyse strategy formulation and implementation in a holistic way to include strategic and operational issues;
- The framework developed should be able to incorporate current strategy knowledge;
- The research findings should be relevant to organisations operating in dynamic environments;
- The research should present a continuous learning process to accommodate emerging issues.

3.1 Research methodology / paradigm

Heyink and Tymstra (1993) explain the qualitative method of research aims to provide clarification, interpretation and finally explanation of a problem and it is ideally suited for analyzing processes whereas quantitative research is ideally suited to products.

Godfrey and Hill (1995) explained that the evidence of factors that could not be measured or correctly observed could be measured by the observation of their effects. They expand on this and state that qualitative methodologies and case studies prove to be the most valuable in this research area when attempting to record these intangible items.

Due to the dynamic state of the environment under review and the nature of the research problem stated a qualitative approach has been adopted. Eriksson and Kovalainen (2008:298) describe qualitative research as “not a fixed entity without history and context, but more like a living and transforming process”. This enforces the fact that qualitative research ideally suited to this particular research problem, additionally Eriksson and Kovalainen (2008) state that qualitative data has the following features:

- Ability to focus on events as they occur in their natural environment
- Allows for flexible collectability of data over a sustained period

- Is most ideally suited to gathering data in new fields

However Eriksson and Kovalainen (2008) also state qualitative research has the following disadvantages:

- Data gathering is very labour intensive
- The large amounts of data available in many different sources
- The time consuming process of sorting the data
- The difficulty in obtaining guidance when performing a qualitative analysis
- The questionable credibility of quality and conclusions

3.2 Research Design

The research design will be done by means of face to face interviews and this will be the primary method of data collection. This method is the preferred method of gathering data that is rational and relevant that can be used for interpretation (du Plooy, 2002; Eriksson and Kovalainen, 2008). Further information will then be gathered through literature and document reviews.

Silverman (2001) expanded on the types of interview studies and these interviews are dependent on the type of information the interviewer wishes to gather, the three type of interview studies are:

- Positivist
- Emotionalist
- Constructionist

With each of the above mentioned types focusing on a different type of interview questioning. Positivist interview research questions are interested in facts and contain more questions seeking information (Stake, 1995). Stake (1995) states that these type of interviews are ideally suited to study an organisational change and would consist of asking different participants the same questions concerning what events took place and what were the consequences. The emotionalist interview research approach targets not on information but rather on people's

perceptions, conceptions, understandings, viewpoints and emotions (Eriksson and Kovalainen, 2008). Finally the constructionist interview research approach is focused on how meanings are produced through the interaction that takes place between the interviewer and interviewee and the interviews are done as everyday normal conversations (Eriksson and Kovalainen, 2008). Holstein and Gubrium (2004) indicate that the best research work is done by combining the first two approaches, positivist and emotionalist, so that the interview research includes what and how questions. The type of interviews performed for this research will be a combination of positivist and emotionalist.

Eriksson and Kovalainen (2008) indicate that there are three different types of qualitative interviews that can be conducted:

- Structured and standardized
- Guided and semi structured interviews
- Unstructured, informal, open and narrative interviews

Typically interviews that are positivist are most often structured and standardized and in this form of interview the interviewer adheres to a pre-planned script and there is no room for flexibility in the wording or questions asked and these type of interviews are considered qualitative when the questions are open ended (Eriksson and Kovalainen, 2008).

Guided and semi structured interviews are best suited to answer what and how type questions and consist of a prepared outline of topics, issues or themes and this allows for wording and questioning to be varied with the tone of the interview being conversational and informal (Eriksson and Kovalainen, 2008)

Finally Unstructured, informal, open and narrative interviews are most useful for exploring a topic intensively and broadly from the participant's point of view and rely heavily on what the participant discusses (Eriksson and Kovalainen, 2008)

The interviewing technique used for this research will be the semi structured type of interview as the advantages of adopting this methodology allow for the interviewer to probe the interviewee and gain an enhanced understanding of the

issues discussed and gain a heightened insight into complex issues (du Plooy, 2002). Additionally open ended questions give in depth explanations and allows for a relationship to form between the interviewer and interviewee (Mcburney, 2001). This relationship that forms allows for the interviewer to gain a heighted understanding of the individuals behaviour in the organisation under investigation and allows for clarification on any point from either parties involved in the interview (Mcburney, 2001). As all candidates being interviewed are literate, literacy problems will not arise in the interviewing stage.

However Eriksson and Kovalainen (2008), Mcburney (2001) and du Plooy (2002) all mention numerous disadvantages to this type of approach, these disadvantages are:

- There are limitations posed on the sample size that can be interviewed;
- The interviews are very time consuming;
- All interview feedback needs to be transcribed and analysed and this is a time consuming and costly exercise ;
- The interviewer may influence the interviewee through the following points
    - if incorrect interviewing methods are used;
    - If leading questions are asked;
    - Personal perceptions from the interviewer are divulged.

3.3 Population and sample

3.3.1 *Population*

The population that will be used in this research will be the strategy departments of the four retailers mentioned, namely, Shoprite, Pick n Pay, Woolworths, Spar and two retail analysts. These departments have access to the information that is required to complete this research and this target population will then be refined to individuals in the strategy department that are willing to discuss the topic. These findings from the smaller group will then be generalised for the entire population (Mcburney, 2001)

3.3.2 *Sample and sampling method*

Each of the four giant retailers in South Africa has a strategy department and the function of this department is to formulate a strategy that ensures the survival of the organisation not only on the short term but long term as well. One can therefore assume that the entire strategy department is aware of the organisations strategy, what its purpose is and how it will achieve the particular strategy for that time period.

The sample used for this research will consist of one individual from the strategy department of each of the large retailers. This will ensure that the individual chosen for the interview has been exposed to the organisations strategy as this is vital to ensure the data obtained is correct and relevant (Mcburney, 2001).

Selected respondents as indicated in table 1 will be interviewed at an appropriate time that suits them, in an environment of their choice to ensure the participants are relaxed and comfortable and this will allow trust to develop between the interviewer and interviewee (du Plooy, 2002; Eriksson and Kovalainen, 2008)

Table 1: Profile of respondents (if appropriate)

Description of respondent type, eg Manager, Union representative, student	Number to be sampled
Shoprite strategist	1
Spar strategist	1
Woolworths strategist	1
Pick n Pay strategist	1
Retail analyst	2

3.4 The research instrument

The instrument chosen for this research is the semi structured interview with a questionnaire that avoids closed questions as much as possible. Denzin (1970) and Silverman (1985) highlight the merits of this approach:

- The respondent has the opportunity to highlight or raise any issues deemed important for the research;
- Misunderstandings about questions asked and answers given can be clarified right away;
- The flexibility of the interview situation offers the possibility to test out fresh hypotheses right away;
- The degree of response and involvement of the interviewee can be stimulated by building of a relationship between the two discussion parties based on confidence, security and the establishment of a mutual purpose;
- The interview is a wide band method: many themes can be explored at once.

In addition to the disadvantages already mentioned the interviewing technique has the following further disadvantages according to Heyink and Tymstra (1993):

- The interviewer must possess the ability to perform interviews and this may require costly training;
- The less standardized the interview the more difficult it is to obtain reliable data.

In order to ensure the interviewee will remain totally confidential a letter will be given to each participant guarantying the participant their confidentiality

3.5 Procedure for data collection

The interviews will be pre arranged and will be done in an environment that is suitable for the participant to not feel threatened in. This will ensure a level of trust is built up between the interviewer and interviewee and allow for open honest dialect. The interviews performed will be recorded by means of a voice recorder and hand written notes during the interview and after the interview. The use of the hand written notes will be to record body language and any gestures made. After the interview is complete the entire conversation will be transcribed.

3.6 Data analysis and interpretation

This is a critical phase of the research as the conclusions and recommendations made are based on the findings from the interviews. The method that will be adopted for the content analysis is the method Wilk and Fensterseifer (2003) used and is derived from Moraes (1993) and consists of three steps:

- Preparation of the information;
- Transformation of the general content into concepts;
- Classification of the identified concepts into categories.

In the first point utilizing the transcribed interviews the researcher must select and highlight the important issues raised during the interview. These issues will relate to the questions asked during the interview.

The second stage consists of transforming the general content into concepts, this will be done by two methods, firstly, breaking the text down into paragraphs that have a common theme and then secondly looking at each paragraph for the number of times identified words are repeated and this is counted and analysed (Mcburney, 2001) This will allow for identifying central ideas knowledge fragments and important events (Oliveria Wilk and Fensterseifer, 2003).

Finally the data is then grouped by categories that have similar themes and any data that is duplicated will be removed.

One of the primary strengths of the case study approach is its ability to use multiple sources of data, this data then in turn leads to converging items that begin to narrow the data down into a usable format, this format will allow for a convincing and accurate conclusion (Yin, 1994). As case studies are most suitable to obtain the answers to how and why questions and allows for the building and testing of theory, it is the most suited method for this research (Perry, 2001).

The converging data can be referred to as triangulation and according to Yin (1994) this is done by:

- Data sources (data triangulation)

- Different evaluators (investigator triangulation)
- Different perspectives on the same set of data (theory triangulation)
- Different methods (methodological triangulation)

Further data triangulation is able to improve construct validity as the research problem is addressed from multiple sources of data (Yin, 1994).

Should it be necessary the researcher will provide further verifications through the use of alternative sources of data and if required further engagement with the participants (Mcburney, 2001; Eriksson and Kovalainen, 2008)

3.7 Limitations of the study

- Only six interviews will be performed as there are only four large retailers and each interviewee will come from the strategy department ensuring accurate data is obtained, two additional interviews will be conducted from retail analysts.
- Qualitative Methodology is both time consuming and costly for the researcher (Mcburney, 2001)
- As the interviews conducted will be dependent on the participant's availability it may result in a postponement of the interview resulting in delays in the research completion.
- The researcher's own perceptions an input may interfere with the questioning
- The participants answers may be deceptive and not give a clear answer to the question posed

3.8 Validity and reliability

As most research is designed to allow the researcher to draw conclusions about the cause and effect relationships among variables, with the ultimate goal is being able to develop a theory that explains the relationships found in variables

(Mcburney, 2001; du Plooy, 2002). Validity is ensuring the researcher's conclusion is correct and a true reflection of the facts obtained.

3.8.1 *External validity*

External validity is concerned with the replication of the results and if the results can be generalized to another situation (Mcburney, 2001). As the participants represent the strategy departments for the organisation under review it is safe to assume the participant's viewpoint will be those of the strategy departments and ultimately those of the organisations. As the research will be conducted at a certain point in time it will be specific to the time period under review, these organisations are operating in a constantly changing environment and this may affect the results if they were to be performed at another time or time period.

3.8.2 *Internal validity*

Internal validity is concerned with the logic of the relationship between the variables (Mcburney, 2001; du Plooy, 2002). According to Mcburney (2001) the internal validity may be affected by events taking place in the outside world and with these organisations operating in a dynamic external environment this poses to a threat to the internal validity. To overcome this threat the interviews will be conducted as close as possible to ensure an accurate picture of the events is given and will not be distorted by external influences that may change from one week to the next, additionally this will overcome the maturation problem associated with internal validity.

3.8.3 *Reliability*

Mcburney (2001) describes reliability as a consistency that will give the same results if the measurements were taken on different occasions. The reliability of this research will be maximised for this research by ensuring errors are reduced to a minimum and to overcome the changing external environment the time and date

of the interviews conducted will be recorded thus allowing the researcher to refer back to that particular time period.

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4 PRESENTATION OF RESULTS

4.1 Introduction

Chapter four outlines the themes obtained during the interviews conducted. A total of six in depth interviews were conducted, these six interviews consisted of four interviews with senior employees from the various organisations. These employees are responsible for strategy and make strategic decisions for their organisations in Africa. The remaining two interviews were done with retail analysts that were consulted for a broader opinion of the current situation.

4.2 Responses to interview questions

The responses to the questions have been set out in a manner highlighting the major themes relating to the set of questions. A summarized version of the interviews conducted can be found in appendix A.

4.3 Reaction time of the organisations

The response time of the organisations was immediate, as soon as the respective organisations become aware that Wal-Mart was going to be entering the local retail market via an acquisition they chose to react. Each of the respective organisations were approached by Wal-Mart in a certain sequence, this sequence clearly indicated the local retailers Wal-Mart wished to acquire. Once the respective retailers were still under discussion with Wal-Mart over a possible acquisition they began to react as these organisations were quite aware that Wal-Mart would engage with other local competitors until one of the local retailers would agree to the acquisition.

The organisations interviewed all clearly highlighted the fact that they all already had a focused type of strategy that was currently being implemented. However based on the chosen entry method of Wal-Mart all the local retailers chose to focus their strategy even further than what was initially planned and budgeted for.

All the retail organisations clearly highlighted the strain this had placed on each of their respective organisations on many different fronts, these fronts were financial, acquiring human capital, and the actual stress and strain introduced from fast tracking in these areas.

As the chosen reaction was a focused type of reaction, the chosen area of focus was established by the local retailers by evaluating their strengths and weaknesses compared to those of Wal-Marts. A weakness that was identified and became an immediate area of focus and that was identified across all the local retailers revolved around distribution and the factors involved in supply chain management. A second focus area was the ERP packagers utilized in the organisations. These two critical areas were identified as known strengths in Wal-Mart. The local retailers made mention that that these were known weaknesses and were to be addressed in the medium term (three to five years), but with the imminent arrival of a new competitor they chose to address these areas immediately. It was quite apparent that a S.W.O.T. analysis was performed by the local retailers and one retailer in particular highlighted opportunities Wal-Mart presented that could very easily be overlooked, these opportunities would provide the retailer with new business in other markets the retailer was currently not active in. This is a case of capitalizing on local untapped markets while the competitors in these markets were focused on Wal-Mart.

A wait and see type of approach was never considered by the local retailers as all the local retailers made mention of how competitive the local retail market is and that even under normal circumstances without the emergence of a new competitor a wait and see approach would never have been adopted.

The flexible approach which involves spreading your resources over a number of scenarios was also never considered as each of the respective retailers wanted to be the market leader and would never want to adopt a follower approach.

4.4 Resources

The resources chosen to deploy the focus strategy were chosen based on the area of focus. As mentioned all the local retailers made mention of weaknesses in their distribution, supply chain and ERP packages. Some of these areas were originally outsourced by the retail organisations and the retail organisations lacked the required skill set to address these areas. To compound the issue even further it was clearly highlighted that the organisations wished to bring these key areas back in-house. To achieve this objective it would require a large investment in human capital. Due to the nature of the strategy these retailers adopted, these competencies were outsourced and as a result the organisations lack the required skill set internally to effectively manage these areas. As the pool of human resources with the required skill set is very limited in the current economic climate of South Africa there would be tremendous advantages for the first mover. This provided a further incentive for the local retailers to react immediately.

Three of the retailers began to acquire the resources to open up their own distribution centres and vehicles to service these distribution centres. This entailed a large capital outlay that was not planned for in the short term. This placed these retailers under tremendous financial strain and the respondents highlighted the impact this strategy of reacting immediately had on the organisation. The financial impact was brought about by the investment in fixed assets and on the human capital side as the workforce increased exponentially to effectively implement the new strategy. The vast majority of the human capital was sourced externally and increased the staff compliment.

Another key area of focus were the suppliers of the retailers, this will be discussed further in 4.6. Key suppliers were identified and the impact on the local retailers should these suppliers begin supplying Wal-Mart and remove their brand from their original retail organisation they supplied. South Africans are known to be very brand conscious.

4.5 Wal-Marts chosen entry method

The chosen entry method of Wal-Mart was acquisition, adopting this chosen entry method allowed Wal-Mart to overcome barriers to entry in the local retail market. This chosen entry method had a large influence on the chosen reaction of the local retailers as already mentioned in section 4.3.

The chosen retailer, Massmart had an existing infrastructure in South Africa, but more importantly was the footprint in Africa. The local retailers clearly indicated that they have reacted to the entrance of Wal-Mart locally but the biggest threat Wal-Mart offered was in the rest of Africa. The local retailers were confident that South Africans would stay with the local retail brands they knew and would remain loyal to them. However the local retailers that have expanded into Africa were highlighted as a high risk. The primary reason stated was due to low brand awareness, poor infrastructure relating to distribution and servicing these stores in Africa and finally loyalty on the African continent. As most of the local retailers are still expanding into Africa they have had little time to establish themselves and build a relationship with customers and suppliers. The infrastructure is not fully developed and was a weakness. This was where Wal-Mart was seen to be the biggest threat. It was clearly indicated that some of the local residents in other countries in Africa would have no preference in brands and this would allow Wal-Mart to gain market share and prosper.

Wal-Marts keen interest in acquiring a local retailer with an African footprint was to gain access to the vast population on the continent and the potential business to be made from the masses.

4.6 Suppliers to the local retailers

One of the largest areas that were changed immediately from the focused strategy was on the supplier front. Traditionally the local retailers had a reputation of treating their suppliers poorly. As the retail organisations are so dependent on their suppliers for their goods and a new entrant in the market place that had international experience had emerged, this altered the supplier power. This was clearly evident in the responses received that the original oligopoly that had existed between the local retail organisations was broken.

It was quite clear that on the local front with a new competitor in the market place that would offer improved payment terms, economies of scale on the purchasing front and improved interactions would result in suppliers switching to Wal-Mart.

All the local retail organisations responded in various formats. The responses varied from drawing up and signing of sole supply contracts to a large undertaking of restructuring an organisation to make the dealings with this particular organisation simpler for the suppliers. Many of the suppliers to the retail organisations had previously supplied goods to the retailers under a gentleman's type of agreement without any form of documentation and this was identified as a threat that the local retailers wished to eliminate as quickly as possible. The retail organisations that chose to restructure their organisation allowed them to react in a far quicker manner to their suppliers and their customer demands thus allowing them to reduce their stock holding.

Overall the reaction to Wal-Marts entry on the supplier front was almost immediate and this clearly indicated what a new entrant with a different operating strategy can do to the environment organisations operate in. Supplier power had increased and the local retailers acknowledged this and reacted to the changes in the external environment.

4.7 Changes done to infrastructure

The largest changes brought about in the local retailers infrastructure revolved around their supply chain management, ERP packages and supplier management.

As the retailers had outsourced the distribution of the various goods to the stores and this item had been identified as a weakness in the respective organisations and part of the focus strategy was to bring this competency back in-house. This required large changes to the infrastructure to deal with what was now a core competency and an area for development. An entire division had to be established to effectively implement this new strategy. Additionally as already mentioned in the resource discussion this entailed gearing up on the human capital side.

The method that the retailers dealt with the suppliers traditionally was very cumbersome and ineffective. Where the retailers had a procurement department in each province or country and the suppliers that were not national were forced to travel to each of the respective retailer's procurement department in each of the provinces or countries. The entire structure was changed and the procurement departments were localised and empowered to procure for the entire group. This allowed for quick and easy negotiations to take place, accurate quantities purchased and improved stock holding and forecasting. This was a large change in the retailer's organisational structure.

The final area that was outsourced was the ERP packages that the retailers utilised as this was identified as a core competency that had to be brought back in-house. The ERP packages were being upgraded, further development done to customise the package to suit the relevant retailers requirements and this would be done by the respective retailers information technology department. By doing these developments in-house would prevent the designs and modifications from possibly being shared with other organisations thus removing the competitive advantage gained.

4.8 South African retail market

All the local retailers made mention of how fiercely competitive the South African retail market is. This was a further contributing factor of choosing to react immediately, as each of the retailers wished to be a market leader and not a follower. Additionally as the new entrant had altered the five forces in the retail industry, the retailers indicated that anybody that chose to ignore these changes would not survive in the longer term.

A recurring theme that came across very strongly in all the interviews performed was how brand consciousness South Africans are, the local retailers were confident that this would assist them in combating a global retail giant , however this same strength could work against them and they the local retailers were quite aware of this. The area that it would work against them is on the supplier front as discussed in 4.6.

5 INTERPRETATION OF THE RESULTS

5.1 Introduction

The interpretation of the results of this research is based on the findings in the interviews and how these results compare to the literature review. Each question will be explored separately and in detail.

5.2 Wal-Marts entry strategy

The responses were very similar and it is quite evident that Wal-Mart adopted a specific strategy on the sequence of the retailers approached.

The South African retail market share is largely held by two retailers, namely Pick n Pay and Shoprite. Figure seven below clearly indicates the market share at the time each of the retail organisations were approached by Wal-Mart. From the interviews conducted the two largest retailers were approach simultaneously with the third retailer approached slightly later. Further criteria that was used in Wal-Mart's selection was the size of the retail organisations African footprint.

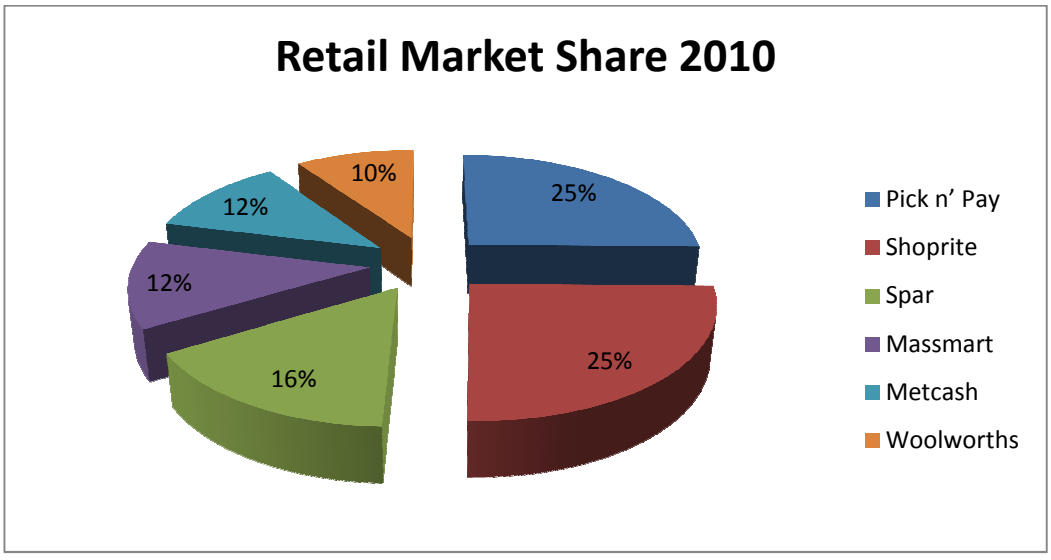


Figure 7: Retail Market share 2010 (www.FastMoving, 2010)

The answers provided to this question inadvertently revealed Wal-Mart's preference on the retailers that operate in South Africa / Africa. Further to this information provided it revealed how soon after the organisations were approached they began to react. This is explored in further detail in section 5.3.

5.3 The reaction time

The responses were identical and all the retailers chose to react. The reaction time varied based on when each of the respective retailers were approached by Wal-Mart. It became evident that the retailers knew that they were not the only local retailer being approached. This removed some of the uncertainty and allowed the organisations to react.

However the reaction would have to be chosen carefully, as it would entail a change in many aspects of the organisations, typical examples of these would be: assigning of critical resources, possible capital outlay that was not budgeted for and shedding of assets that were not allowed for.

The responses fit in with the model that Wernerfelt and Karnani (1987) presented and highlighted in figure 2. All the retail organisations chose to react, even though not all of the uncertainty had been removed. The retailers were not sure if Wal-Mart would be successful in entering the South African market, if Wal-Mart was successful, who would Wal-Mart acquire and how would this influence their business. The four points of uncertainty in Wernerfelt and Karnani's (1987) model arise from demand structure, supply structure, competitors and externalities.

The demand structure was known for all of the retailers as market size was known, demand for goods was known. It is apparent that there was relatively little uncertainty on the demand structure side of the model.

The largest degree of uncertainty for the local retailers arose from supply structure. It is quite clear that distribution and technology were burning platforms that the local retailers were aware of, but were slow to react to. A further point that

would be an issue for the local retailers is their suppliers. Traditionally the local retailers have treated their suppliers very poorly on many different fronts and these suppliers were critical to the survival of the retailers. As the retailers knew that Wal-Mart would be entering the market place they all chose to address these burning platforms immediately. By choosing to react immediately the local retailers attempted to obtain a first mover advantage, these advantages would have come about in obtaining the required resources before any of the other retailers managed to obtain them. These resources would have been primarily human capital. Secondly by reacting immediately the local retail organisations would try to influence or change the industry to suit their needs. Finally by reacting immediately the local retailers would try and prevent their suppliers from leaving their current retail organisation and supplying Wal-Mart.

The local retailers clearly highlighted that the South African retail market is fiercely competitive and by reacting sooner rather than waiting for the uncertainty to disappear would yield significant benefits for them.

Finally Wernerfelt and Karnani (1987) highlight the importance of a focus type of strategy versus a flexible approach. As each of the retailers would want to achieve a dominant position in the market place, a flexible approach would not allow them to achieve this goal. Wernerfelt and Karnani (1987) state that with a focus type of strategy, the focus should be on where the strengths of the organisation lie, provided all scenarios look equally attractive and have the same possible outcome. The local retailers chose to adopt a focus strategy but their focus was on problem areas in their organisations that they knew existed but chose not to react to them immediately, or the reaction was planned for the future. This relates to the work done by Mintzberg (1978).

5.4 Focused approach

Based on the retail market sectors characteristics it is evident and as already mentioned the local retailers adopted a focused approach to assigning their resources.

According to the model Peteraf (1993) developed the first cornerstone to achieving a competitive advantage is Heterogeneity. This assumes that all resources and capabilities that form the basis for production are heterogeneous for all organisations competing in the same market place. However as some organisations are able to generate profits while others battle to break even indicate that these organisations have superior production factors. These factors are obtained by owning scarce resources, the local retailers wanted to obtain these scarce resources before any of the other local retailers could obtain them, thus ensuring their sustained competitive advantage and profitability, this corresponds to the theory presented by Barney (1991).

In order for an organisation to survive, it is critical that the organisation generates a profit. Some organisations are able to generate economical profits while other organisations in the same market place battle to break even. This forms the basis of Heterogeneity of similar firms competing in the same market place (Barney, 1991). In order to achieve economical profits over the other competing organisations a key differentiator must be used, this differentiator is the allocation or obtaining of scarce resources. According to Peteraf (1993) ricardian rents are earned by organisations that have superior resources over the competition. By adopting an immediate reaction the local retailers would be in a position to capitalize on scare resources before their competitors have a chance to obtain them and thus ensure their organisations survival and ability to earn ricardian rents.

By focusing their resources on key items the local retailers will be able to address a number of areas of concern in their organisation. It is quite apparent that the

local retailers were aware of these areas of concern but the possible emergence of Wal-Mart in the South African market place forced them to react in a far quicker manner. In order to address these areas additional resources will be required to ensure the survival of the organisations and hence the decision to react now as there will be a limited number of these scarce resources available for all the local retailers to use. As there are not enough of these resources available the first mover advantage will pay large dividends for the retailers that react. This proves the theory presented in the literate review as correct (Wernerfelt and Karnani, 1987; Barney, 1991; Peteraf, 1993).

5.5 Wal-Marts chosen entry method

Wal-Marts chosen entry strategy was a brown field entry and this allowed Wal-Mart to overcome one of Porters Five forces, Barriers to entry. None of the other options available to Wal-Mart that are highlighted in the literature review would provide Wal-Mart with the required operating platform to function at the correct level and challenge the local retailers.

Additionally as resources are not readily available in South Africa particularly in the oligopolistic retail market arena and gaining control of these resources is critical for any new organisations wishing to compete in this market space, this highlights the importance of the theory Meyer and Estrin (2001) provided in the literate review.

The chosen organisation, namely Massmart, already had the required resources to operate effectively and Wal-Mart had the financial and human resources to successfully implement a brown field's entry strategy. More importantly is the African footprint that Massmart already had. From the interviews it is very evident that the local retailers do not see Wal-Mart as too much of a threat locally, but Wal-Mart is seen as a very large threat in the African continent for those retailers operating in the rest of Africa. The primary reason for Wal-Mart wanting to gain access to Africa is the vast untapped market it offers and this correlates to the literature review, in particular the references to Hamann, Woolman and Sprague

(2008). Additionally looking at the food market share in South Africa for 2010 it portrays a very different picture. This information can be interpolated for the rest of the African continent as the vast majority of the informal sector is serviced via spaza shops, refer to figure 8 below.

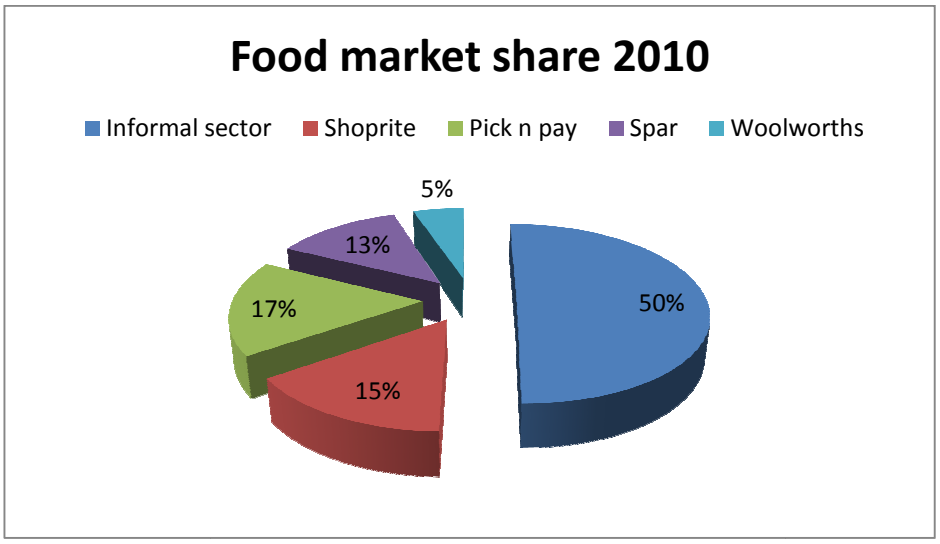


Figure 8: Food market share (www.Fin24, 2010)

These spaza shops purchase their goods from the large retailers and in turn pass it onto the country's population with an increase in price. This sectors success is due to the location of the spaza shops, willing to grant their clients credit and ease of communication with their clients and this is the market share in Africa Wal-Mart wants to obtain.

Based on the chosen entry method and the retail organisation Wal-Mart acquired, not to mention the resources Wal-Mart has at its disposal locally and internationally the local retailers were forced to accelerate their strategy and deviate from some of the original strategy the organisations wished to deploy. From the interviews conducted it is very evident that all the retail organisations knew of the weaknesses in their respective organisations and were in the process of rectifying these, but these plans and actions were medium to longer term goals – five to ten years from some of the organisations. However with the imminent approach of Wal-Mart these plans were changed from medium to long term to short term, some of the required changes had severe consequences on the

financial front of the organisations as funds had to be made available immediately in order to execute. This once again confirms the theory in the literature review provided by Wernerfelt and Karnani (1987).

5.6 Suppliers

All of the respondents indicated that they have changed the manner they deal with their suppliers, traditionally local retails' treated their suppliers poorly on all fronts. But with Wal-Marts chosen entry method and the threat the provided to local retailers, the local retailers were forced to react to this. This clearly indicates how Wal-Mart has affected another one of Porters five forces, namely supplier power. Supplier power has increased dramatically, with a new player on the field that was looking at favourable treatment for their suppliers and possible vertical integration the local retailers changed the dealings with their suppliers on all fronts.

The changes brought about by the local retailers varied from restructuring the procurement department to allow for easy effective communication through to improved payment terms and signing of supply contracts. These contracts allowed the suppliers to have input into their supply to the retail organisations as negotiations took place around these contracts. All of these factors highlight how the supplier's power has increased.

This increase in supplier power translates into the work done by scholars (Dierickx and Cool, 1989; Peteraf, 1993; Rumelt, 2003) and how these critical factors affect Ex post limits to competition. The work done indicates that imitability of an asset depends on how that asset was derived or accumulated in the first place and how these assets have been built up over time. These assets in this particular circumstance are the key suppliers to the local retailers as without these suppliers customers would look elsewhere for the goods they wish to obtain. The local retailers cannot afford to lose these assets and hence have reacted to the threat. Further to this the local retailers are attempting to make their suppliers achieve imperfect mobility (Klein et al., 1978; Peteraf, 1993)

5.7 Changes to Infrastructure

As organisations tend to adopt a strategy based on the resources it has at its disposal it stands to reason that the emergence of Wal-Mart will require changes. These changes will be brought about by management as they are required to ensure the organisation is sustainable and is profitable for the shareholders (Wernerfelt, 1984; Mahoney and Pandian, 1992; Oliveria Wilk and Fensterseifer, 2003).

As some of the changes required immediate action and the resources were either in limited supply within the organisation and could not implement the change effectively or were lacking in their entirety, management of the local retailers were forced to obtain additional resources. These new resources will bring in different skill sets and knowledge thus enhancing the value-add of the organisation, some of the knowledge will bring about changes in infrastructure. The local retailers changed their infrastructure by bringing the following items in-house. Firstly all the retailers made mention of bringing distribution back into the organisation, many of the organisations had outsourced this vital aspect of retailing, but it is a known fact how powerful and effective Wal-Mart's distribution is, and in order to overcome this a change in their infrastructure was required. The second item highlighted was their respective ERP packages, this was a package bought by the retailers but serviced and maintained by external subcontractors, to bring this in-house required large changes to their infrastructure. One retailer in particular highlighted that they will enter into new markets that they were previously not competing in while the other retailers were focused on Wal-Mart's entry, these markets were being serviced by another local retailer, but due to the focus on Wal-Mart the retailer saw an opportunity to grow their local market share and brand awareness, to effect this strategy requires massive changes in the respective retailer's infrastructure. All these points highlight the importance of Ex ante limits to competition as explained in the literature review (Peteraf, 1993).

5.8 Resourcing

The third stage of the decision tree Wernerfelt and Karnani (1987) proposed involved two factors, these factors were the relative strength in relation to expected reactions from your competitors and expected profitability from the focus strategy.

The local retailers looked at the relative strengths of Wal-Mart that are well known, these are stock control and management of stock. This is achieved through the use of advanced information technology, state of the art logistics, economies of scale in purchasing and its people. After analyzing these strengths the local retailers then looked internally at their organisations and chose critical key areas that will ensure they can ensure their continued market share and keeping customers happy, this will then ensure the organisations remain profitable. This will be critical to ensure the continued profitability of the retail stores beyond the borders of South Africa, as one respondent made mention that in South Africa the local brands are well known and the retailers can rely on that to maintain their market share as Wal-Mart is a relatively unknown brand locally, the only exposure South Africans have received is from media. However in Africa this is a very different scenario as none of the brands are well known and based on Wal-Marts strength they will provide a real threat in these markets.

A particular area of focus for all the retailers was on the human capital side where all of the respondents highlighted the importance of having the correct staff in the correct positions. This highlights another area that could become a new focus for the local retailers as they address the recruiting problem and that is the human resources department. In order to recruit the correct candidates that have the correct expertise and knowledge will require a great amount of skill and experience and inadvertently this may force the local retailers to upgrade their human resources department.

The responses once again confirm the local retailers chose to react immediately with a focus strategy that was developed based on the new entrant's strengths.

5.9 Further mergers or acquisitions in the retail market

As the vast majority of the responses indicated a decision to react based on the information that Wal-Mart was entering the African markets this probes the area of how far into the future are the local retailers planning and how sure are they of being able to compete with an international retail organisation that serves customers more than 200 million times per week in more than 9029 retail stores under 60 different banners in 15 countries with a turnover of $405billion (www.walmart.com).

All the respondents highlighted the fact that one of the largest local retailers was having discussion with another large international retailer. Ironically this particular retailer had the most to say about the subject and denied that any discussion have taken place. However it will be interesting to observe this particular retailer to establish if their strategy is actually one of reacting with a focus type of strategy and this strategy is to set themselves up for an acquisition.

Another one of the large retailers made mention that this was a strategy that was investigated a few years back, however it was abandoned and no reasons were given to indicate why the strategy was not pursued.

5.10 Barriers to entry

All the respondents clearly highlighted that Wal-Marts chosen entry method has affected their business. It has altered the existing oligopoly that was present in the local retailing environment and changed the five forces that were present. These changes have forced a reaction from the four retailers interviewed and the two analysts clearly indicated that it has had an impact for all the retail organisations present in South Africa, regardless of having an international footprint.

With Wal-Mart choosing a Brownfield entry strategy it allowed the organisation to leverage of their existing strengths of technological knowhow in the sense of ERP packages, distribution and warehousing, managerial expertise that could be redeployed in Africa and finally able to draw on their existing financial resources. In addition to these existing resources Wal-Mart could tap into the existing resources Massmart already had, these resources come in the form of local knowledge, such as market conditions, customers preferences and country specific intellect. This combination is a powerful force and this force would not have been as powerful had Wal-Mart chosen a Greenfield entry strategy. Pursuing this strategy allowed Wal-Mart to overcome the majority of the pitfalls highlighted in the literature review by Bhattacharyya and Rahman (2003).

Finally this highlighted the expected focus area for Wal-Mart being Africa and the retailers are expecting a large impact on the African continent. For the retailers operation outside of the African borders this will be a key focus area to ensure sustainability of these stores.

6 DISCUSSION AND CONCLUSION

6.1 Summary

The key results of the research will be presented by means of a discussion of the findings relevant to the three research questions.

6.2 Relevant Findings

6.2.1 *Research question one: What strategy will the four retailers adopt with the emergence of Wal-Mart and the uncertainty surrounding the issue?*

It is quite apparent from the responses that all four of the major retailers investigated chose to react immediately. The reaction time varied based on the time the respective retailers were approach by Wal-Mart, as Wal-Mart investigated which of the local retailers were willing to enter into negotiations regarding an acquisition.

As soon as the negotiations begun and the relevant retailers were not interested in pursuing the option of Wal-Mart acquiring them, they began to react. There was no point raised about waiting for the uncertainty to disappear as the reaction begun when discussions were under way regarding the acquisition.

Once the decision was made to react, all four of the retailers chose to adopt a focus strategy. None of the retailers wish to adopt the flexible approach as the South African market space is already seen as so competitive. The downfall of the flexible approach would result in becoming a market follower instead of a market leader thus it was not a desired outcome for any of the retailers.

The relative strengths of Wal-Mart were then taken into consideration and the local retailers then began to address their weakness to ensure they could meet

Wal-Mart in a head on battle. The two keys areas that the local retailers addressed were on the ERP side and distribution. These two key focus areas were addressed on a international scale to ensure that not only locally but on the rest of the African continent, the retail organisations would continue to survive. The approach taken is reflected below in figure nine, which is based on the decision model by Wernerfelt and Karnani (1987)

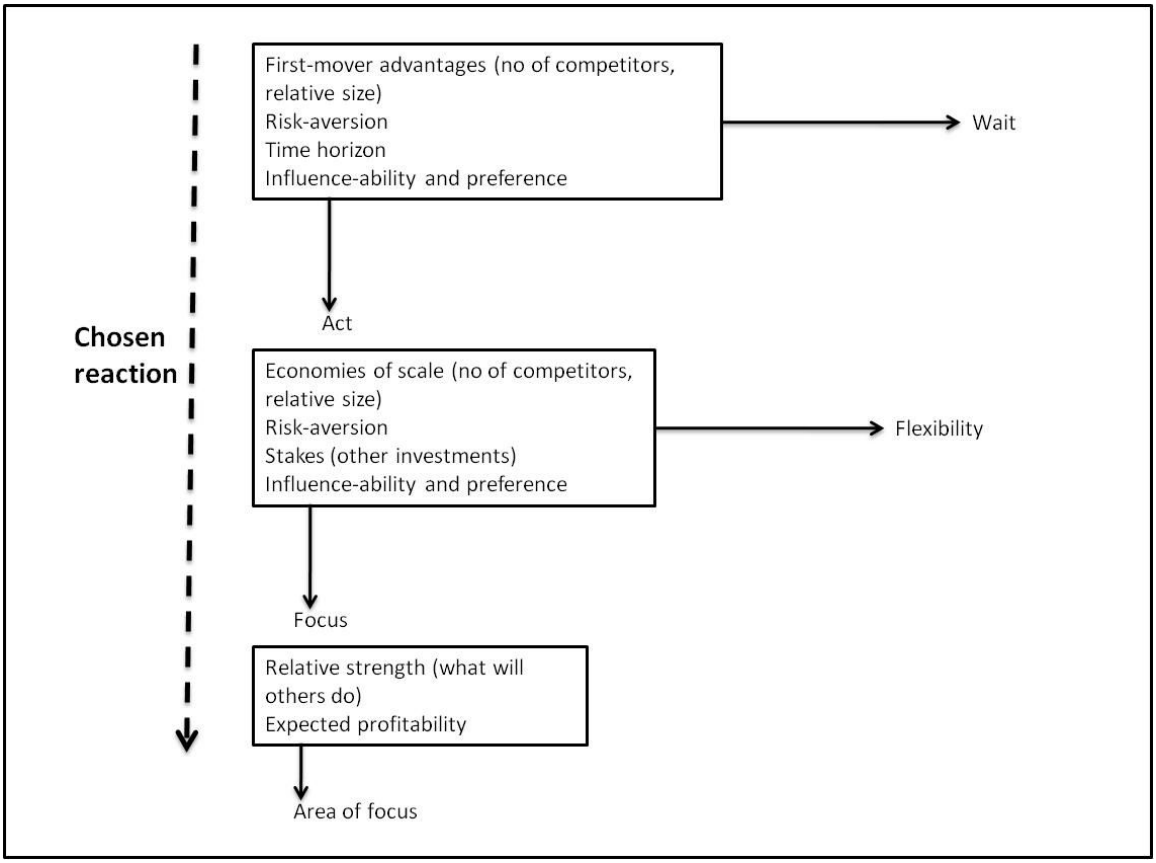


Figure 9 Decision model used by the local retailers (Wernerfelt and Karnani, 1987)

6.2.2 *Research question two: How does Wal-Marts chosen method of entry affect the strategy of the other four retailers?*

Wal-Marts chosen entry method allowed them to overcome the barriers of entry and thus altered the five forces at work in the retail arena. Two forces were significantly impacted on, namely barriers to entry that were overcome and supplier power. As suppliers no had the option to supply their goods to an international retail organisation that offered them improved trading terms.

Wal-Marts chosen target market is not really South Africa but is actually the continent of Africa. It is interesting to note which sequence Wal-Mart approach the local retailers and it is quite evident which their preferences were. Wal-Mart is targeting the African continent due to the large population it has, even though its population has very limited income, the sheer size of it makes it very attractive. This is clearly depicted below in figure ten.

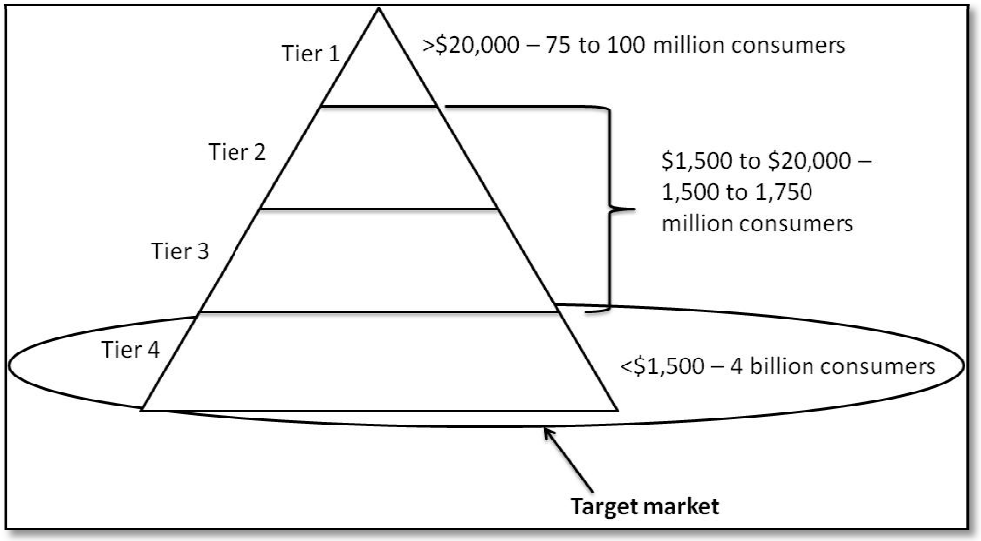


Figure 10 Wal-Mart's target market (Prahalad, 2006)

By opting to go with a brown field acquisition and the route Wal-Mart chose is indicated below in figure eleven, it allowed the organisation to capitalise on all the possible strengths at its disposal.

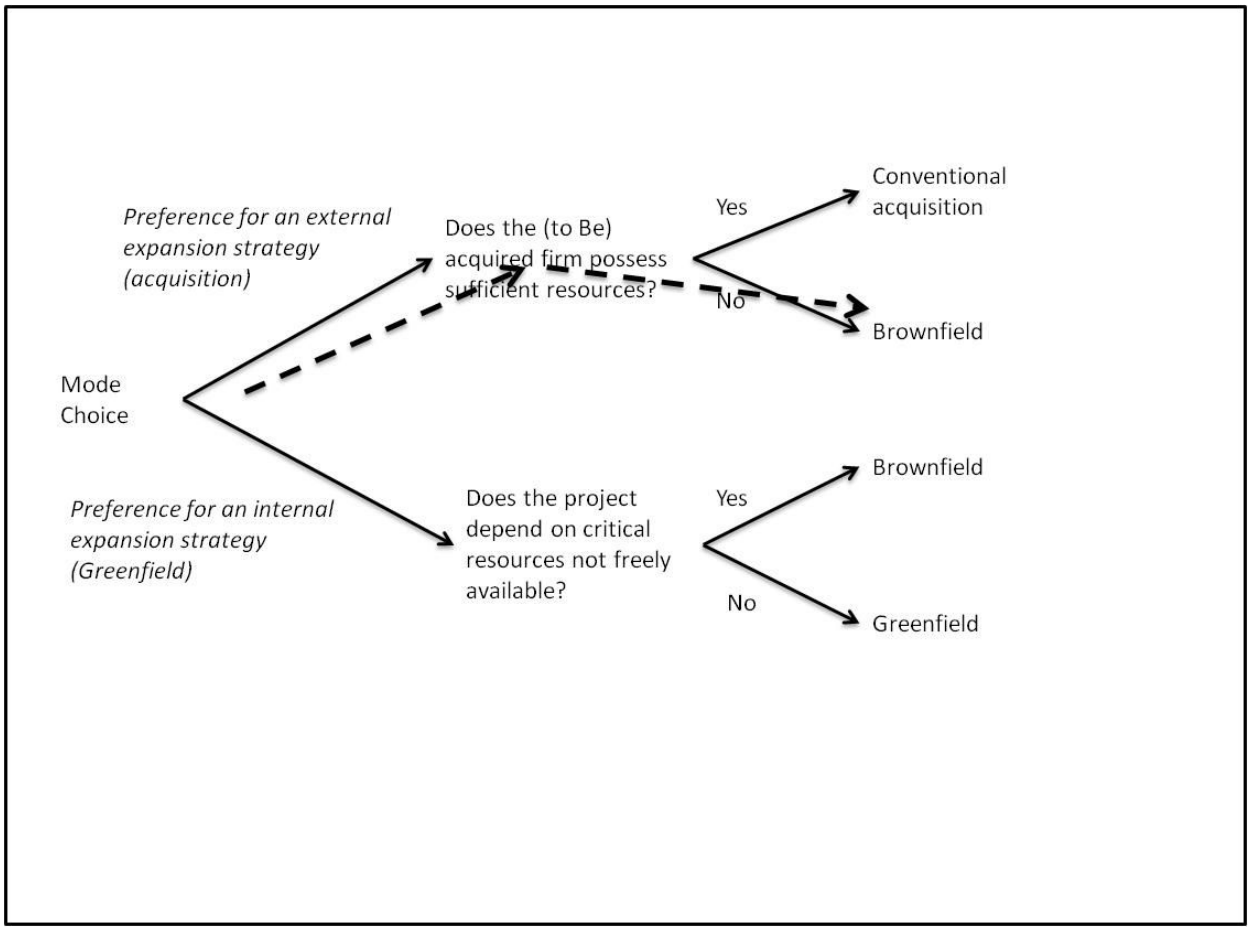


Figure 11: Wal-Marts chosen entry strategy (Meyer and Estrin, 2001)

These strengths would come in the form of local knowledge that would be acquired from the local retailer acquired and Wal-Mart's own internal strengths in logistics, supply chain management and ERP systems. This approach is perfectly suited for a brown field acquisition as the local retailer had insufficient resources at its disposal, but these resources could be obtained within Wal-Mart and repositioned locally.

6.2.3 *What strategic resources will the four retailers use to their advantage with Wal-Marts imminent entrance to the South African retail market?*

The resources that the local retailers will utilize to ensure their continued profitability can be broken down into three main areas. These main areas are human capital, fixed assets (requiring financing) and large upgrades to existing ERP packages and acquiring the skill set to operate these packages internally.

All the responses clearly indicated that human capital would be the first resource that would be sought after externally. As there is a limited pool to draw from the first mover advantage would yield strong results in this field. Additionally the retailers indicated that there would be a strong focus ensuring that the correct personal are in the correct positions. This would suggest that there would be some restructuring within the organisations to capitalize on the internal movements that will take place. The other two key resource areas mentioned would need human capital and this is explained below.

The second key resource that was clearly highlighted was on the distribution front this was being done in acquiring fixed Assets in the form of distribution centres, fleets of trucks to deliver goods between distribution centres and stores and the other fixed assets associated with distribution. As most of the distribution was previously outsourced, to bring these in-house required resources on the financial front, to purchase trucks, build distribution centres and on the human capital front as this experience was nonexistent in the organisations.

The final key resource mentioned was upgrading the existing ERP packages to ensure adequate stock is held on the shelves (ensuring no stock outs occur) and keeping inventory as low as possible to reduce working capital. By reducing working capital it frees up valuable cash flow that an organisation can use to invest in other areas as necessary. In addition to the upgrade the ERP packages maintenance and new upgrades or tailor making would be brought in-house as it

was deemed to allow the organisations to maintain a competitive advantage over the new entrant. This too would result in retail organisations investing in human capital as these skills were previously not required.

As it can clearly be seen the most important resource the retail organisations identified is human capital. This would have a large influence as when the organisations choose to react, as the first mover would be in a position of being able to obtain the best from the pool available.

6.3 Suggestions for further research

This research is one of the first investigations into the impact a MNC acquiring a local South African company has on its competitors. This study was specific to the South African retail industry and only took into account the four retailers, namely, Shoprite, Pick n Pay, Woolworths and Spar. Suggestions for further research include:

- Exploring other industries where a MNC acquired a local South African company, this has occurred in the banking sector.
- Conducting a quantitative study into the effect Wal-Mart had on the two of Porters five forces, namely barriers to entry and supplier power.
- Wal-Marts entry strategy into Africa

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APPENDIX A – RESPONSES TO INTERVIEW QUESTIONS

Question 1: When did you discover Wal-Mart was going to acquire Massmart?

Question one was used to build a foundation for further questions asked pertaining to reaction time. As this question will highlight how long the retailers took to react to the news of Wal-Mart entering the market place. The responses were almost identical for three of the four retailers. The responses clearly indicate Wal-Mart approached each of the three large retail organisations in a structured manner. It appears that Wal-Mart did have a preference in which of the existing retailers they were wishing to acquire.

Question 1: When did you discover Wal-Mart was going to acquire Massmart?

Wal-Mart approached our organisation approximately two, to two and a half years ago and the approach was very exploratory.
We were approached about two years ago and asked by Wal-Mart if we would be interested in willing to partner with them.
Approximately two years ago Wal-Mart approached our organisation and enquired about a possible merger
Wal-Mart approached our organisation about a year and a half ago, the talks were very brief and nothing materialized from the discussion.
Based on my research and dealings in the retail sector, the findings would suggest that the retailers were approached about two years ago, as Wal-Mart was very interested in the African Market.
We found out on the morning of the SENS announcement, although we had suspected that it would happen at some point given all the market speculation.

Question 2: Did you react to this news immediately?

Question two is used to determine if the organisations would react immediately or wait and see what would happen. The wait and see approach identifies if the organisations would adopt an approach of waiting for the uncertainty to disappear then choose a reaction or make a decision. This question addresses the first research question by means of identifying whether organisations react immediately or wait for the uncertainty to disappear before reacting, refer to figure 2. It also address question three as this will indicate what resources will be used based on their reaction, refer to figure 5

Question 2: Did you react to this news immediately or did you wait for the uncertainty to disappear and then choose to react?

We already had identified weakness in our ERP packages and distribution, some of our stores were suffering due to stock outs on certain items and we were losing out to some of our competitors due to our own inefficiencies. Based on the approach Wal-Mart made to us it was quite clear we were not the only retail chain that would be approached and we decided it was as good a time as any to begin our role out to address these issues identified. We were going to start the process of addressing these two burning issues but I suppose you could say that this news made us accelerate the program. I would not say we reacted immediately but it definitely made us accelerate the program
We did react to the news, we were certain that at least two other retailers were approached at the same time, this is now apparent based on whom Wal-Mart acquired. Some of our longer term goals were accelerated and brought forward and an aggressive strategy was deployed in other stores outside of South Africa. The sheer size and power Wal-Mart has forces you to react, in addition a decision was made to target local competitors while the situation was unsure, as this uncertainty could prove to provide increased market share.
There were already some issues that were identified in our organisation, these were addressed in a much quicker light based on the fact Wal-Mart would be

entering our market. Our longer term goals and desired results have changed based on this new information, so one could say that our strategy has changed and that we did react to this news. We also regularly do overseas “look and learns” and Wal-Mart featured highly on these trips to fast track information gathering so that the reaction would be done in the correct manner.
We were in a very stable situation with our market share growing and expanding our product range. We had recently brought on key resources to resurrect the brand and to improve profitability. We did not see them as a threat and carried on with our current strategy and did not change anything. We cater to a select market, namely the higher LSM range and were not that concerned about the news. However the only change we did make with our strategy was to bring our suppliers closer to ourselves.
Every single one of the retailers reacted to the possible entrance of Wal-Mart into South Africa in some manner. Some of the reactions were significant and will only realize gains in the long term, to the detriment of the organisations profitability in the short term.
There was a lot of talk about how local retailers would have to up their game, particularly in terms of supply chain and pricing, but I think for the most part, local retailers reacted. No-one wanted to be the first to break rank given the pressure it would put on margins, but this news forced them to react.

Additional responses: Did you react to this news immediately or did you wait for the uncertainty to disappear and then choose to react?

Our organisation took approximately three months to begin addressing our ERP package and about six months to address the distribution issue. It was decided to open our own distribution centres located in various major cities.

One of the biggest challenges facing our organisation was distribution, we had an existing distribution centre that was only functioning at approximately 70% this became an immediate focus area for the group as a large competitive advantage lay in getting this distribution centre running at 100%. We were quite keen to gain a competitive advantage over Wal-Mart.

Question 3: An organisation's resources are scarce and limited, will your organisation choose to focus these resources or deploy a flexible approach and spread your resources among various scenarios?

Question three was used to determine once an organisation has decided to react how will it react, will it be a focused strategy that will address certain points or will it choose to spread its valuable resources thus ensuring it will assign some resources to the correct strategy. This question will provide additional information for question one – a focus or a flexible approach. Question three would the allocation of these resources allow the organisation to obtain a competitive advantage.

Question 3: An organisation's resources are scarce and limited, will your organisation choose to focus these resources or deploy a flexible approach and spread your resources among various scenarios?

There will be a focus approach, we have identified weakness in two key areas and resources will be deployed in these areas. We had to obtain additional resources to assist our organisation in these two areas as this was something we did not have much expertise / experience in.
As we will focus on bringing some of our key suppliers closer to us, we will be focusing on this area of forming a partnership with them. But as we are not deviating from our original strategy, the resources devoted to this will still be deployed. However we firmly believe Wal-Marts key focus will not be the South African market it will be the African continent. They pose a large threat to us in this playing field. And we will definitely focus key resources to curb the threat imposed

upon us in these marketplaces. Locally we have focused resources on a few key areas that will yield results for the group while our local competitors are focused on Wal-Mart, we will try and catch them napping.
The group will adopt a focused approach, this has and always will be the only approach our organisation will deploy no matter what the circumstances are. The SA food retailing sector is highly competitive with competitors that are already world operating to world class standards. With the emergence of Wal-Mart in the South African market place how these resources are focused will be of vital importance. But a key focus will be the assigning of resources on differentiating and improving our offer
As we already had a focus type of strategy deployed, this strategy will be honed further to ensure we remain competitive in an already competitive marketplace. We will be utilizing our resources in a very focused approach, we will not go the flexible route and hope one of the possible outcomes will be correct. Historically this has never worked as we wish to be market leaders and suit the market to ourselves.
Every one of the retailers will adopt a focus approach. The focus will vary from building competencies, to improving areas the retailers are weak at, but have managed to get away with it due to the local retailers operating as an oligopoly, through to acquiring new assets. These new assets may be in the form of property, ERP packages or new human capital.
I think the economic downturn forced many retailers to streamline processes, operations and staff complement. The majority of them run pretty lean as it is, but Walmart was just the beginning. The semi-durable space in particular has seen a host of new entrants and it is going to force retailers to relook at their competitive strategies, sourcing, range and pricing. I think that the best approach would be to focus on a particular area, rather than spread themselves too thin.

Question 4: How has the strategy changed based on: Wal-Marts chosen entry method in particular observing the resources at Wal-Marts disposal?

Question 4 was used to determine how the chosen entry method into a market affects the strategy chosen by the existing players in that particular market place. This question is used to address question two, how will Wal-Marts chosen entry method affect your organisations strategy.

Question 4: How has the strategy changed based on: Wal-Marts chosen entry method in particular observing the resources at Wal-Marts disposal?

The chosen entry method forced our organisation to move in a far quicker manner than what we would have normally done. This is evident in our financial results as some decisions had to be brought forward by a number of years and our organisation did not have the capital for this at the current time.
As the chosen entry method allows Wal-Mart immediate access to the market place and customers, there were some changes in our strategy to overcome this. It meant bringing some of our longer term goals forward to ensure sustainable business for the group. But of vital importance is the African footprint Wal-Mart has inherited with the Organisation chosen. This allows them to operate in the local market and international African market simultaneously and the resources Wal-Mart has they can quickly gain momentum and capture market share in Africa. Our group has chosen this international area to focus on keenly.
The chosen entry method forces our organisation to deploy our focus strategy far sooner than what we had anticipated, some of our goals that were five to ten years suddenly became two and three year goals. Never underestimate the load this places on all aspects of an organisation. This massive deployment has created some inertia in the group which has had very positive results and actually pulled the organisation together.
The chosen entry method allows Wal-Mart to overcome all barriers to entry, not

that these would have been long term barriers had Wal-Mart chosen to enter Africa without an acquisition based on the size of the organisation. It has altered the way we have implemented our focus strategy in the sense that it was an existing strategy being deployed, but this accelerated the deployment of the strategy.
The chosen entry method will force all the local retailers to react in a far faster manner, as any time wasted will have dire consequences further down the road. The consequences may be lost market share, lost customers, lost suppliers and in these uncertain times none of the retailers can afford any one of these.
They had to change their strategy, particularly from a supply chain point of view. Many retailers seem to favour brining their supply chain function back in house in order to have better control. From an expansion point of view, Massmart was a way for Wal-Mart to gain a foothold in Africa and they have an aggressive expansion plan.

Question five: Have you made any changes to your suppliers or looked at possible vertical integration?

This question probes the point about any changes done in strategy, as historically South African retail organisations have treated their suppliers very poorly, this question relates to question one where the retail organisations will change their strategy and question three will the retail organisations assign resources to their suppliers in order to improve and build on the existing relationship.

Question five: Have you made any changes to your suppliers or looked at possible vertical integration?

We have done large changes in our organisation to make it easier for our suppliers to deal with us. A typical example of this is having one purchasing officer for the entire group, this purchasing officer serves a geographical territory, and this territory is dictated by country. Before we had many purchasing offices in one

country as it was broken down by province. By following this route it allows for quick easier negotiations and improved service to our suppliers and prevents stock outs from occurring in certain stores
Purchasing from our suppliers is done in a two tier format, we use economies of scale to purchase items that can be purchased in bulk and stored, which translates into lower prices for our customers. However some stores in certain remote regions purchase their goods from local suppliers, this ensures the continued survival of the community in that specific region. This information was used and contracts were signed with key suppliers on that supply on a bulk scale and even some of the suppliers that service a local region were tied into a contract. This contract is beneficial to both parties as it ensures favourable payment terms and ensures continued business for the supplier for the duration of the contract.
We offer our stores two options when it comes to purchasing goods, they can either leverage of the groups buying power or they can in turn choose to purchase locally and by doing so support the local suppliers. We will not change this scenario but we have improved our service levels to our suppliers that the group purchases from as well as drawn up fixed and firm supply contracts. For certain key local suppliers that the stores choose to purchase from
Our suppliers are at the very heart of our strategy, we have always prided ourselves in the way we have treated our suppliers, especially in light of how our competitors treat their suppliers. It stands to reason that we cannot afford to lose any of these suppliers and we have taken measures to ensure this does not happen.
Supplier power will increase with the emergence of Wal-Mart, traditionally suppliers were treated poorly by the local retailers and had unfavourable payment terms. When suddenly a new purchaser in the field that is prepared to offer small improvements in certain fronts emerges, it will have suppliers that have been loyal

to local retailers for years knocking on their door. Suppliers will wish to leverage Wal-Mart's economies of scale to increase their turnover, as a supplier to Wal-Mart locally will be in a position to possibly supply their goods internationally into Africa
I don't necessarily think we will see full vertical integration. The costs are just too great, unless you have a company like Steinhoff who manufactures furniture, and also hold a controlling stake in JD Group. I think we will see more joint ventures though with smaller co-operatives for fresh food supply.

Question six: Have you made any changes to your infrastructure?

This question was designed to identify if there will be a change in the organisations strategy, what the change will be and what resources will be used to bring about this change based on Wal-Marts chosen entry method. This question addresses question one, two and three.

Question six: Have you made any changes to your infrastructure?

Yes, we have started with a distribution centre, this was desperately required by the group and was brought about to prevent certain goods from being sold out on our shelves and losing business as customers are looking for these goods and by not having these goods on our shelves opens the door to our competitors. We have also upgraded our ERP package to ensure we have better control over our stock and store inventory. Additionally we have moved some key staff to areas outside of South Africa to ensure stability in these regions
Yes, as mentioned we will try to capitalize on this uncertainty in the local market place and attempt to capture additional market share and enter one or two new markets. In Africa the attention will be on ensuring our market share grows and improving on our shortfalls in these markets. The changes done to the

infrastructure were done to cater for these two focus areas for the group.
Yes but minimal, we have upgraded distribution and our ERP package. The ERP package upgrade was our biggest focus area and is still a work in progress.
The changes brought about in our infrastructure were as a result of a current strategy that is being deployed. As the South African retail sector is highly competitive and quite advanced according to world standards we did not see any changes required expect on the supplier front.
The current retailers will be forced to react, a few of the organisations had shortfalls that required attention and these areas will be addressed. One retailer stands out in particular that had a problem area and it is being addressed, this is quite evident in their financial results.
I think they will try to expand their footprint, but it will likely be beyond SA borders and into Africa. Also warehousing will perhaps be brought in-house with logistics

Question Seven: What resources (Human capital / financial / assets) are you obtaining to assist in the changes your organisation wishes to bring about?

This question highlights the changes the retail organisations will be implementing and where their focus will lie in allocating their resources. This question assists in providing additional information to question one and three.

Question Seven: What resources (Human capital / financial / assets) are you obtaining to assist in the changes your organisation wishes to bring about?

We have brought on specialists to assist with the ERP package upgrade, and we have invested in a distribution centre that we did not have before. So we have upgraded on all fronts.

We have put the most focus into the ERP upgrade and have done a tremendous amount of recruiting to assist the chain in this field. But there has been some investment in assets such as improving our fleet of trucks to better service our stores locally and internationally.
We will be investing in all the resources mentioned, with particular focus on the human capital.
These are areas we are continuously looking at, with a keen focus on the human capital side as the right individual in the right place can “make or break” a situation.
There will be investment done by the retailers as the new entrant has changed the “rules of the game” A keen area of focus will be on the human capital side as the people aspect of an organisation can make or break it.
All of them, but I think financial will be the most critical. Noncore assets will likely be taken off balance sheet or spun off in order to focus on core competencies. Human capital will be critical from an experience point of view. The right leadership can turn a company around and I think local companies will be looking abroad more and more to get the best leadership.

Question eight: Is your organisation or any of the other local retailers setting themselves up for an acquisition, if yes, why?

This question was used to determine if the changes that are being brought about by the retail organisations have a long term goal or if the actions currently being deployed a sudden reaction the entrance of Wal-Mart. This addresses question one and the focus approach of having a clearly defined goal.

Question eight: Is your organisation or any of the other local retailers setting themselves up for an acquisition, if yes, why?

No, we are not. There has been much speculation that we are under discussions with a large international retail organisation but we are firmly standing our ground and wish to stay a proudly South African retail store. I don't believe that any of the other stores will do it either as each one of us have a strong hold on the market in South Africa. The biggest threat Wal-Mart is imposing is in Africa, not South Africa. All the major retail stores are well known here and Wal-Mart is relatively unknown, so they are seen as less of a threat locally. However the same cannot be said of Africa, in Africa all of the retail stores are unknown and with the strength of Wal-Mart and their resources at their disposal we see them as a large threat in this market.
No, this was an option that was broached a few years ago as we started expanding into Africa and other areas. But we do not wish to pursue this avenue. I am led to believe our biggest competitor is under discussions with a large retail chain based in England.
We are not, but I cannot speak for other retailers
No, we are not, but looking at all the media reports I believe one of our competitors is
Looking at all the publications and media hype around one of the large retailers, it appears that discussions are under way.
There is always speculation. The most likely candidate would be Clicks, but they have denied it several times. The other is Pick n Pay, but I think they have some work to do before they become an attractive acquisition.

Question nine: Will Wal-marts chosen entry method affect your business in any area?

This question was used to determine the impact an organisation can have on the five forces of Porter if one of the five forces is overcome, in this situation the barriers to entry are overcome. This information was used for question 2

Question nine: Will Wal-marts chosen entry method affect your business in any area?

Yes it will, we don't believe Wal-Mart poses much threat locally as the existing retailers are very established, have a large customer base and it is a very competitive market space. However Wal-Marts primary focus is to move into Africa and with the acquisition of Massmart, Wal-Mart has the perfect footprint to execute this strategy. We are most concerned about this as Wal-Mart is a relatively unknown brand name to the local consumer is South Africa and we can capitalize on our brand locally. But in Africa none of the brand names are known and all the retail organisations are competing on a level playing field and we are very concerned that Wal-Mart will take the largest market share based on the resources at their disposal.
With Wal-Mart having an existing footprint in Africa via Massmart it will put them in a very favourable position to grow in those areas and markets. Wal-Mart is well known for their logistic and warehousing expertise and we are sure that they will try to capitalize on their strengths and focus on these large markets. So their chosen entry method will have an impact on our business as we will be forced to react.
A new entrant into the market, particularly if they are opening new sites obviously increases competition for these sites, in terms of organic business we have not seen anything yet that requires fundamental changes in our approach. We firmly believe that Wal-Mart will look at their African footprint and target the large mass of Africa's underdeveloped population.

With Wal-Mart's chosen entry method it will affect our business as it is essentially a new competitor in an already competitively fierce market place, not to mention the skills and resources Wal-Mart have at their disposal. Locally we have made changes to aspects of our business to ensure we retain our market share and customers, but we firmly believe Wal-Mart will focus on the rest of Africa.
The chosen entry method used by Wal-Mart will affect the local retailers, as Wal-Mart has essentially overcome one of Porters five forces, this will alter the other remaining four forces. Supplier power will definitely increase based on the purchasing power of Wal-Mart and the possibility of suppliers having a new customer that might be open to new negotiations.
Wal-Mart came in quite aggressively. They wanted the whole of Massmart but had to settle for controlling. They have been made to set up procurement funds and comply with all other local rules. For their broader business, it will benefit them in terms of fresh produce – they already had a procurement office in SA. It will have an impact on the other retailers.