

MIDLANDS STATE UNIVERSITY



**The effect of cost leadership strategies on company performance. A case of  
Multimedia Saatchi & Saatchi.**

**BY**

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## **Dedication**

I dedicated this project to my friends and family members.

## **Acknowledgements**

Firstly, I want to thank the Almighty for giving the power, divine guidance and spiritual wisdom to carry out this project from the start to the end. I would also like to register my appreciation to my supervisor for his time, support and his willingness to help me whenever possible and to the entire Marketing department staff

Much thanks to my family members for all the financial assistance and support, I also want to thank my friends for their support, Charity Manyukwe, Tapiwa Mugadza, Sicelo Mtshena and Confidence Matau for your inspiration.

## **Abstract**

The research was carried out to find out the effect of cost leadership strategies on company performance in the advertising industry. In this research a sample of 61 respondents was used as representative of the target population. The main objectives of this research was to find out the effect of vertical integration on market share, to determine the effects of restructuring on company profitability, to evaluate whether outsourcing from cheapest supplier managed to reduce company cost. These objectives were aligned with the research problem to answer the core issues of the study. Literature put forward by various scholars, authors and researchers was compared and contrasted identifying the areas of convergence and divergence. The researcher used descriptive research to obtain insights and clarification on the research understudy and the researcher used interviews, questionnaires to obtaining raw data from the respondents on the issues of concern. The data collected from the field were presented, analyzed and interpreted from the data presentation techniques pie chart, bar graphs and tables for easy drawing of conclusions of the data. The results drawn from the research indicate that vertical integration is important to the organization as it improves efficiency, also clientele base and market share at large and that restructuring results in reduction in company cost and improving financial performance. The conclusions also indicate that outsourcing from cheapest supplier yield positive results in terms of reducing company cost and the results also shows that sourcing from cheapest supplier doesn't necessarily mean low quality service. Therefore the researcher recommends the company to have interrelationships with stakeholders and to also to create business to business relationship not basing on profitability only. The researcher also recommends Multimedia to manage the Physical Evidence, services are intangible products, that is, they cannot be touched, seen, smelt, or felt.

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# CHAPTER ONE

## GENERAL INTRODUCTION

### 1.0 Introduction

This chapter is an introductory discussion of how the research was conducted. It consists of the background to the study and that of the company under study. The statement of the problem will be defined followed by the study's objectives and the research questions that seek to provide answers to these objectives. The significance of the study will also be elaborated on in order to give reasons why businesses and marketing practitioners and academics alike should be interested in the research. Finally, the chapter will unfold by looking at the assumptions that were made during the conduction of the research, the delimitations and the limitations.

### 1.1 Background to the Study

When firms are in an industry they incur costs such as distribution costs, operating costs, research and development costs and other costs .These costs have to be managed for a firm to gain a competitive advantage over its competitors in an industry, cost leadership strategy seeks to achieve above-average returns over competitors through low prices by driving all components of activities towards reducing costs. Pearce and Robinson (2009) cite that cost leadership requires the business to be able to provide its product or service at a cost below its competitor.

Some companies have successfully implemented the cost leadership strategies for example Wal-Mart is famous for squeezing the suppliers to ensure low prices for its goods.Wal-mart became the low cost leader by selling products at much lower price than competitors do.

Source [www.walmart.com](http://www.walmart.com). McDonalds is another example of a low cost leader, they are able to keep prices low through a division of labour that allows it to hire and train inexperienced employees rather than trained cooks. Source [www.McDonalds.com](http://www.McDonalds.com).

Multimedia Saatchi and Saatchi is an advertising company that was formed in 1987 and is part of the Saatchi and Saatchi World Wide Network. Multimedia's focus is sourcing, planning, public relations consultancy and buying advertising space for its clients, marketing intelligence and also carrying out media monitoring for banks whereas Saatchi & Saatchi is graphic designing company which have managed to partner with Multimedia. The company is an advertising industry and media buying house which offers business-to-business services to different firms.

Liquidity crunch and low capacity utilization in most companies has affected advertising industries as they depend on various sectors of the economy. Their source suppliers which include Zimbabwe Papers, Daily news, Financial Gazette increased their advertising rates with a 15% from their normal rate which affected the advertising expenditure of some companies. For the Sunday mail the cost increased to us\$ 8.53 per centimeter/column, so it was expensive for advertisers to advertise their products and services. The cheapest media supplier was Alpha Media in terms of their advertising rates but because of lowest readership in print media advertisers did not prefer their offer, so the advertisers reduced their advertising expenditure. Since 2012-2013 advertising business has been affected greatly due to a very hostile business environment in the country and advertising largely depend on the performance of other businesses, if they are not doing well in the market it means that their first decision is to cut on advertising budgets. This has resulted in low business confidence for advertising agencies and media buying houses.

Multimedia has been facing a decline in revenues from 2012 – 2013 owing to client's minimizing their budget as a result of the liquidity crunch and low capacity utilization in the country. This has resulted in decline in profits threatening the continued success and survival of the company. Clients have been also experiencing cash flow problems and their purchasing power would compromise purchasing in bulk. As a consequence of the liquidity crunch, pricing has become increasingly competitive resulting in reduced profit margins. The organization loses a large percentage of profits levels which amounted to 12% at the beginning of year 2012.

Multimedia loses a market share of 6 per cent to competitors due to poor responses to the external environment. Clients have been switching brands due to stiff competition. Examples of companies that switched from Multimedia include FBC bank. Mawazo was one of Multimedia's clients that managed to partner with Jericho advertising agency. This precipitated an exorbitant increase in the operating costs incurred by Advertising Agencies who in turn responded to this situation by transferring these ever increasing and unbearable costs to their clients the advertisers in terms of extremely high prices for their services. A notable shrinkage of the overall advertising industry's revenue was observed and this steamed up intense rivalry amongst the agencies.

Unlike most of its companions in the industry who pursued differentiation, Multimedia adopted Cost Leadership Strategies to try and curb the effects of the liquidity crunch and low capacity utilization that are prevalent in the country. Given the fact that liquidity crunch and low capacity utilization are the major cost drive behind its exorbitant costs, the company implemented the following cost leadership strategies in January 2012 .The company separated the media division to operate as a Strategic Business Unit and not just a mere department providing complementary services to the advertising and `graphic designing

department which is restructuring. March 2012 Multimedia managed to own their advertising bins and partner with Art Master, company that design, produce and erect outdoor media. Adding on Multimedia decides to outsource book keeping and information technology duties from external consultants firms to reduce costs.

Given the prevailing economic conditions which were causing the shrinkage of the advertising market, Multimedia was opting to further strengthen its Cost Leadership Strategies. Therefore could the cost leadership strategies improve company performance?

## **1.2 Statement of the Problem**

In spite of the adverse economy and the highly competitive environment Multimedia adopted cost leadership strategies in 2012 due to loss of market share and a decrease in profitability. Multimedia adopted the following strategies which are vertical integration, outsourcing from cheapest suppliers and restructuring to remain competitive. Therefore the researcher intends to prove the effect of these strategies on company performance.

## **1.3 Objectives**

- To investigate the effect of vertical integration in enhancing market share of the organizations
- To determine the effect of restructuring on company profitability.
- To evaluate whether outsourcing from cheapest suppliers has managed to reduce company cost.



## 1.4 Research Questions

- Does vertical integration have an effect in enhancing market share of the organization?
- What is the effect of restructuring on company profitability?
- Does outsourcing from cheapest suppliers managed to reduce company cost?
- What other strategies companies can use to be cost effective?

## 1.5 Significance of the Study

The findings of the research are meant to benefit Marketing Practitioners and academics alike, services organizations operating in developing countries, their clients and the researcher of the research.

- **Marketing Practitioners and Academic**

The subject of Cost Leadership has not been adequately covered and explored by marketing academics and practitioners alike. Thus the research may go a long way in revealing some hidden insights regarding the subject. Marketing practitioners can manipulate the findings for the success of the organizations that they lead whilst to academics it forms the basis for further study by provoking them to revisit the subject in relation to other variables.

- **Multimedia**

Multimedia can benefit from this research in that it verifies the viability of its adaptation of the Cost Leadership Strategies. The findings might also help management in decision making process and to review if these strategies were of benefit the organization.

- **Services Organizations**

Most services organizations in developing countries are becoming extinct owing to the economic situations in these countries which cause an ever-escalating increase in the costs of operation and the shrinkage of their target markets. Thus by revealing a solution to counter these challenges, this research will go a long way in ensuring the success and survival of the organizations informed by it.

- **Industrial Services Customers**

If the findings of the research are employed by industrial services providers, their clients may also benefit in terms of reduced costs for their services which they will in turn transfer to their own customers in terms of reduced prices thus ensuring their success and survival in challenging economic conditions.

- **The Researcher**

The research was meant for an academic purpose on the part of the researcher. It is a requirement for the fulfillment of a B. Com Marketing degree that the researcher is currently studying.

## **1.6 Assumptions**

- The economic environment remains stable until the end of the study.
- Multimedia is a true representative of all advertising companies in the industry.
- Respondents gave unbiased responses.
- The researcher obtained reliable and actual information from the respondents.

## 1.7 Delimitations

- Geographically the study was confined to Harare in Zimbabwe.
- The data period used in the research ranged from January 2012 – December 2013.
- From the companies to be considered in the research, only top marketing executives like marketing directors, marketing managers, advertising managers and officers constituted the sample frame. This was done because they are the ones who handle and make the advertising decisions in marketing organizations.

## 1.8 Limitations

- Some respondents might not be willing to disclose all the required information on their companies owing to the need for maintaining confidentiality. The researcher however can counter this barrier by conducting the research under the guise of Multimedia, their advertising agency to whom they usually disclose confidential information for the sake of getting tailor-made advertising services.
- The sample size and the number of actual respondents might have not given a generalized view of the whole population of study. To avoid this, the researcher adopted statistical methods to yield adequate results.

## 1.9 Definitions of Key Terms and Abbreviations

**Vertical integration** –Riany (2012) proclaim vertical integration as merger between two companies producing different goods or services for one specific finished product.

**Restructuring** – Lin and Gibbs (2008) explain restructuring as process which involves refocusing or eliminating non- core businesses.

**Outsourcing-** Smith (2013) define outsourcing as arranging for external provider to undertake tasks for your business.

**ZAMPS-** Zimbabwe All Media and Products Survey

**ZARF-** Zimbabwe Advertising Research Foundation

**Multimedia-** Multimedia Saatchi & Saatchi

**GTA-** Gary Thompson and Associates

### **1.10 Summary**

The chapter gave a rundown of the background to the study and that of the company, the statement of the problem, the objectives of the study, the significance of the study, the assumptions made in conducting the research, the confines of the research and the limitations. Finally, the chapter unfolded by looking at the definitions of the terms used in the study.

## **CHAPTER TWO**

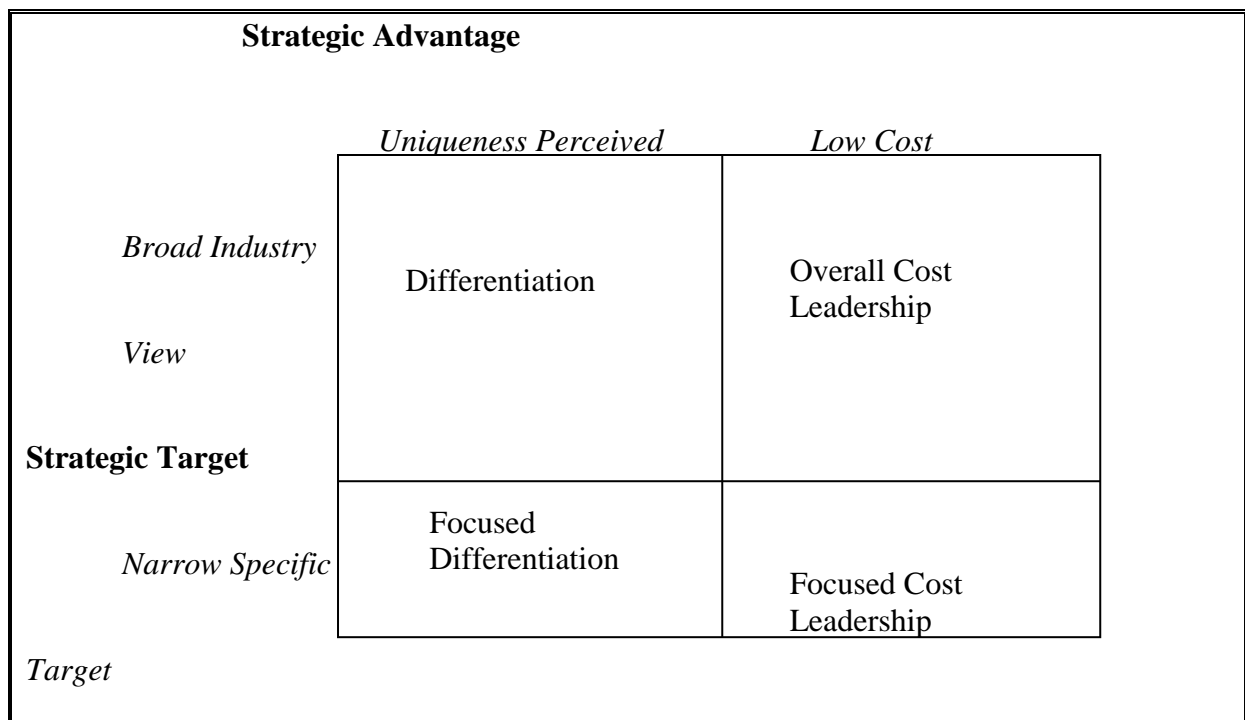
### **LITERATURE REVIEW**

#### **2.0 introduction**

Purpose of literature review is to state and analyse what other researchers have stipulated regarding the area under study. The researcher looks at the contributions of other scholars and researchers in relation to the same research problem by analysing the existing literature which includes books, e-journals, e-books and primary documents like circulars and reports .It explains the underlying principles of Cost Leadership, adverse economic condition, low investment, Relationship marketing, Industrial and Services marketing and their interrelationships. Literature review would help to uncover and identify the similarities, gray areas and gaps that have been left by the current literature.

#### **2.1 Cost Leadership**

Cost leadership is a marketing strategy, that's one of the three generic strategies that were propounded by Porter (1980). The three strategies are Cost Leadership as said, Differentiation and Focus. These are elaborated by the figure below.



Source: Porter (1980) as adopted by Drummond and Ensor (2003)

**Fig 2.1 The Generic Strategies**

The view of Cost Leadership and how it is taken slightly differ from amongst many authors and marketing practitioners as will be seen during the review of literature by the researcher. Drummond and Ensor (2003) argue that Cost Leadership is one potential source of competitive advantage within an industry. They stated that in this case, the focus of strategic activity is to maintain a low cost structure.

Another interesting point they pointed out is that, low cost does not need to equate automatically to low price. Products provided at average or above average industry price (while maintaining cost leadership) can generate higher than average margins. Drummond and Ensor (2003) support this assertion that the motive behind Cost Leadership is to generate competitive advantage by achieving costs that are lower than all competitors thereby creating more economic value due to higher profit margins.

Blythe (2009) postulate that for an overall cost leadership to be obtained a company must minimize its cost, it can either reduce its prices or increase its profitability, thus obtaining a competitive advantage over other companies. Blythe (2009) also support this assertion by saying that minimizing cost may be a result of developing efficient systems. Wheelen and Hunger (2000) and Blythe (2009) also agree on this assertion that as a low cost competitive strategy that aims at the broad mass market and requires aggressive construction of efficient scale facilitating vigorous pursuit of cost reduction. Wheelen and Hunger (2000) also argue that the strategy is not only aimed at reducing prices. They stated that a company can make higher profit margins by charging the same price as its competitors.

Kotler (2005; 206) slightly differ from the views of Cost Leadership of these his marketing colleagues. For instance, he explain the concept as, 'The business works hard to achieve the lowest production and distribution costs so that it can price lower than its competitors and win a large market share'. Thus unlike most authors who looked on this concept, Kotler cite that the sole motive behind achieving low production and distribution costs in pursuing Cost Leadership as to lower prices.

This is true to a great extent. For instance taking the definitions of marketing strategy and competitive advantage as given by Drummond and Ensor (2001) in their book Strategic Marketing, the notion of competitive advantage and marketing strategy are intrinsically linked. They define competitive advantage as the process of identifying a fundamental and sustainable basis from which to compete. In support of this, they quoted Davidson who stated, 'whenever you do something better than the competition, if that something is important to consumers, then you have an exploitable competitive advantage.' They then defined marketing strategy as delivering this advantage to the market.

Now if the Low Cost advantage is only realized in higher profit margins as the firm charges the same price as others, then, referring back to the two definitions of competitive advantage and marketing strategy (as given above), this therefore becomes only a competitive advantage. If however, this low cost competitive advantage is delivered to the market place in terms of lower prices, as stipulated by Kotler (2005), then, this becomes a real marketing strategy.

Thus Kotler's assertion becomes more valid than those of the others. It was on this assertion that the researcher assumed that low cost equates automatically to a low price when a firm successfully adopts Cost Leadership as a marketing strategy and not only a mere competitive advantage. This view is also supported by Henry Mintzberg et al (2003), when they explained; 'it is not just cutting costs that matters so much as using that Cost Leadership to underprice competitors and so attract buyers.'

Rainey( 2010) discuss overall cost leadership as a strategy which involves achieving a low cost position across the value chain and even the whole value delivery system to compete with rivals. He went on to say that the low –cost position may allow the strategic leaders to undercut the competition and to gain a dominant market share. Another point of view that Rainey discussed, elimination of the need for some of the supporting entities in the value delivery system is an effective way to reduce costs and make it difficult for less able competitors to follow.

## **2.2 The effect of Vertical integration in enhancing market share**

### **2.2.1 Vertical integration defined**

Riordan (2005) suggest that vertical integration in either or both direction can be partial or full, depending on whether the firm produces all its requirements for an input, or distributes



its final product exclusively through its own distribution. The author went on to say that vertical integration can occur by internal growth or by mergers. Riany (2012) define Vertical integration as a merger between two companies producing different goods or services for one specific finished product. Riordan (2005) also suggest that vertical merger by asset acquisition or stock acquisition potentially raises competitive concerns, in which case conduct restrictions or a divestiture of asset might make acceptable an otherwise anticompetitive vertical merger.

McIvor (2003) argue that partnering arrangements attempt to pre-empt such behavior by recognizing the opportunity to work together for mutual benefit, in a long term ongoing relationship. The author went on to say the decision will always be made in relation to the scope for cost reduction and the importance of asset specificity. McIvor (2003) further explain that in order to achieve the most beneficial sourcing arrangements the organization may pursue a buyer seller relationship ranging from partnership to competitive bidding.

Ding and Mahbubani (2013) argue that the motives for vertical integration can be grouped into two major categories which include improvement of efficiency for the integrating firm and foreclosure of rival firm from the supply of an input or from access to consumers. Ding and Mahbubani (2013) cite that efficiency motives include the elimination of double margins, the facilitation relationship specific non contractible investment and the assurance of an input supply. Grega (2003) support the above authors by saying primary reasons leading a firm to the decision for vertical expansion come especially from the effort to minimise costs and increase productivity of inputs.

According to McGrath (2010) vertical integration is aimed at cost reduction. McGrath (2010) further explained that the Transaction costs of buying and selling incurred when separate companies own adjacent stages of production. Cost reductions can also be realised from

improved coordination of production output, inventory scheduling, and marketing programs. An in-house supplier can schedule production more efficiently when there is assurance of downtown markets. McGrath slightly differ in that the author believed in innovation and improved efficiency whilst McIvor believed that benefit comes through creating relations and mutual benefits with suppliers.

Riany (2012) proclaim that vertical integration is divided into Forward integration, backward integration and quasi integration.

### **2.2.2 Forward integration**

Riordan (2005) postulate that forward integration occurs when a firm expands the scope of its activities to both produce and distribute the final good. McGrath (2010) view it in relation to value chain, the author cite that forward integration depends on the position of the organisation in relation to the value chain. If the chain is long, the business has the option of the integration one or more of the activities such as assembly, service, inventorying, merchandising, financing, or distributing, depending on where it currently operate from. The author went on to say benefits could take the form of reduced marketing and servicing costs, lower product costs due to stability of schedules and increased sales. Decision on the alternatives is influenced however by additional costs relative to expected growth in revenue as well as intensity of competition.

### **2.2.3 Backward integration**

Riordan (2005) suggest that a firm integrate backward when it produces an intermediate good that is a component in the assembly of a final product or service. The author went on say that a firm integrates backward internally by building its own facilities for manufacturing an intermediate good. The virtues of backward integration are similar to those of forward

integration – better control and lower costs. Control in this case means assurance of supply and market as well as sudden change in prices.

#### **2.2.4 Quasi integration**

McGrath (2010) suggest that quasi integration represents alternative points but gaining the benefits of vertical integration without the constraints of capital commitment of 100% ownership of the adjacent member of the caddie (value chain system). Three types of quasi integration linkages are possible.

Long-term contracts between the buyer and seller for a number of transactions and for long time periods. Financial ownership represented by minority ownership, long-term debt financing between a buyer and seller or pre-purchase credits. Joint venture and cooperation deeds.

In general, business in stronger bargaining power can use quasi-integration to control activities of external suppliers or customers as if they own them, thus helping to leverage the breadth of an organisation's operations.

#### **2.2.5 Relationship of vertical integration and market share**

Peyrefitte (2002) argue that integration is a natural response for a top manager who is looking for a means to incite organisational growth, gain scale economies or attain a higher degree of control. Riordan (2005) suggest that vertical integration by investment in new productive assets usually expands markets, and therefore presumably does not raise competitive concerns. The author also suggest that vertical integration that fails to increase market power by eliminating competitors or raising entry barriers is unlikely to have adverse consequences for consumers. From knowledge perspective the performance consequence of

vertical integration to yield a positive market share may be the competencies of both firms and the environmental constraints.

Empirical evidence from Peyrefitte et-al (2012) indicate that vertical integration can be successful, if managed learn to access strategic benefits and costs accurately. Kobu(2011) researched on the application of vertical entry model to the US generic pharmaceutical industry yields significant efficiency effects that spill over to benefited unintegrated downstream firms.

## **2.3 Effect of restructuring on profitability**

### **2.3.1 Restructuring.**

Bulgarelli et-al (2010) asserts that restructuring can pave the way to new perspectives in terms of growth and job creation on condition that companies can plan and manage necessary changes carefully and as long as public action helps ensure that restructuring is carried out in sound conditions. This view slightly differ from Lin and Gibbs (2008) they explain restructuring as a condition of incurable operational problems and or financial troubles. However Riany et-al (2012) proclaim that reasons for restructuring include a change of ownership or ownership structure, demerger, a response to a crisis or major change in the business such as bankruptcy repositioning or buyout.

Thus Riany et-al assertion becomes more valid than those of the others. It was on this assertion that the researcher assumed that restructuring equates automatically to a crisis or problem when a firm successfully adopts as a competitive strategy.

Restructuring can be divided into different forms which include corporate restructuring, financial restructuring and operational restructuring.

### **2.3.2 Corporate Restructuring**

Bulgarelli et-al (2010) explain corporate restructuring as process undertaken in response to range of frequently interrelated factors such as change in management and market, demand , the introduction of new processes or the arrival of new competitors. Lin and Gibbs (2008) slightly differ in that corporate restructuring also often involves refocusing or eliminating non – core businesses. Marimuthu (2009) slightly differ with other authors in that corporate restructuring has doubtable become a major program of many organisation as it paves ways to greater efficiencies and cost effectiveness.

Marimuthu (2009) went on to say both corporate and business strategies are currently integrated into restructuring program to yield greater financial performance in both short run and long run. Marimuthu (2009) argue that corporate restructuring is intended to either reacting to crisis or to be part of the company's pre-emptive plan for their survival in the industry. The author went on to say corporate restructuring also positively correlated with companies' long term profitability, significant cost reduction and increases in market shares are expected to result from corporate restructuring.

The researcher agrees with Marimuthu's view in that corporate restructuring is either reacting to a crisis or it can be viewed as a company's expansionary program for survival in the industry. Marimuthu's view becomes valid in that the author went on to say that restructuring yields positive results in terms of long term profitability, reduction in cost and increase in market shares are expected. The researcher agrees with the author in that corporate restructuring improves efficiency and also works as a cost reduction strategy, in general positive financial performance in the short run and long run can be seen increasing and it

helps the organisation to eliminate redundant activities thereby concentrating on core activities that are profitable.

### **2.3.3 Financial Restructuring**

Cascio (2002) argue that financial restructuring may be accomplished with the motive to enhance liquidity, lower the cost of capital, and reduce risk. Marimuthu (2009) cite that financial restructuring obviously involves equity or debt restructuring that has direct influences on capital. However Lin and Gibbs (2008) argue that financial restructuring is when a firm is faced with financial distress which refers to a condition when a firm incurs more debt than its firm size, profitability and asset composition can with inadequate cash flow from operations, financial distressed firm will be trapped into severe liquidity problems, consequently affecting its solvency. Lin and Gibbs (2008) also support his argument by saying that in a financial distress situation, bankers and other lenders will be restricted with credit terms and are less willing to give additional loans. Suppliers selling goods and service on credit are likely to reduce or eliminate the generosity of their terms.

The researcher agrees with Lin et-al in that a firm Faced with financial problems is faced with the problems to generate enough revenue to continue operations of the business. Lenders will be restricted with the credit terms and are less willing to lend additional loans. In Zimbabwe where liquidity crunch and low capacity utilisation are affecting most companies forcing some to even close or reduce the number of workers and close some branches. It is expensive to borrow for firms because interest rates are high and business businesses are faced with financial constraints as a result most companies are not performing well as they largely depend on others.

#### **2.3.4 Operational Restructuring.**

Lin and Gibbs (2008) emphasizes that operational restructuring involves making decisions about appropriate workforce size and skill requirement, plant capacity and location, functions, consolidation and possible shift in production focus. Lin and Gibbs ( 2008) went on to say restructuring often occurs as a response to major changes in the business climate or surroundings such as technological or product innovations changes in tax laws, deregulations and or foreign completion.

Bulgarelli et-al (2010) also agree in that different demands underpin large scale redundancies, in particular, the need for individual enterprises, enterprises chains or wide sectors to respond to changing economic and technological circumstances. Lin and Gibbs (2008) support that operational restricting has been considered as one important turnaround strategy for a firm in a bad situation , especially during an economic recession or when competition increased and market price pressure due to new entries or deregulation which can cause a firm to decrease or lose profitability. The author went on to say management often cites operational restructuring as necessary for improving efficiency, controlling costs and coping with the changing business environment.

#### **2.3.5 Overview of restructuring on Company Profitability.**

Riany et-al (2012) cite that restructuring has been adapted by managers in several industries so as to streamline cost, increase productivity and revenues, improve state employees welfare, increase shareholders wealth, enhance efficiency and improve performance among other reason. Bulgarelli et-al (2010) support that restructuring has been driven by something equally relentless pressures on cost efficiencies, deregulation and in adjustment to novel form of service organisation and delivery. The researcher agrees with the authors ( Riany et-al

2012, Bulgarelli et-al 2010) in that restructuring enhances efficiencies and improve performance.

Another interesting point is that Riany et-al (2012) postulate that organisational restructuring emanate with the changes in human resource policies. Riany et-al (2012) went to say the current human resource policies of the organisation may need to be change in accordance with the changing scenario. However Lin and Gibbs (2008) view that announcing a restructuring, managers typically cite the need for restructure to deal with poor performance. The two authors slightly differ in that Riany et-al (2012) views restructuring as a human resource policy whereas Lin and Gibbs (2008) views restructuring as a management policy.

The researcher agrees with Lin et-al in that restructuring should involve all the management as a team so that everyone contribute and some grey areas in terms, loss of market share, reduced product quality, increased production costs can be addressed through sharing different ideas from all angles rather than the concept being taken as a human resource policy to decide on behalf of the whole organisation. In actual fact the human resources department might overlook some areas which need attention of the whole organisation and in overall that restructuring plan might not work as expected.

To sum up literature have shown different types of restructuring paves way to greater efficiency and cost effectiveness.

Empirical studies have shown that corporate restructuring tend to be concentrated within times of economic recession. Lin and Gibbs (2008) in their research on operational restructuring reviving an ailing business find that delisting risk increases when firms undertake repetitive restructuring, massive workforce reduction and large scale asset downsizing. Moreover, firms with high levels of debt and failures to cut costs and or narrowing its focus on core competencies are also more likely to delist. The unfavourable



business environment makes the turnaround process even more difficult for a poorly performing firm. Sulaiman(2012) researched on does restructuring improve performance? The analysis shows that firms in oil and gas sector performed better in the post-restructuring era compared to the pre-restructuring era. Sulaiman (2012) also realized that restructuring played a significant role on the profitability, liquidity and solvency position of these firms, thereby suggesting that there has been increase in management efficiency, improved capital adequacy, strengthened operational capacity and assurance of the continued existence of these firms.

## **2.4 Outsourcing and Company cost**

### **2.4.1 Outsourcing**

According to Smith (2013) outsourcing involves arranging for external providers to undertake tasks for business. The author went on to say that outsourcing is a mechanism that can easily be utilised by a small business. For example Barthelemy (2001) says that, one particular area has been the externalisation of information technology with a recent report showing companies outsourcing 38 per cent of their IT functions to external provider. Gottschalk and Solli-saether (2006) pointed out that outsourcing contract provides a legally build institutional framework in which each party's rights, duties and responsibility are codified and the goals, policies and strategies underlying the arrangement are specified.

Mclvor(2003) also said outsourcing allows an organisation to take advantage within the supply market. Quinn (1999) argues that specialist in supply markets can develop greater knowledge depth, invest more in software and training systems, be more efficient and therefore offer higher salaries and attract more highly trained people than can the individual staff of all but a few integrated companies. Mclvor (2003) also suggest that these advantages

can generate growth value to deliver a better service at a lower cost to the customer, while allowing the supplier to make a profit.

According to Lankford and Parsa (1999) outsourcing is defined as the procurement of products or services from sources that are external to the organisation. Davies (2012) postulate that when an organisation is thinking about outsourcing, they need to carry out a due diligence exercise, looking carefully at what it is they are going to outsource. Davies went on to say that all the tax, legal and commercial issues have been fully explored.

Lankford and Parsa (1999) point out that the decision to outsource should address the critical role of information and processes in organisations, including the role that systems play. Lankford and Parsa (1999) went on to say if an entire function is to be outsourced, sufficient provision should be made in the outsourcing contract to deal with current and future requirement of the organisation. Whereas Davies (2012) view outsourcing and partnering arrangements as the potential to deliver value well beyond cost savings, by opening access to talent and capabilities ,whilst maximising business model flexibility.Mclvor (2003) also said the extensive use of outside supply has enabled a number of companies to achieve outstanding performance.

#### **2.4.2 Outsourcing and Relationship Management with Suppliers.**

Gottschalk and Solli-Saether (2006) cite that vendor and client in an outsourcing relationship to handle both opportunities and threat, they need a mutual understanding of the stage of their relationship. They went on to say if they agree on the cost stage, then they will join forces to identify and realize economic benefit for example by reducing transactional costs. Lankford and Parsa (1999) assert that consultants say that firm should consider outsourcing when it is believed that certain support functions can be completed faster, cheaper or better by an outside organisation. Lankford and Parsa (1999) went on to say that competitive advantage

may be gained when products or services are produced more effectively and efficiently by outside suppliers. Lambe et-al (2001) proclaim that positive economic and social outcomes over time increases the partners' trust of each other and commitment to maintaining the exchange relationship.

Blythe (2009) suggest that cost efficiency can be enhanced or obtained by having favorable relationships with suppliers and distributors who are also low-cost providers. He went on to say minimizing cost may be a result of developing efficient systems, it may be a result of negotiating better supply prices or it may mean moving production to lower –cost countries.. Adding on Lynch (2009) postulate that closer relationships with suppliers could involve sharing development information in order to lower the cost of the finished product. Lynch (2009) further explains closer relationships with suppliers as co-operation over many years, often with small number of key suppliers. The author went on to say aggressive negotiating to obtain the lowest possible price for an agreed specification can help to drive down overall cost and raise quality. There a mutual understanding between suppliers and the outsourcer should benefit a client at large.

#### **2.4.3 Overview of Outsourcing and Company Cost**

Davies (2012) cite that the current economic own turn is a large concern for a lot of organisation who are looking to protect their profit margins by reducing cost. Lankford and Parsa(1999)support the view of Davies (2012), when they in current environment of right sizing with a renewed focus on core business activities, companies can no longer assume that all organisational services must be provided and managed internally.

Gottschalk and Solli-Saether (2006) suggest that a contract alone is insufficient to guide outsourcing evolution and performance. Gottschalk and Solli-Saether (2006) went on to say that since outsourcing involves repeated inter-organisational exchanges that become socially

embedded over time, cooperation is an important safeguard mechanism mitigating extended and internal hazards and overcoming adaptive limits of contacts, as we will see at higher levels of relationship maturity. McIvor (2003) ascertains that in order to achieve in the most beneficial sourcing arrangement, the organisation may pursue a buyer supplier relationship ranging from partnership to competitive bidding.

Gottschalk and Solli-Saether (2006) support his view by saying in an outsourcing relationship, the cooperating parties engage in an agency relationship defined as a contract under which one organisation (the principal) engage another organisation (the agent), to perform some service on its behalf which involve delegating some decision-making authority to the agent.

The researcher agrees with above authors in that outsourcing should not base on contact alone to guide the activities and performance. Outsourcing involves repeated business, the relationship between the service provider and organisation that becomes socially improved over time. Buyer supplier relationship should be developed, grow and have a mutual understanding between the parties that benefit the customer at large.

McIvor (2003) identifies another contributing factor in the outsourcing decision is the impact the decision will have on the objectives of the company's strategic plan such as cost reduction and reducing inventory days. McIvor (2003) went on to say the success of strategic plan depends on its ability to integrate and manage the critical processes that contribute to its core businesses. Gottschalk and Solli-Saether (2006) support the concepts of complementarities and competencies explain that sourcing outsourcing vendors can increase productivity and reduce costs on client projects by applying a set of complementary application management competencies. Gottschalk and Solli-Saether (2006) add on to say that the outsourcing relationship focuses primarily on cost minimisation and operational

efficiency. Lankford and Parsa (1999) support that the advantages in outsourcing can be operational, strategic or both. The authors also suggest that operational advantages usually provide for short term trouble avoidance while strategic advantages offer long term contribution in maximising opportunities. Therefore outsourcing can allow an organisation to improve production efficiency and reduce costs on the outsourcer's projects.

McIvor (2003) suggest an interesting point that benchmarking is an important facilitator of outsourcing. McIvor (2003) went to explain that a crucial facilitator in defining and redefining its core business is having a formal policy of determining the best-in – class performers in the industry that carry out various processes and activities. Benchmarking complements other strategy by allowing the company to identify the most competent providers of an activity.

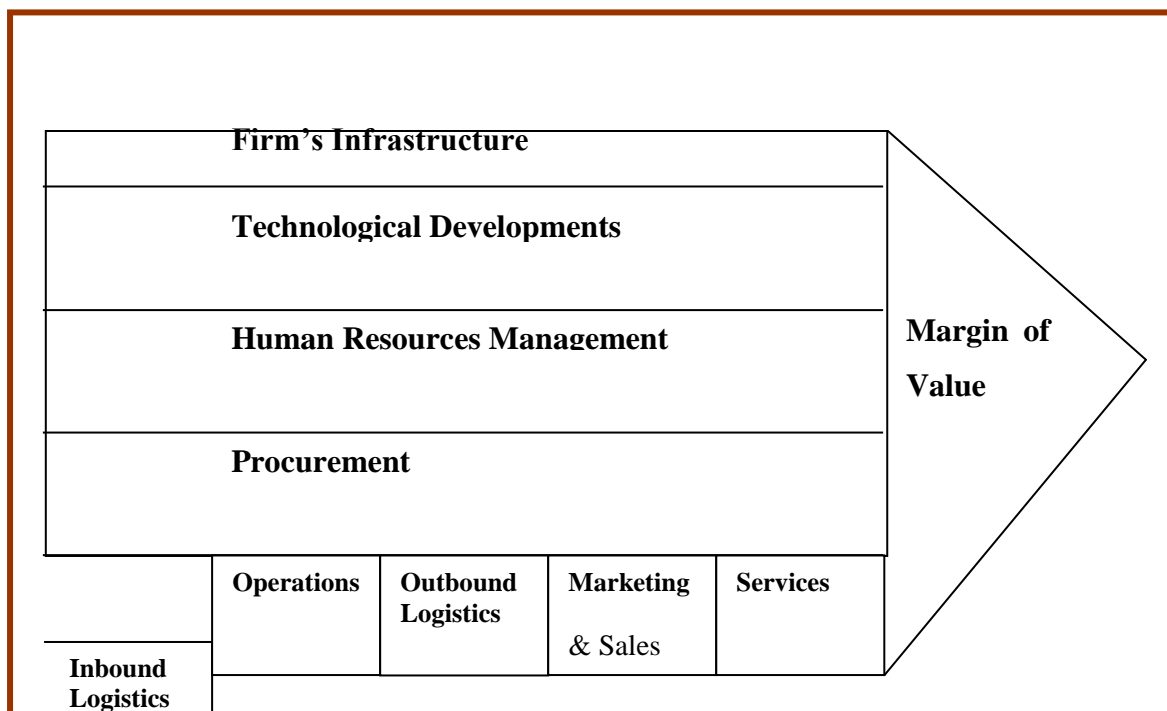
Lankford and Parsa (1999) state that tasks that are not core competencies of the organisation for example human resources, payroll and benefits, information systems, even food service in the cafeteria- are ripe for being contracted out. McIvor (2003) argue that the analysis may lead to either keeping the activity. McIvor went on to say if the preferred option is to outsource, then the next stage involves forming a relationship with a supplier which maximises the benefits to customer. However Lanford and Parsa (1999) argue that any skill or knowledge that allows you to serve your customer base better, that deals directly with the product or service you're trying to put out of the door, is one that must remain in- house.

Lankford and Parsa (1999) come up with an important aspect of re-engineering which should be linked to outsourcing. Lankford and Parsa (1999) define re- engineering as the search for a new way of organising the various element of work. Lankford and Parsa (1999) went on to say that re-engineering is the fundamental rethinking and radical redesign of business process to achieve dramatic improvement in critical contemporary measures of performance, such as

cost, quality, serve and speed. The authors went on to say such change is possible only through innovation that encompasses the envisioning of new work strategies, the actual process design activity and the implementation of the change in all the complex technology human, and organisational dimensions adding on special attention should be given to the potential need for innovative solutions to be provided by the outsourcer and to the timing of these actions. Lankford and Parsa (1999) suggest that outsourcing work best when it is an outgrowth of re-engineering.

#### 2.4.4 Porter’s Value Chain in relation to Outsourcing and cost reduction

The researcher concluded the issue looking at the Value Chain concept to the outsourcing process. Porter (1980) developed the value chain concept which according to Ensor and Drummond (2003) categorizes the organization as a service of processes generating value for customers and other stakeholders. By examining each value creating activity, it is possible to identify sources of lower cost to the customer.



Source: Drummond and Ensor (2003; page 97)

## **Fig 2.2 Porter's Value Chain**

Ensor and Drummond (2003; page 97) state that the value chain splits activities into primary activities and secondary activities. The secondary activities take place to support the primary functions and each activity generates value. The linkages of the activities are also very critical. For instance, they considered the interface between inbound logistics and operations. A JIT logistics system, supported by computerized source ordering (technology development-secondary activity) could reduce stock costs thus enhancing the overall value generated by the process.

The value generated is shown as the 'margin of value' in fig 2.2 above. McIvor(2003) state that once an organization is mapped to the value chain, the core and non-core activities of the organization are identified and defined. McIvor (2003) assert that all non – core activities should be outsourced. Drummond and Ensor (2001) suggest that value chain helps to analyse and identify the key skills, processes and linkages required to reduce costs. McIvor (2003) agrees in that the cost associated with either retaining the activity in- house or outsourcing the activity should be identified and measured. The concept can link organizations together the series of value chains can be analysed as one overall process identifying cost drivers thereby reducing the costs of the company and its partners in the same industry. For instance, Telecommunication industry shares some equipment to minimize their costs.

Empirical studies have shown that outsourcing is cost efficiency and improves performance and at large it helps to create relationship between the outsourcer and the supplier. Gottschalk and Solli-Saether (2006) researched on the model for IT outsourcing relationships identified that cost stage, resource and partnership stage as maturity stages in outsourcing relationships. Lankford and Parsa (1999) in their research find out that the decision to outsource can lead to competitive advantages for businesses.

## **2.5 Summary**

The chapter was a rundown of what current literature says regarding Vertical integration, Restructuring and Outsourcing the focus of the discussion was on cost efficiency, improvement in company production and profitability. Some divergences, gaps, gray areas and some similarities were analyzed and the researcher sought to answer and explain through the fourth chapter; Data Presentation Discussion and Analysis.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter is comprehensive discussion of the pattern on how the research was undertaken. It looks at the Research Design, The Data Sources. The Sampling Design, Research Instruments, Data Collection and Analysis procedures that were employed during the study.

#### **3.1 Research Design**

According to Hair et al (2000), descriptive research uses scientific methods and procedures to collect raw data and create data structures that describe the existing characteristics such as attitudes, purchase intentions, customer preferences, purchase behaviours and evaluations of current marketing mix strategies for a particular target population or market structure. These can be selected procedures used to answer questions

For the purpose of this study, the researcher made use of both and descriptive and causal research designs.

##### **3.1.1 Descriptive Research Design**

Brar and Kular (2010) cite that descriptive research is concerned with describing the characteristics of a certain group or individual. It provides descriptive details of the problem. This type of research design was used in order to reveal if market share in the industry under study managed to change, to determine how costs can be reduced as per the adoption of restructuring, vertical integration and sourcing from cheapest suppliers as strategies implemented by the company under study. It was also meant to show the association between

Vertical Integration and market share, the relationship between restructuring and profitability, the effect of sourcing from cheapest suppliers on sales volume and its association with services consumption in industrial services markets.

### **3.1.2 Causal Research Design**

Causal research was also used because descriptive research was not sufficient, for all it could offer was the determination of the association between the variables under study. There was need for reasonable proof to determine if liquidity crunch led to the decline in services consumption and if Vertical Integration, restructuring, sourcing from cheapest suppliers was the reasons for success and that there were no other causal factors that could have accounted for the results.

## **3.2 Sampling Design**

Shajahan (2005; page 267) states that ‘sampling is a process of selecting a sufficient number of elements for the population so that by studying the sample it will be possible to generalise the population or characteristics of the population.’

### **3.2.1 Target Population**

It is universal groups of individual which has standardized characteristics in common that are of interest to the research. The targeted population for the study were 25 Zimbabwean organizations that are users of advertising services and the media owners, 5 management and 35 employees of the Multimedia in Harare. These advertisers ranged from those in the financial services industry, hospitality industry, manufacturing industries, Food Retail, Government Agencies, Parastatals and nonprofit making organizations.

The other targeted population was the internal staff members and management of Multimedia, the company under study. Total targeted population was 70.

### **3.3 Sampling methods and Sampling Techniques**

The researcher used non probability sampling and probability sampling techniques.

#### **3.3.1 Sampling Procedure**

A non-random sampling technique method, convenient sampling, was used during the conduction of the study. Thus by virtue of the fact that the information needed for the study was highly confidential, convenient sampling proved to be the best way of avoiding information being concealed by those under study. It proved to be easier for the researcher to use the company's clients as the subjects for the study. These were the only companies that were willing to co-operate since they usually divulge confidential information on their advertising plans and budgets to the company to enable it to tailor-make its advertising services for them.

Now, with the researcher working for Multimedia, accessing the needed information from these clients was quite easy as opposed to those outside the company's clientele thereby justifying the use of convenient sampling for the research.

In terms of the accuracy of this method, the research covered industries as intended owing to the fact that the company's clients range from banking sector, retail shops, clothing shops, Parastatals and nongovernmental organizations.

##### **3.3.1.1 Convenience Sampling**

Convenient sampling was also used within the company with the company's staff Members and management. For instance, amongst the directors, it was easier for the researcher to

interview the operations director of the Media Buying House as opposed to the other directors since she was under his management. All the other middle level management was interviewed since they were easily accessible.

### **3.3.1.2 Simple Random sampling**

The researcher used a list of names of the target population from the data base which were selected at random.

### **3.3.1.3 Judgmental sampling**

Judgmental sampling was appropriate because the researcher consciously selects the sample that she considers to be most appropriate. The internal respondents were chosen on the basis of knowledge of customer service and requirements. Clients were chosen of how frequent they seek for advertising space from the organization.

### **3.3.3 Sampling Size**

The research was carried out in one geographical; Harare because that's where the company is located. The researcher used the model which was developed by Morgan and Krejcie (1970) to determine the sample size for the research. No calculations are needed to use the model. The relationship between sample size and total population is illustrated in the table provide by the model. It indicates that as population increases the sample size also increases as a diminishing rate. Total of 61 respondents was used by the researcher, which consists of 5 top management, 32 employees, and 24 corporate clients.

**Table 3.1 Sample Size**

<b>Respondents Category</b>	<b>Sample of Respondents</b>
<b>Top Management</b>	5
<b>Employees</b>	32
<b>Corporate Clients</b>	24
<b>Total Population</b>	<b>61</b>

### **3.4 Data Sources**

The research was not confined to one source of data but both primary and secondary sources were employed with the aim of coming up with better and more informative results.

#### **3.4.1 Secondary Data**

Secondary data was used to find out the previous performance of the Multimedia before the implementation of vertical integration, restructuring and sourcing from cheapest suppliers as their strategies. These secondary sources of data were used because of their great convenience and time minimization. The secondary data sources included Multimedia's articles, financial reports, Media monitoring Reports, and Client Savings Reports. Other data from external research organizations like Zimbabwe Advertising Research, Foundation (ZARF) and media owners like Zimbabwe papers reports on their sales of advertising space were also used to aid the findings of the research.

#### **3.4.2 Primary Data.**

Kumar (2008) defines primary data as data that is generated to meet the requirements of the research at hand. Primary data gathers first-hand information collected directly from original

sources authority. This was the major source of data during the conduction of the research. It proved to be more reliable since the data was collected solely for the study. It gave the data and information on areas that the researcher found not covered by the secondary data.

### **3.5 Research Instruments**

Hair et al (2002) defines research instruments as tools which are used for collection of information and data needed to find solutions to problems under investigation. The research instruments that the researcher saw fit for the study in collecting primary data were questionnaires surveys, interview schedules and observations.

#### **3.5.1 Questionnaires Surveys**

A questionnaire is an instrument for collecting data through carefully laid down questions for completion by the respondents. The targeted subjects for these questions were Multimedia's staff members and management and the top marketing executives of the company's clients; the people responsible for making the advertising decisions in these organizations.

The questionnaires surveys were generally structured and undisguised. Undisguised refers to the use of straight forward closed ended questions that do not attempt to hide the purpose of the survey as is the case in consumer research.'

The reason for not disguising the research was to ensure recipients transparency so that they would understand that the research was also meant for their good by enabling Multimedia's staff to better understand their needs, wants and priorities thereby resulting in the organization satisfying them than before. Closed ended questions were used for convenience and there were used to save time of the respondents. Undisguised questionnaires were used so as to avoid respondents to spend time thinking or searching for the meaning of some words that were included in the questionnaire.

### **3.5.2 Interview Schedules**

Two kinds of interviews were used in the conduction of the research, and these were one on one in depth interviews and focus group interviews.

#### **3.5.2.1 One on One in depth Interviews**

Hill (2003) defined personal interview as face to face interviews between the interviewer and the respondents. The researcher interviewed the Management of Multimedia on a one on one basis to find out on how the company had implemented the vertical integration, restructuring and outsourcing as their Strategies, the reasons behind and how successful the company has been ever since the adoption of these Strategies. One on one interviews were also used to find out the effort that management has put in place so that performance of the organization improved. Interviews were also used to find out if the market share, profit and company cost have increased or decreased after the organization has implemented the vertical integration, outsourcing and restructuring as their strategies. The interviews method was also used with the marketing decision makers of Multimedia's clients and this was done mostly through phone owing to the difficulties in conducting face to face interviews with these marketing executives.

#### **3.5.2.2 Observation**

According to Shajahan (2005), observation is 'a systematic viewing and noting of the seen phenomena.' Observation involves watching the targeted audiences and noting down their actions, activities and behaviors with them being unaware that they are being observed. Observation was done on the advertising activities of the advertisers. This was done through the scanning through Medias like billboards, newspapers, the internet and the television. The

observations were also done through media monitoring of advertising material of advertisers to observe the percentage expenditure of clients.

Moreover observation was done on the advertising agencies the advertisers used in their advertising activities and their switching from one advertising agency to another was also observed and recorded. Their reactions to advertising tariff increases were all recorded.

### **3.6 Data Collection Procedures**

The following are the steps that were taken in administering and collecting data from the respondents that were under study.

#### *Step 1: Making of Appointments*

Appointments were made with the advertising decision makers in the targeted advertising organizations. These included the marketing directors, marketing officers, brand managers, marketing managers and officers, advertising officers and managers.

#### *Step 2: Distribution of the Questionnaires*

Considering the limitation of time and resources, the researcher used emails to distribute the questionnaires with a single mail being sent to all the intended recipients at the same time and within a few minutes. Were the emails failed to reach their targeted audiences, hand delivery through the company's messengers and the company's fax machine were used as alternatives.

Confirmations were made via phone to ensure that the questionnaires reached their intended recipients. And were the intended recipients reported that they had not seen the questionnaires, new questionnaires would be sent over to them.



The interview schedules were also done through telephone with the aim of minimizing transportation costs and time. Most of the interviews were successfully conducted because the researcher already had access and some established relations with the advertising decision makers of the targeted organizations having co-coordinated, facilitated and handled their advertising as a media executive holding their accounts during his work related learning period at Multimedia, their advertising agency.

### Step 3: Collection of Instruments

The questions were collected via email were they had been distributed by the same. The other Questionnaires were collected via Multimedia's messengers. The respondents are corporate clients, employees and management.

## **3.7 Data Analysis Procedures**

### **3.7.1 Data Editing**

Completeness, consistency, legibility, ambiguity and any errors were looked for prior to analysis. Where any of these lacked the respondents were contacted again to try and rectify the data supplied so as to come up with reliable results.

## **3.8 Data Presentation**

The data was processed, analyzed and presented on graphs, pie charts, tables, statistical inferences, regression and multi bar graphs. The software used in processing the data was Microsoft EXCEL.

### **3.9 Summary**

This chapter explains how the research was undertaken. It looks at the research design which is a causal type of a research. It went on look at how the data was collected from both secondary and primary sources. The convenient sampling, random sampling and judgmental sampling methods used for the research were also explaining on how the researcher employed it. It also summarized on how the research instruments were distributed, administered and collected. Finally, the chapter closed up by looking at the data analysis procedures including its editing, coding and presentation.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.0 Introduction

This chapter presents the researcher's findings in the Advertising Industry. Thus in addition to presenting the data there is a thorough analysis of it by the use of some tables, pictures and some graphical illustrations to establish trends/relationships amongst the variables of the study. A discussion on these trends and findings is also elaborated upon. Finally it seeks to comment on any of the differences or similarities of the findings to previous researches.

#### 4.1 Response Rate

Table 4.1 Response Rate for Questionnaires and interviews

<u>Respondent</u>	<u>Questionnaire s Distributed</u>	<u>Questionnaire s Returned</u>	<u>Response rate</u>
Corporate clients	24	18	75%
Employees	32	28	88%
Management	5	4	80%

The response rate of the research was quite encouraging within the organization. This was as a result of the fact that the researcher was a part time staff member of the company and thus the respondents, her fellow workmates and superiors were willing to co-operate.

The story, though encouraging, was however quite different with the marketing executives of the company's customers and the media owners, with some of them not responding as was desired. Table 4.1 and 4.2 below shows the statistics of the responses from the subjects of the study.

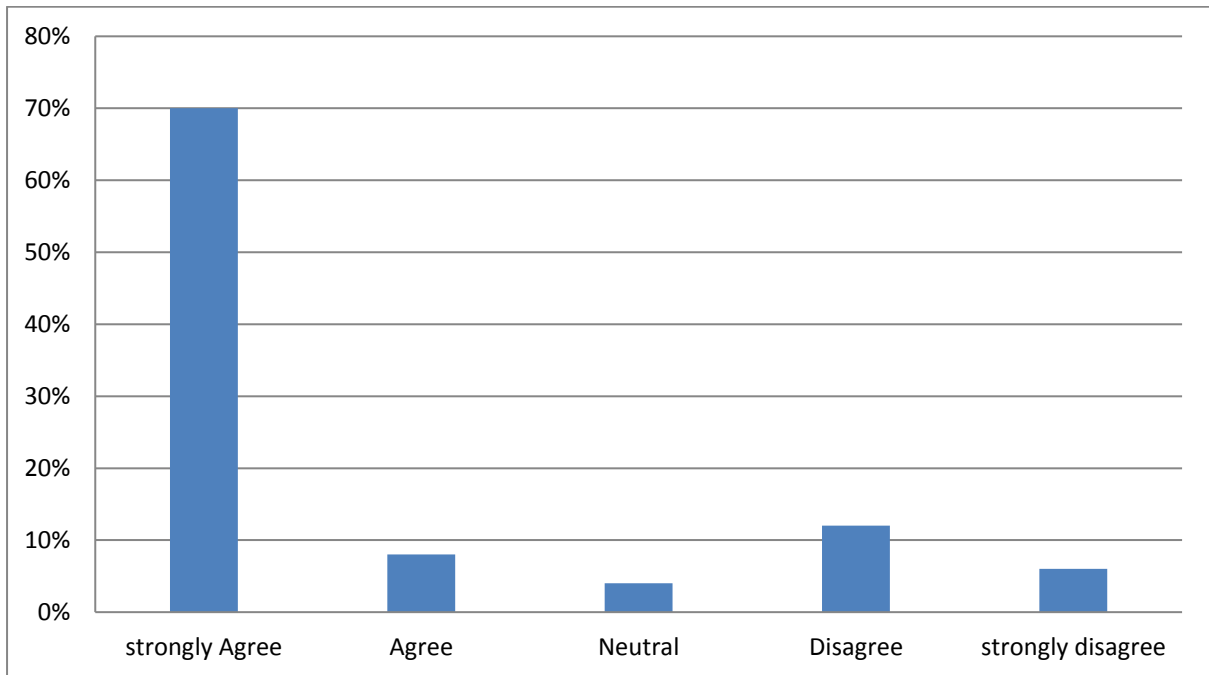
The time constraints only permitted the researcher to obtain 18 questionnaires from clients which were successful and these were with Schweppes Ltd, Eco bank, Population Services International (PSI), African sun, Corporate Angle, Cimas, Henred , Delta beverages, African foot print, Visual Communications and the owners of Mick Davis, Brentoni and Blue apple.

An overall response rate of 82% was obtained by the researcher due to the fact some respondents fail to complete and return the questionnaires in time. 75% was obtained from the questionnaires distributed to clients and 80% was obtained from the interviews scheduled for management. A response rate of 88% was obtained from the employees. The implication of the response rate with respect to the findings suggest that strategies implemented yield a better result in terms of performance of the organization.

#### **4.2 Vertical integration on market share**

The respondents were asked if partnering with outside contractors managed to improve the company' market share and if ownership of outdoor media as a media buying house increases the company's market share.

## Response of Market Share to Vertical Integration



**Fig 4.2 Response of Market Share to Vertical Integration**

**Source: Primary data**

The findings reveal 70% of the employees strongly agree that vertical integration has increased market share. 8% agrees, 4% neutral, 12% disagrees and 6% strongly disagrees. From the analysis using the graph above it indicates that vertical integration has increased the market share of the organization.

The Operations Director of the company’s Media Buying Division had this to say in an interview with the researcher, ‘Ever since we started partnering with billboards erectors and designers in 2012 we have grown; we have expanded and the company cost have been reduced after the adoption of this strategy. Our relations with our clients have strengthened; they trust us more and have become more willing to involve us not only in their advertising but also their broader marketing plans.’ Media Manager also supported that Vertical integration has benefited largest advertising spenders like Delta beverages, Population Service International (P.S.I).

**Client’s response on vertical integration**

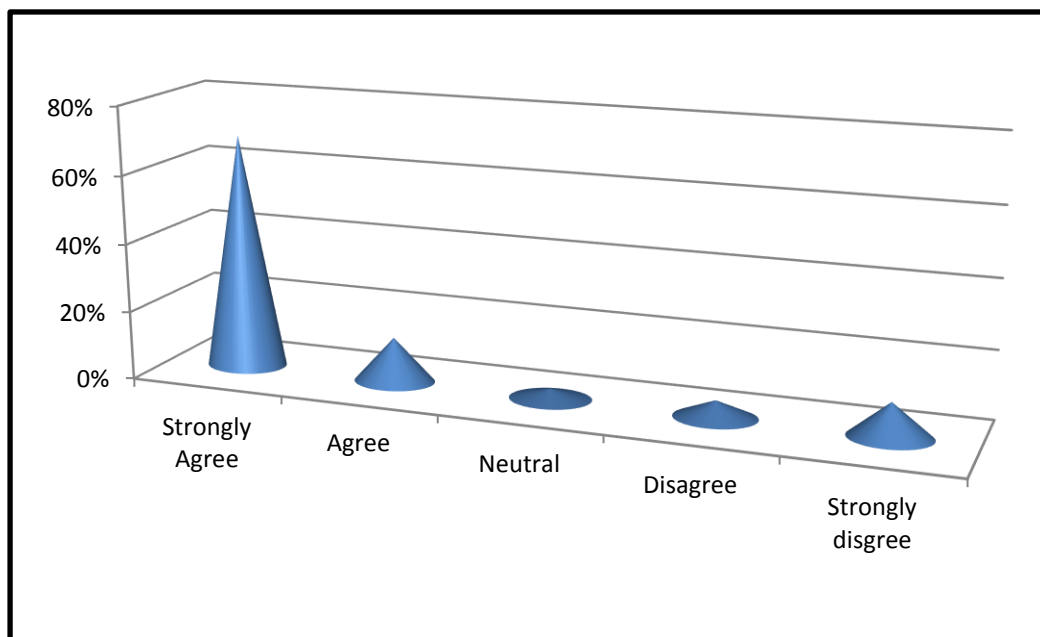


Fig 4.3 Graph Showing responses from clients on vertical integration.

**Source: Primary Data**

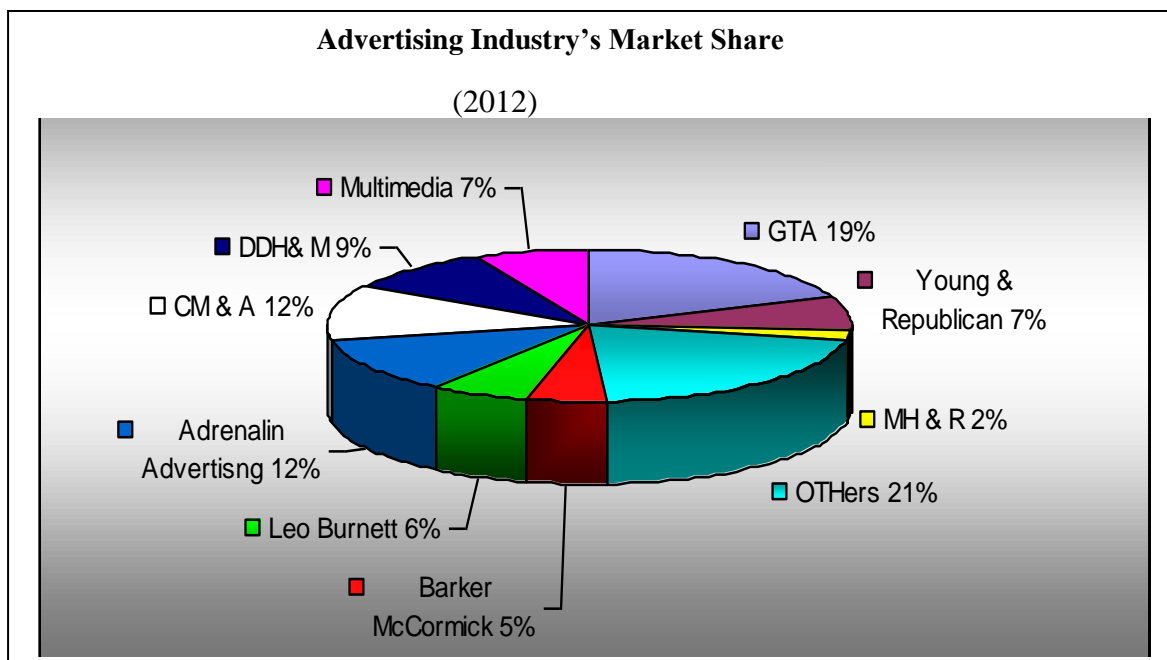
Clients were asked if partnership with billboards erectors benefited their organization. The findings shown in fig 4.3 shows that 69% strongly agrees, 13% agrees, 3 % neutral, 5 % disagree and 10% strongly disagree. From the findings, it is evident that partnership with billboards erectors and ownership of advertising bins is of benefit to most clients. The

findings also indicate that a number of clients were coming in seeking for space to advertise through advertising billboards.

The management was also interviewed if owning media bins in town has benefited their clients. Management responses indicate that more clients were coming because advertising bins were cheaper than advertising forms of media.

#### 4.2.1 Vertical Integration in enhancing market share.

Some statistics from Zimbabwe Advertising Research Foundation (ZARF 2012)) reveal that the company’s market share improved after 2012 and beyond as compared to the period before.

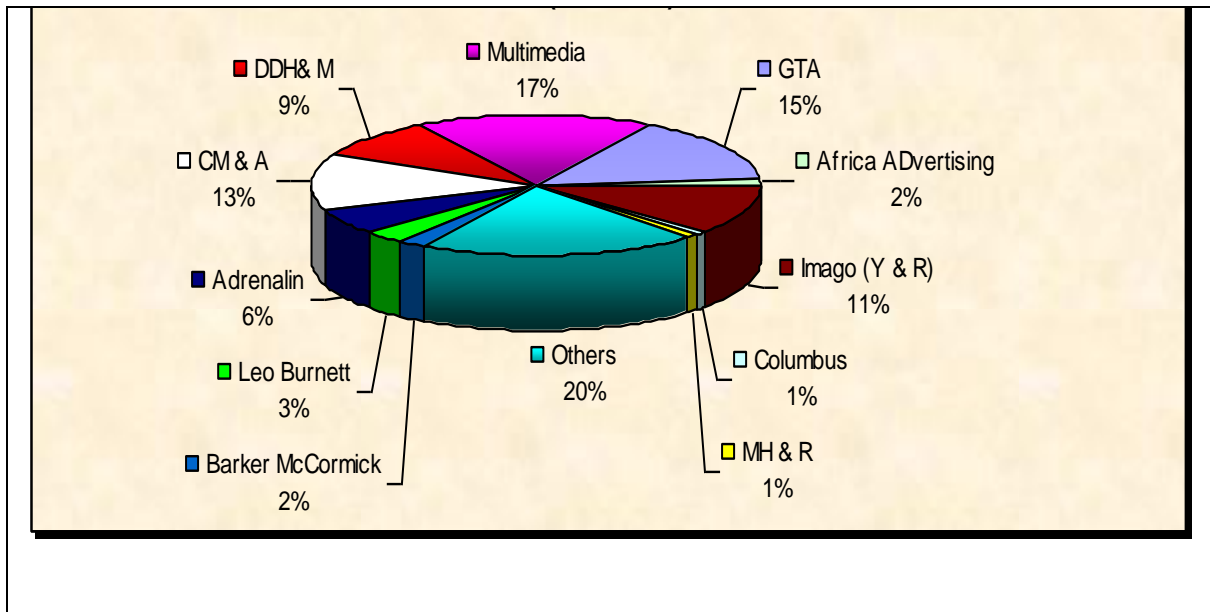


Secondary Source: adopted from ZAMPS (2012; page 8)

**Fig 4.4: Advertising Industry Market Shares (2012)**

rates with them on behalf of its clients. The pie charts in Fig4.4 above and 4.5 below show how Multimedia has improved in its market share for the period after 2012.

## Advertising industry Market share



*Secondary Source: adopted from ZAMPS (2013; page 13)*

**Fig 4.5 Advertising Industry Market Shares (Sept 2013)**

According to the information given above, 2012 saw Gary Thomson & Associates (GTA) being the most dominant player in the industry with a massive market share of 19% with Adrenalin the second best lagging behind with 7 percentage points. This was mainly due to the exceptional quality services that the company offered but as we move to 2013, GTA's market share declined along with others of the same positioning like Adrenalin and Barker McCormick. GTA declined by 3 percentage points from 19% in 2012 to 15% in 2013. This could have been because the advertisers could no longer cope up with the exorbitant prices usually associated with these advertising agencies and this could have further been aggravated by the worsening of the economic conditions in the country. During a media monitoring report for this research, The Herald (6 February 2013) had an article in which Kingdom Financial Holdings was reported to be in a dispute with GTA regarding unfair charging for the program Market Matters on ZTV and this saw Kingdom leaving GTA and going to a smaller advertising agency, Columbus Advertising.



Multimedia on the other hand has had massive increase in its market share with its market share rising by 10 percentage points from 2012 to 2013. The same trend is visible for Imago Marketing Communications which adopted another relatively cost effective marketing communications system, Integrated Marketing Communications (IMC). This was tracked down by the researcher through an observation of the company's rebranding supplement on the 13<sup>th</sup> of June 2013 in the Financial Gazette. From this supplement, the researcher observed that the agency was offering its clients a 360 degree approach whereby it offered them all their communication needs from public relation (Network Public Relations), research (Probe Marketing Research), to event management (DIAR) and advertising. This tends to lower the advertiser's administration costs and has got a greater impact. The company has thus grown rapidly after Sharon Mugabe (the company's new CEO) took over and adopted the cost effective IMC concept.

Overall a large proportion of response rate being positive about vertical integration on the contribution to market share indicated that more client have been benefiting through the partnership of the company with billboards erectors and the increase in sourcing for advertising space has led to an increase in the market share. Primary data findings indicate that they have not been over stated with the support of secondary data provided.

#### **4.3 Restructuring and Company Profitability.**

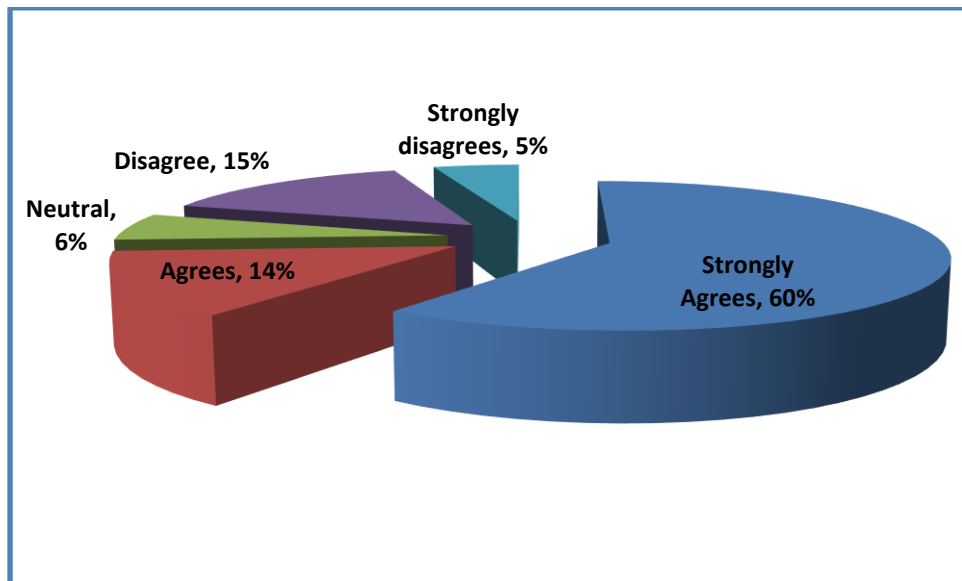
Employees and management's response on whether restructuring has managed to improve company profitability are presented in the diagram below.

##### **4.3.1 Responses of Restructuring on Company Profitability.**

From the illustration below it shows that 60% of the respondents strongly agrees that restructuring has increased the company profits. 14% agrees, 6% neutral, 15% disagrees and

5% strongly disagrees. The findings from the graph below suggest that employees support that restructuring has improved company profitability. The results depicted below are supported by researchers such as Marimuthu (2009) who support that corporate and business strategies are currently integrated into restructuring program to yield greater financial performance in both short run and long run.

### Employee Response on Restructuring



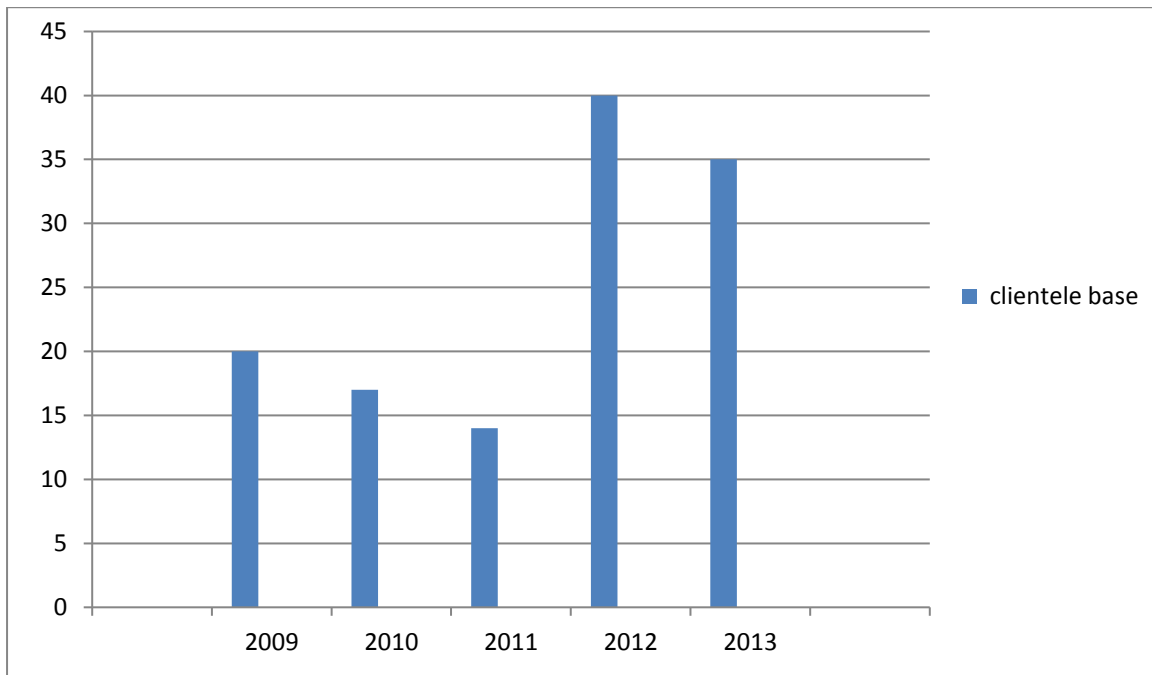
**Fig 4.6 Responses of restructuring to profitability**

From the responses that the researcher have from the management's responses it shows that restructuring was a turnaround strategy for the organisation. The management responses shows that there was a significant reduction in cost and improved efficiency in delivery of their services to their clients. The management also said that through the adoption of restructuring clientele base has increase by seeing a number of advertisers coming in for media space like Eco bank, Cimas and other players.

Many of these advertisers have not however completely abandoned their advertising agencies but have pursued the company's media buying services which are greatly lowly priced

because of the company's prowess in negotiating for lower rates in media space and air time with media owners. For instance, the advert graphical designing for Cimas, Eco bank and Delta beverages are done by GTA, Africa Advertising and Barker McCormick respectively but all their media needs are facilitated and catered for by Multimedia.

### Multimedia's clientele base



*Source: Adopted From Multimedia's Performance Review Report (2013)*

**Fig 4.7 Graph showing Multimedia's Clients from 2009 – 2013**

Fig 4.7 shows the number of clients as at December 30 that Multimedia had year on year from 2009 to 2013. In 2012 there was sharp increase in the number of clients and in 2013 there was a slight decline some of the company's clients closed their operations owing to liquidity crunch and low capacity utilization pressures in the country. This was the year when other banks like Royal bank were put under curator ship. 2013 saw a decline owing to some government price slashes which pushed many other businesses out of business. Moreover the

value of advertising declined owing to economic pressures of the economy with clients reducing on their advertising expenditure.

The above response rate from the respondents suggests that restructuring has improved efficiency in terms of service delivery, responsiveness and convenience. The findings indicate that restructuring managed to improve company's financial performance as indicated by more clients coming in which means that sales volume of clients seeking advertising has increased ever since the adoption of this strategy leading to improved profitability.

#### 4.4 Outsourcing and Company Cost

The researcher seeks to identify if outsourcing from cheapest suppliers has managed to reduce costs. The response rate from respondents is illustrated below.

##### Employee's responses on outsourcing and company cost.

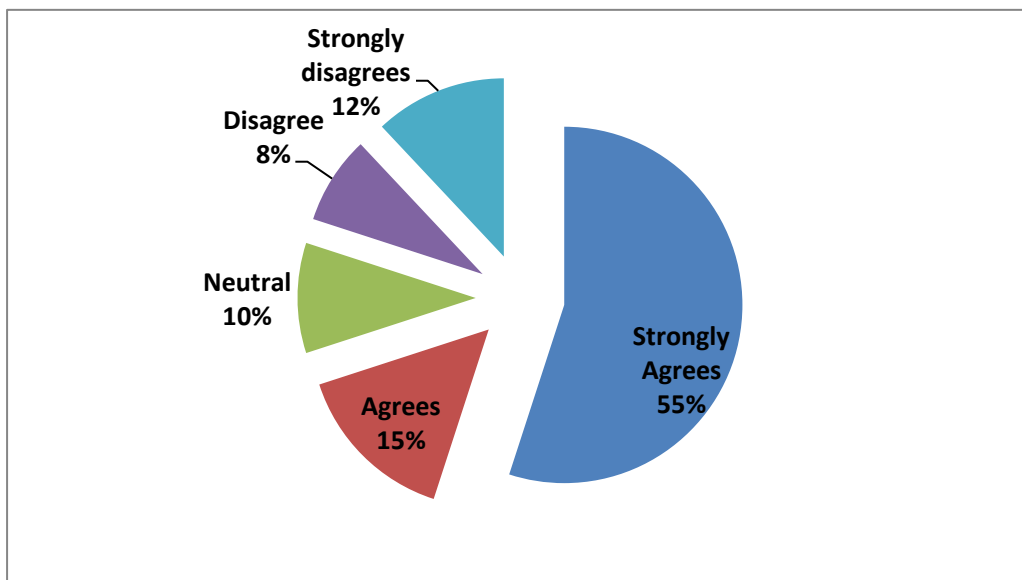


Fig 4.8 Graph showing responses on outsourcing and company cost.

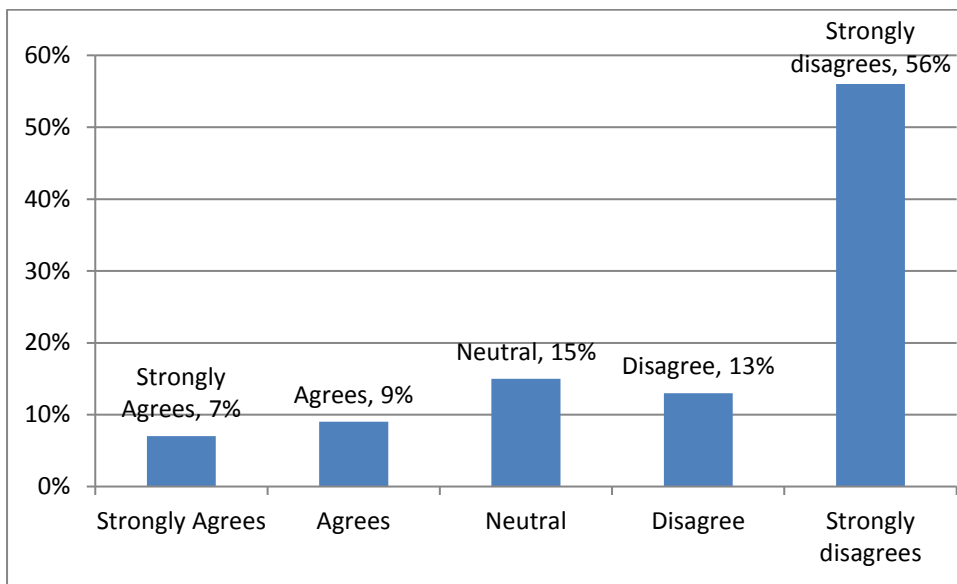
Employees were asked if outsourcing from cheapest suppliers managed to reduce company cost. As shown in Fig 4.6 55% of the respondents strongly agrees, 15% agrees, 10% neutral, 8% disagree and 12%strongly disagrees. The majority of the employees are saying that outsourcing from cheapest has led to reduction in company cost.

The management was also asked if outsourcing from cheapest suppliers has affected company cost. Majority of the team agrees that some services like bookkeeping and Information systems are not part of their core business and need them after a certain period so the decision to source from external service provider resulted in reduction in cost such as monthly salaries and transport allowances. They also said that they have partner with cheapest consultants who are also professional in those areas and offer those services at a lower price than hiring a permanent staff. To support these findings from literature researchers such Gottschalk and Solli-Saether (2006) shows that the concepts of complementarities and competencies explain that sourcing outsourcing vendors can increase productivity and reduce costs on client projects by applying a set of complementary application management competencies.

#### **4.4.1 The effect of Outsourcing on Quality**

Employees and clients were asked to respond if outsourcing from cheapest suppliers has led to a reduction in quality. The findings are shown in the graph below.

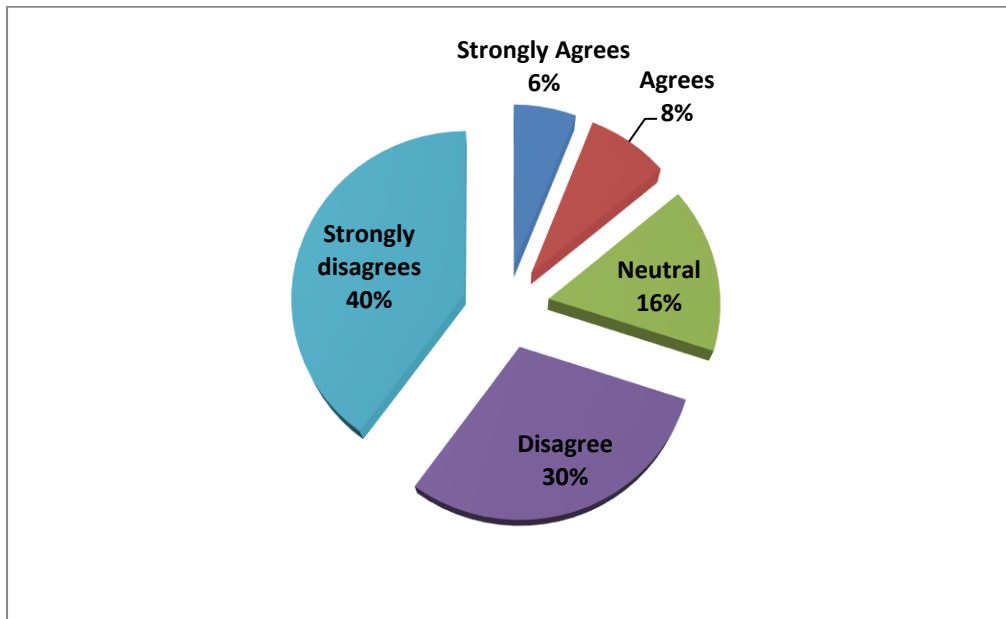
## Responses on quality



**Fig 4.9 Graph Showing response rate on Quality reduction from employees**

Findings of respondents from employees from Fig 4.9 shows that 56% strongly disagree that outsourcing from cheapest suppliers has led to reduction in quality, 13% disagree, 15% is neutral, 9% agrees and 7% strongly agrees. From the findings represented by the graph above it indicates that most of the respondents strongly disagree that outsourcing led to reduction in quality.

## Reponses from clients on Quality



**Fig 4.10 Graph showing response rate from clients on quality.**

Finding from the graph above it shows that 40% of the clients strongly disagree that outsourcing has led to reduction in quality. 30% disagree, 16% neutral, 8% agrees, 6% strongly agrees. The results from the graph indicate that most of the customers are still enjoying the services of Multimedia and the quality aspect has not been affected by outsourcing.

From an interview the Operations Director was asked by the researcher if outsourcing from cheapest suppliers has led to reduction in quality. In his response this is what he had to say, 'Outsourcing does not necessarily equate to cheap or poor quality services. In spite of us being the Cost Leadership, we still offer competitive services. In this day and age,' he went on; 'it has become critical that one derives added value while reducing cost.

He went on to say that the company's media knowledge is always valued. As part of the service and at no extra cost we monitor all clients' advertising across all media for

conformity to the strategy, quality, placement, timing and compatibility. We also offer post buying analysis reports, which measure the success of all media campaigns. Also, important is our competitive activity tracking reports that give details of competitors' media activity, channel ownership and share of voice' 'Moreover' he added, ' Multimedia makes use of scientific researches such as Zimbabwe Advertising and Media Products (ZAMPS) and has invested in software packages for target marketing, media planning, and post buy success measurement. As a result, most clients have made Multimedia an integral part of their planning meetings and seminars. 'Outsourcing however remains our core strategy and competitive advantage'.

The Responses from the respondents indicates that outsourcing has benefited the organization in terms of cost reduction in terms of operation and the findings also suggest that outsourcing from cheapest suppliers does not mean that it result in reduction in quality of the end service.

The findings of the research however agree to the findings of previous researchers on the issue of reduction in cost and improved financial performance both in the short run and long run. Researchers pointed out that a decrease in costs would lead to increased customer value as they tend to meet to minimize their own costs at the same time trying to increase their benefits. The research in agreement to this indicates that Multimedia's clients are highly satisfied by the value they get from the company owing to decreased costs that it offers.

#### **4.5 Summary**

This chapter was a comprehensive study used to present and analyses data collected from the field. Qualitative and quantitative approaches to data analyses collected from questionnaires and interviews. The next chapter looks at summary, conclusions and recommendations



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Summary findings

The researcher carried out a research to find out the effect of cost leadership strategies on company performance. The researcher mainly focused on the effect of cost leadership strategies that have been employed by Multimedia Saatchi & Saatchi. Literature review was aligned to the research objectives of the study .Literature on the effects of vertical integration in enhancing market share, effect of restructuring on company profitability and to evaluate whether outsourcing from cheapest suppliers has managed to reduce company cost. The view of these objectives slightly differs from amongst many authors and marketing practitioners as was seen during the review of literature by the researcher.

Other authors like Drummond and Ensor saw it from the angle of realising higher profit margins whilst others like Kotler (2005) and Mintzberg et al (2003) attributed the sole motive behind the strategy as reducing prices. For instance Kotler (2005; 206) states, ‘The business works hard to achieve the lowest production and distribution costs so that it can price lower than its competitors and win a large market share’ this view was favoured by the researcher after considering the definition of a marketing strategy by Drummond and John Ensor (2001) which stated that a marketing strategy is when you deliver your competitive advantage to the market place.

The researcher identified some literature gaps in relation to vertical integration. Most researchers reveal that vertical integration improves productive efficiency and it also increase profitability but they did not discuss much showing in relation to market share.

Research instrument used were questionnaires and interviews to collect data from respondents. The sample size used was 59, which was determined using Krejcie and Morgan (1970). Using information from interviews and questionnaires, analysis of data was done using Microsoft Excel. Data presentation was done in form of bar graphs, pie chart and tables so as to make necessary interpretations on the effects of each strategy on company performance. The research findings indicate that vertical integration improved Multimedia market share. The results also suggest that restructuring reduces company cost and improves financial profitability of the organisation and outsourcing result in reduce company cost.

## **5.1 Conclusions**

Conclusions can be drawn from the data analysis made in chapter four.

### **5.1.1 Vertical Integration in enhancing market share of the organisation.**

The researcher concluded that the vertical integration has a positive effect on the market share of the organisation as indicated by the 70% of the respondents who strongly agree that vertical integration has increased the market share of the organisation. Management responses also show that their market has expanded and company costs have been reduced after the adoption of this strategy.

### **5.1.2 Restructuring on company profitability.**

The researcher concludes that restructuring has improved the financial performance of the organisation. This is supported from the responses of the management which indicates that Multimedia perceived restructuring as a turnaround strategy for the organisation. The management responses indicated that there was a significant reduction in cost and improved efficiency. Analysis from the respondents 60% strongly agree, 14% agree, 6% neutral, 15%

disagree and 5% strongly disagree. The researcher concluded that restructuring enhances company profitability through improved efficiency and reduction in cost.

### **5.1.3 Outsourcing from cheapest suppliers on company cost.**

The researcher concluded that outsourcing from cheapest suppliers lead to reduction in company cost from the responses that the researcher have, this is supported by the results from chapter 4 which indicate that 55% strongly agrees, 15 % agree, 10 % neutral, 8% disagree and 12% strongly disagree. The researcher concluded that outsourcing from cheapest suppliers lead to reduction in company cost from the responses that the researcher have.

The researcher also interviewed the respondent if outsourcing from cheapest suppliers has led to reduction in quality. The responses from management indicate that sourcing from cheapest suppliers does not necessarily equate to cheap or low quality service. The implication of the results shows that outsourcing reduces company costs and improves efficiency.

## **5.2 Recommendations**

In spite of the company's success there are few recommendations that the researcher suggest for its continued success and survival. The following is a discussion of these recommendations.

### **5.2.1 Vertical Integration in enhancing market share of the organisation.**

The researcher recommends the organization to have Global Focus- Going Global. With growing globalization it is becoming increasingly difficult for Zimbabwe\_ organizations to reach their customers and prospects using local media alone since more and more people are increasingly having access to international media like the internet and satellite dishes .This might reduce the effectiveness of the locals media as people will be switching to these

international medias Thus for continued success Multimedia would have to utilize its international ties to have access to global medias like DSTV and international magazines like YOU so as to captivate the sophisticated Zimbabwean customers.

### **5.2.2 Restructuring on company profitability.**

The researcher recommends Multimedia to manage the Physical Evidence, services are intangible products, that is, they cannot be touched, seen, smelt, or felt. Thus customers usually judge a service by the physical things or the land scape of the organization that they see. Multimedia would thus have to improve the setting of its buildings, the interior décor and lighting and air conditioning, introducing state of the art computers and printers to enhance its image in the sight of its customers and stakeholders.

The researcher recommends Multimedia to invest in its workforce so as to improve in its customer service and beautify its brand image. Workshops on customer care programs, grooming and media buying should be conducted for the staff members to give the customers the best of service.

The researcher also recommends the organization to revisit its branding aspect. Though Multimedia has got a perfect name, it doesn't have a distinct brand identity. This has led to some other publics confusing it with other organizations bearing more or less the same name. By being called by its first name Multimedia, the name more of a generic name. Tom Peters marketing guru states 'be distinct or extinct'.

Branding might enable the company to market and position itself distinctively as it is in the advertising industry. The organization must therefore display pride and belief in its services through branding its vehicles, buildings and office colours.

### **5.2.3 Outsourcing from cheapest suppliers on company cost.**

The researcher recommends Multimedia to set a regular performance review or similar criteria to measure the provider's performance. The researcher recommends Multimedia to have long-term contracts with clients, so that it becomes a barrier to those who want to source business from their current client. Through long term contracts relationship becomes strong and difficult to strong because both client and the organisation shall built relationship based on mutual understanding and trust. There clientele base and market share of the organisation might not be affected and the organisation continues to offer the best to client knowing that there are no threats to their business because their business is now based on contractual basis and relationship aspects .

Overall the organization is recommended to continue pursuing cost reduction as a continuous process and not as a one off thing. Competitors are following suit therefore necessitating for the creation of new ways of getting hold of Cost leadership strategies.

### **5.3 Areas For Further study.**

The researcher looked at vertical integration in enhancing market share, how restructuring affect company profitability and the effect of outsourcing from cheapest suppliers. The researcher also suggests that more research could be done on the effect of cost leadership strategies on company performance in relation to other variables like timing, capacity utilisation and bulk buying.

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## **APPENDICES**

### **Appendix 1 -Interview Guide For Management**

My name is R102818Q; I am a final year student at Midlands State University studying Bachelor of commerce Honours Degree in Marketing Management. I am carrying out a research on “The effects of cost leadership strategies on company performance” using Multimedia Saatchi &Saatchi as a case study. The information obtained is going to be confidential and used strictly for academic purpose.

- In your opinion do you think your clients benefited after the implementation of cost reduction strategies?
- Did the cliental base change ever since the adoption of the cost reduction strategies?
- How has restructuring affected company revenue?
- Does company cost decrease by undertaking tasks normally done by outside contractors?
- Does owning outdoor media increase Multimedia’s market share?
- Did outsourcing from cheapest suppliers managed to affect company cost?
- What are the procedures did you consider when you implemented the cost strategies?
- In your opinion what other factors can affect the success of these strategies?
- Are Multimedia’s strategies different from that of their competitors in the media sector?

**THANK YOU FOR YOUR COOPERATION**

## Appendix 2 -Employee Questionnaire

My name is R102818Q; I am a final year student at Midlands State University studying Bachelor of commerce Honours Degree in Marketing Management. I am carrying out a research on “The effects of cost leadership strategies on company performance” using Multimedia Saatchi &Saatchi as a case study. The information obtained is going to be confidential and used strictly for academic purpose.

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### Instructions

Kindly answer all questions by putting a tick (√) in the box that mostly matches your views

or alternatively write in the space provided where appropriate.

1. . Did partnering with outside contractors managed to increase or decrease Multimedia’s market share?

YES

NO

Show the percentage increase

decrease

Please complete the following, in circle using the following instruction in the table below

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
5	4	3	2	1

**Question****Rating**

2. Company costs have been reduced by undertaking tasks normally done by outside contractors.	5 4 3 2 1
3. Owning outdoor media as a media buying house increase the company's market share.	5 4 3 2 1
4. The selling of advertising and administration of magazines on behalf of the producers enables Multimedia to lower costs for its clients.	5 4 3 2 1
5. Separating the operations of the media buying from the graphic designs increased Multimedia's cliental base.	5 4 3 2 1
6. Working separate from Saatchi & Saatchi enabled smaller advertising agencies to come through Multimedia.	5 4 3 2 1
7. Outsourcing From cheapest suppliers led to a reduction in quality.	
8. Outsourcing From cheapest suppliers resulted in reduction in company cost.	

9. If you have agreed or disagree to question 8 in the box indicate the percentage change.

Increase

Decrease

10. Did the management support motivate your performance between 2012 and 2013 in implementation of these strategies?

Yes  No

11. In your opinion overall do you think that these strategies were of great importance in achieving a competitive position?

No  yes  not sure  absolutely no

12. What effort did you put in place to reduce failures of these strategies?

- reliability
- responsiveness
- Interactive marketing
- Personal selling

**THANK YOU FOR YOUR COOPERATION**

### Appendix 3- Client's Questionnaire

My name is R102818Q; I am a final year student at Midlands State University studying Bachelor of commerce Honours Degree in Marketing Management. I am carrying out a research on “The effects of cost leadership strategies on company performance” using Multimedia Saatchi &Saatchi as a case study. The information obtained is going to be confidential and used strictly for academic purpose.

#### Instructions

Kindly answer all questions by putting a tick (√) in the box that mostly matches your views or alternatively write in the space provided where appropriate.

1.Does the adoption of cost leadership strategies benefit you as an organization between 2012 and 2013?

YES

NO

Please complete the following, in circle strongly agree or disagree.

**SA      SDA**

2. Partnership of Multimedia with billboards erectors benefited our organization. **5 4 3 2 1**

3. Multimedia's ownership of advertising bins benefited my company. **5 4 3 2 1**

4. Sourcing from cheapest suppliers led to reduction in quality. **5 4 3 2 1**

5. What attributes do you consider when choosing a service provider ?

Pricing and affordability

Quality

Consistency of service

Certainty of delivery

6. In your opinion does these strategies met your needs and expectations?

Better than expected

As expected

Worse than expected

More than expected

7. In your opinion do think that Multimedia should implement other strategies to improve their position against their competitors.

YES

NO

**8. Type of client**

Retail sector

Food and beverages

Banking sector

Hospitality industry

NGO'S

Any other

**9. How long have you been saved through Multimedia?**

Less than one year

1- 5 years

More than five years

**THANK YOU FOR YOUR COOPERATION.**