



**MIDLANDS STATE UNIVERSITY**

**FACULTY OF COMMERCE**

**DEPARTMENT OF BUSINESS MANAGEMENT**

**The effects of grey importation of vehicles on the performance of franchised dealers: A case of Puzey and Payne.**

**SUBMITTED BY**

**R11745E**

*The dissertation is submitted in partial fulfilment of the requirements of the Bachelor of Commerce Business Management Honors Degree to Midlands State University, Zimbabwe.*

**October, 2014**

**MIDLANDS STATE UNIVERSITY**

**APPROVAL FORM**

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## **DEDICATION**

The research is a special dedication to my family in particular P Musoko and D Musoko, who have been a source of inspiration and encouragement throughout the research. Their influence in my life is greatly appreciated. Also I would like to appreciate help and support from fellow peers. Praises also goes to the Almighty the source of guidance and inspiration through trying times during the study.

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## **ABSTRACT**

The study is titled “The effects of the grey importation of vehicles on the performance of franchised new car dealers: A case of Puzey and Payne”. The main objective of the research was to establish the effects of the grey importation of vehicles on the profitability of franchised new car dealers. The research also sought to analyze the effects of grey imports on the sales of new vehicles by franchised dealers. The literature reviewed include Duhan and Sheffet (1988) views on the nature of grey imports and Clerides (2005) perspectives on the impact of grey imports on franchised dealers and the economy. The target population of the research were the employees and the management of Puzey and Payne. Interviews and questionnaires were used to collect primary data for the research on a sample size of 20 respondents whom were selected using the purposive sampling technique. The study shows that the performance of Puzey and Payne has greatly declined due to the influx of second hand vehicles from Japan, United Kingdom and other developed countries. The study also established that grey imports are substitutes of the new cars imported by franchised dealers through official channels of distribution. They are cheaper or affordable alternatives of new vehicles which explains the decline in sales by franchised dealers. The study also assessed government policies that relate to the importation of used goods and the effects on the economy. The main recommendations of the study are centered on encouraging franchised dealers to diversifying product range and include the selling and servicing of grey imports if they are to improve their performance. Also the research recommends that the government should put in place policies that rationalize unfair competition posed by grey imports in the motor industry. Regarding the implications of the research findings the researcher recommends that other areas of research be undertaken.

## ACRONYMS

CLMG-	Cloverleaf Motors Group
WMMI-	Willovale Mazda Motors Industries
EC-	European Community
UK-	United Kingdom
SMMT-	Society of Motor Manufacturers and Traders
NERA-	National Economic Research Associates
WTO-	World Trade Organisation
CLMG-	Cloverleaf Motors Group
CEO-	Chief Executive Officer
SACU-	Southern African Custom Union
R & D-	Research and Development.
NHTSA-	National Highway Traffic Safety Administration
EPA-	Environmental Protection Agency
SEV-	Special and Enthusiast Vehicles

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Introduction**

The chapter encompasses the background of the study, the statement of the problem, research objectives, research questions, significance of the study, definition of key terms, scope (delimitations) of the study and limitations of the study.

Grey import vehicles are new or used motor vehicles and motorcycles legally imported from another country through channels other than the maker's official distribution system. Car makers and local distributors sometimes regard used car imports as a threat to their network of franchised dealerships. Also, car manufacturers frequently arbitrage markets, setting the price according to local market conditions so the same vehicle will have different real prices in different territories. Used car imports circumvent this profit maximization strategy. Many Zimbabwean franchised dealers have been affected by the great influx of used car imports in the country as they specialize in brand new automobiles. The research aims to explore the impact of used car imports on the performance of various franchised new car dealers in the Zimbabwe motor industry with greater focus on Puzey and Payne.

### **1.2 Background to the Study**

The introduction of the multi-currency system by the then Acting Minister, Hon Patrick Chinamasa around the year 2009 saw a new lease of life in local business operations, containment of inflation and a drastic reduction in currency risk greatly associated with the moribund local currency. Prior to the multi-currency era the business environment was characterized by a hyperinflationary economy, an unstable political climate which more or less calmed as more stable currencies were in use in the transaction process system of the nation. Though the economic conditions have become much more stable the motor industry has continued to struggle due to weaker protective import laws that help protect local companies from unfair foreign competition. Direct Importation of second hand vehicles by potential customers and by various unregistered used car dealers has been affecting many franchised new car dealers in the industry. They are being bypassed in the

purchase of vehicles and related accessories. The importation of used cars in most instances falls outside economic activities, which in turn are not taxed hence negatively affecting government revenues. Additional informality removes the incentive for businesses to improve the customer service and productivity. Thus the growth potential of many franchised new car dealers is reduced, fewer jobs are created driving more people into the informal sector. There has been many former employees and current employees of franchised dealers opening their informal businesses which service and sell grey imports around the country. The industry's situation has also been worsened after 2013 as country is experiencing a liquidity crunch which has affected customer's purchasing trends.

In Zimbabwe in the past ownership of vehicles was regarded as a luxury beyond the means of many average working people and one would save for a long time in order to purchase at least a second hand vehicle. However, in recent times facilities and systems have been improved in the country. An average individual has the ability and access to import used cars from Japan and other faraway places in many ways even using the internet. They can order a vehicle from internet and even pay on the internet through credit cards or bank drafts at the bank

.  
A dream, once distant, has mainly been made realizable mainly because used Japanese automobiles are exported to several countries especially in Africa. A 2004 Wall Street Journal report of 8th January claims that about one million used cars worth \$2.7 billion are exported every year from Japan. These cars are not only exported to the Sub-Saharan countries of Africa but also to other international countries like Australia and New Zealand; United Kingdom and Cyprus (Clerides 2008).

According to Bulawayo24 News it reported that Zimbabweans alone imported 206,519 cars worth over \$606 million between January and November of 2013 as reflected by statistics from the Zimbabwe National Statistics Agency. Most of the vehicles were second-hand, the Chronicle reported. The push factor of the influx of used cars is the relatively low cost of used cars as compared to that of new cars being sold by franchised new car dealers. Below is a brief comparison of cars sold by used car dealers and franchised new car dealers so as to show differences in cost.



**Table 1.1 Price variance between new cars and used cars**

<b>Car brand</b>	<b>Price new cars (P<sub>n</sub>)</b>	<b>Price used cars (P<sub>u</sub>)</b>	<b>Price Ratio (P<sub>u</sub>) / (P<sub>n</sub>)</b>
Toyota Corolla	(US\$19,450)	(US\$4,000)	0.21
Toyota Hilux RAV4	(US\$19,400)	(US\$6,500)	0.34
Toyota Starlet	(US\$18,000)	(US\$4,500)	0.25
Honda Civic	(US\$16,000)	(US\$3,000)	0.19
Honda CRV	(US\$22,700)	(US\$5,000)	0.22
Nissan Primera	(US\$20,800)	(US\$5,000)	0.24

*Statistics gathered from new car dealers and used car dealers in Zimbabwe*

The cost of new cars almost doubles the cost of used cars of the same nature being imported from Japan. The high cost of new cars has affected the demand for new vehicles on the Zimbabwean market and in turn increased the demand for the cheaper used cars. Demand for the cheaper alternative has also been driven by the low average disposal income, \$620.00 as of August 2014, and the lack of credit facilities by the franchised new car firms can give low income earners the chance to purchase the high priced new cars.

The implication of such an increased influx of used cars in Zimbabwe is now visible as congestion is now a continuous phenomenon experienced throughout the day in major towns and cities. Though over 200,000 cars have been bought it is alarming to note the rate at which sales by franchised new car dealers are declining. For example Information gathered from Mazda Willowvale reveal that in March 2014 the company recorded zero sales on Mazda T35, Mazda 2.2 Double Cab and HR DC types. The data collected from WMMI serves to reveal that grey import have some impact the performance of brand new vehicle sales.

### **1.3 Statement of the Problem**

Zimbabwe does not manufacture vehicles and also have a limited capacity to assemble cars to satisfy the country's demand. The motor industry is mainly comprised of franchised dealers who import and sell brand new cars. According to Saito (2002) as used cars outnumber new car greater consideration is on answering whether used cars and new cars are perfect substitutes. As volumes of used cars have increased in Zimbabwe there has been a sharp decline in new car sales. The car market in every country is of great importance due to the immense bear upon public policy, trade flows, business cycles, energy demand and air pollution (Berkovec, 1985). The downturn in performance has been linked by many to the influx of grey imports into the country. Henceforth, there being the need to research on the impact of the grey importation of vehicles on performance of the franchised new car dealers and to also asses appropriate government policies on the matter.

### **1.4 Research Objectives**

- To determine the effects of the mass importation of used cars on sales by franchised new car dealers.
- To determine the effects of the importation of used cars on the profitability of franchised new car dealers.
- To determine the effect of trade policies on the performance of franchised new car dealers.
- To determine the elasticity of demand between grey imports and brand new vehicles.

### **1.5 Research Questions**

- What is the impact of used cars on profitability of franchised new car dealers in Zimbabwe?
- What is the effect of the importation of used cars on sales of new cars by franchised dealers?
- What are the ramifications of trade policies in Zimbabwe on the performance of firms in the motor industry?
- What is the significance of the importation of gray imports in promoting competitiveness in Zimbabwe's vehicle market?

## **1.6 Significance of the Study**

### **To Puzey and Payne**

The research is aimed at shedding light on impact of grey imports in Zimbabwe mainly focusing on how it affects sales and profitability of franchised vehicle sellers in the country. Therefore, an extensive research would be beneficial to the management in formulating strategies relevant to counter the problems posed by the influx of used cars in Zimbabwe and to gain a deeper understanding on the subject of importation of used cars.

### **To the Researcher**

At the end of the research the researcher would have been exposed to different forms of literature that addresses problems in the motor industry therefore would have acquired knowledge and problem solving techniques.

### **To Midlands State University**

The research can be useful as a source of reference in other areas that relate to the research at hand. Other researchers can use the research as a secondary source of information.

## **1.7 Assumptions**

In this research the following assumptions were made;

- The researcher will be able to access all current developments pertaining to the importation of grey imports in Zimbabwe.
- The selected individuals to provide information will afford the researcher the time to respond to the questions and in time;
- Whilst collecting data, respondents will be cooperative; and financial resources are going to be enough to meet all the costs involved.

## **1.8 Scope (Delimitations) of the Study**

### **The scope of the research shall be confined to:**

The motor industry of Zimbabwe with the greater emphasis being placed on Puzey and Payne one of the most established franchised new vehicle seller and service provider. Established in 1956 and grown, from having a single branch in Bulawayo to spread to Gweru, Harare, Masvingo and Mutare. Sales of new vehicles have been on decline in recent times as Japanese second hand imports have increased henceforth the research endeavors to explore the relationship between presence of Japanese cars and the decline in sales at Puzey and Payne.

## **1.10 Limitations**

Some of the reliable statistics and other related information are not readily found on academic platforms as the noticeable impact of the importation of used cars is a recent times phenomenon. There are no websites which provide accurate statistics that can help to build arguments and make inference from. Reliable statistics can be found in government offices where strenuous bureaucratic procedures have to be followed. Also time might be a constraining factor because of a short academic year, and so efforts to probe deeper may delay the timely completion of the research project. Henceforth, the study was conducted within the financial ability and time of the student.

## **1.11 Chapter Summary**

In this chapter, the researcher was outlining the purpose of the project, research work to be carried out as well as the approach to be used to ensure timely completion of the research. The chapter includes the background of the problem, statement of the problem, research objectives, research questions, the significance of the study, the scope of the study and the limitations that exist to the study. All these sections of the chapter helps in the introducing the analysis of the impact of the importation of used cars on performance of franchised brand new car dealers.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

There is no doubt that the literature review is an important aspect of any research project. As its name implies, literature review involves the collation of ideas, views, positions and opinions, expressed in the writings of recognized authorities as well as findings of previous researchers in one's area of investigation (Issa, 2003).

Most of the research work and academic literature that relate to the importation of used cars have been conducted outside Africa. In more advanced economics where the impact assessed is more or less in relation to vehicle manufactures rather than new car dealers like in the case of Zimbabwe, nevertheless the work done will suffice to further the objectives of the research at hand.

#### **2.2 The Nature of Grey Imports**

In many parts of the world the practices of importation of used cars suggests something suspect about the practice as it is part and parcel of gray marketing. Gray marketing involves the selling of trademarked goods through channels of distribution that are not authorized by the trademark holders (Duhan & Sheffet, 1988:76). When gray marketing occurs across markets, such as in an international setting, the term used most commonly is 'parallel importing'. It provides the prospect for some companies to go around official franchise holders or agents for specific, usually high-priced, branded goods and to source them direct from overseas suppliers. It is only illegal when gray market goods violate either product regulations or a licensing contract for the trademark's use in a specific country, or where the trademark owner is based in the country into which parallel imports are intended to be shipped.

The perspectives of Duhan and Sheffet are suggestive of the conflicting or competitive nature that exist between grey imports and brand new goods. In essence of their view point grey imports or used vehicles act as substitutes to brand new vehicles which are imported through the official

channels of distribution. It is generally perceived that the importation of used cars may lead to increased competition, greater choice and lower prices to the consumer. The impact of used cars on the financial performance of new vehicle dealers can be reviewed using Porter's Five Forces Model of competition.

### **2.3 Competition and Porter's Five Forces Model**

The model helps to further review the impact of grey importers on the performance of the franchised dealers in the motor industry. According to Graham Hooley et.al, Porter suggested that five main forces shape competition at the level of business units and that a systematic analysis of each unit in turn can help managers to identify keys to competitiveness in their particular industry. He wanted to account for long term variances in the economic returns of one industry against another. Assessment of variables that explain superior and inferior performance. In the model grey imports fall in the categories of substitutes and new entrances. In support Kloper and Bent, (2006) notes that if many organisations offer similar products there are no barriers to entry and price is the common determinant for competition. When products with a substitution effect freely enter the market they not only limit profits of the existing products, but they also reduce the bonanza an industry can expect in boom times. This is clearly evident in the Zimbabwe motor market, though demand for cars has sharply increased from 2009 new car sales have been steadily decreasing. According to Chiu L.C and Shioji H. (2007) New and used car are not fully differentiated so two major car sectors are competing for the same customers and resources. It intensifies having the same market share, leading to a struggle for market leadership and brand identifications are similar, only the wear and tear makes the difference.

In further defining the Porter's Model the model is a representation of the forces that directly or indirectly, cause or inhibit market growth over a particular period. According to Grundy (2006) to increase the range of application for the model there is need to think outside the industry drawing into the picture the PEST analysis Model. He notes that where the PEST factors are generally hospitable, growth is encouraged and the full impact of the forces may not be felt and thus may be latent. However where the PEST factors become inhospitable, this will clearly dampen the growth drivers within the particular market.

According to Ahmadi, R. et al. in the 21<sup>st</sup> century rowing numbers of efficient global logistics networks help grey markets reach more customers faster. Advancing web technology and a rapidly growing online retail sector also boost gray markets. To name only a few, Amazon, eBay, Alibaba, Kmart, and Costco are among the retailers known to have sold gray goods. In Zimbabwe most of the Japanese second hand cars are being imported using Beforward.

Prior to the surge of used car importation competition amongst the firms in the motor industry of Zimbabwe existed. Used cars can be classified as substitutes of new vehicles in the Zimbabwean vehicle market. Substitute goods are goods that have a positive cross elasticity of demand. According to Chu, T. et al. (2009) used cars are the cheaper alternative of highly priced new vehicles on the market. Historically used vehicle markets had been supplementary to new vehicle markets in satisfying transportation needs for different customers. The authors relate to used cars as supplementary products of new cars mainly because of the existence of lower volumes of used cars as compared to the new cars on the motor market at that time. Supplementary goods come into existence to make up for a deficiency in a particular market. The diverting of large quantities of cars from authorized distribution channels to unauthorized grey market channels affect both firms and customers due to the effects on price, revenue and product availability. Chu et al (2009) relates to it as the impact of diversion. The size of the gray market hence plays a part when determining whether the used cars are substitutes or complementary products.

According to Swanson (2000) the existence of grey markets can be attributed to differences in currency exchange rates, product quality and characteristics, warranties and services.

The other factor that determines the magnitude of impact that used car sales will have on new vehicle sales is the nature of market. A heterogeneous market might be suitable if the two are to core exist with less negative impact on each other. A heterogeneous is market characterized by buyers with different needs and wants.

According to Iravani, F. et al. there are ways which are being applied by manufacturers who seek to minimize the substitute threat posed by gray imports as the existence of gray imports is imminent. Some manufactures of the 21<sup>st</sup> century counteract gray markets may differentiate their

products for different markets to make it harder for parallel importers to sell the products as perfect substitutes.

According to Swason (2000) and Friedman (1998) grey products could be placed into three types as 'unintended' products, licensed products and distress products. Unintended products are the goods that are authorized for sale in one country but they are sent to a different country and once they go into circulation of that country, they openly compete with authorized distributors in that country. Licensed goods are products manufactured in an arrangement with a trademark license but retailed through authorized networks. Distress goods are the goods that are dumped by a dealer who is authorized in the conditions that they are manufactured in surplus or the products that they are obsolete.

The Japanese cars fall into the category of unintended goods as they are created for Japanese markets put strict legislation makes them expensive. The greatest cost that Japanese car owners incur is the "shaken" which is the car safety inspection or fitness warranty renewable after 3 years from purchase and after every 2 years at a substantial cost around \$1500. Clerides (2003) believes that the high renewal cost leads many Japanese to replace the cars after the shaken expires, thus creating a large supply of almost-new used cars.

Purohit (1992) attributes the existence of Japanese second hand on the grey market to rapid technology changes in automobile manufacture. He notes that vehicles are durable products which are long-lived, and there exists the possibility of secondary markets for used products as well as the potential for product obsolescence. The introduction of new versions of a product can make earlier versions obsolete. The older versions may be obsolete in the particular market however they may satisfy the same general needs in another market of lesser technological advancement and development.



## **2.4 Advantages of gray imports**

### **2.4.1 Creation of Employment**

There is substantial literature which is suggestive of benefits that emerging economies might profit from the influx of the trade in used durables from the developed economies. The benefit is derived from the point that the second hand durables are labour intensive in their use, maintenance and repair as compared to first-hand durable products. Labour abundant developing countries are therefore better able to utilize them than labour scarce developed countries. Grubel (1980) emphasized on the slow depreciating nature of vehicles in emerging countries in enlightening the point of there being some prospective for gains from the trade in used durables.

In matters which aids the creation of employment, the increased importation of used cars has led to the creation of small businesses in Zimbabwe. Many have taken advantage of the availability of cheap fuel efficient cars to venture into the taxi business.

### **2.4.2 Affordable Prices for the Consumer**

Generally parallel importation of goods results into higher competition in the particular industry the goods are entering. Rothnie (1994) describes grey importation as the process by which enterprising middleman take advantage of lower prices, to buy stocks in the cheaper foreign country and export them into the dearer domestic country. A restriction of such an activity is believed to prevent consumers in the dearer domestic country to purchase goods at world best prices. The grey importers will can also increase competition which also translates to lower prices and increased choice for consumers. In Japan the creation of grey vehicles for foreign markets is partly caused by the rapid technological changes in the automobile manufacture. Henceforth, some of the vehicles which find their way to the gray market will be of advanced technology. Consumers will be able to exploit this international technology.

### **2.4.3 Increase of Government Revenues**

The government can derive some benefit from the increased importation of used cars. Revenue inflows can increase through collection of import duty and other relevant taxes collected by

government before the imported car is declared road fit. The increase in volume of vehicles on the road increases revenue collected from tollgates. The increase in the availability of financial resources promotes economic development.

## **2.5 Disadvantages**

### **2.5.1 Lack Insurance and warranty**

Grey imports are usually purchased on an 'as-is' basis by which the dealer puts the responsibility and road worthiness of the used car in the hands of the consumer. Despite the arrangement, most consumers are not inclined to technically assess the used vehicle before purchase they go for cheap price and assume the quality enhancement later (Tan 2006: Sytin 2006). In relation to the risk in ensuring quality grey imports according to Chu and Delgado (2009), 'used vehicles coming from the United States into Mexico using unauthorized channels are also known as "chocolates" because the buyer never knows what he/she is getting until they try them.' Quality or the true condition of the car cannot be ascertained prior to the purchase.

### **2.5.2 Inferior quality due to the different markets**

Inferior quality gray market goods arise in two forms. Firstly, when gray imports identically produced to the authorized goods become inferior because of improper care during importation. Secondly, because the foreign market they are imported from the products are of inherently different quality than the domestic market goods. Vehicles in most instances are specifically manufactured for specific regions taking into consideration certain factors such as climatic conditions, cultural differences and applicable voltage of the region, amongst others.

The gray market dealer cannot internalize all the benefits of proper handling, whereas he can externalize much of the costs of improper handling to maximize profits and also because it is the reputation of the brand which may lead to appraisal or disapproval of brand holder not the gray importer.

### **2.5.3 Free Riding**

According to Tan et al. (1997) and Michael (1998) gray importers take advantage of the advertising and other related marketing communication activities done by the brand dealers in the promotion of their market positioning. They benefit from the market demand and brand image of the product created by the authorized distributor without bearing the costs incurred in building the demand and associated image. Kitchen (2006) denies that authorized dealers also gain similar benefits of free riding on promotional activities and advertising by gray importers. The author argues that gray importers promote their products primarily on the basis of substantially lower prices which in reality cannot be compared to aiding brand image. Knoll (1986) in his elaboration of free riding of gray importers categorizes free riding into free riding on reputation and free riding on services.

- **Free ridding on reputation**

This occurs when gray market importers by diverting sales from the trademark authorized distributor to their unauthorized distribution channels appropriate some of the return from the authorized dealer's goodwill. When the authorized distribution channel loses sales to the unauthorized channel the franchised dealer who would have invested in goodwill loses the premium for providing a product of high and consistent quality.

- **Free ridding on services**

Brand distributors or franchised dealers in a particular region often provide services that increase demand for the brand product. Services which increase demand range from educating of potential customers about the product, repairing the product under warranty and the maintenance of some stock of accessories that can be used by the product. Mainly because of the nature of durable goods which require repair services and maintenance, in the motor industry provision of service necessary. The franchised dealers who provide the service can be taken advantage by most gray importers who do not make incur the costs associated with the provision of the services.

### **2.6 Effects of Government Trade Policies**

Government industrial policies have great influence on industrial performances and development trajectories. According to Clerides (2005) increased trade causes domestic firms in import

competing sectors to shrink in size. The infant industry theory is the dominating theoretical foundation of the industrial policies in developing countries to protect and foster immature industries. In application of the theory there are many factors which should be considered which include the economic and political environment in a specific country. Domestic firms in developing economies depend on the government for protection with tariffs, quotas and other useful means from well develop international competitors for a limited time period until their capabilities reach the international level.

When protection is expected to be long lasting then the protected domestic firms would have less incentive to improve productive efficiency. Protection may reduce the need and motivation of the protected firms to learn and improve because of the lack of competition which leads to the creation of monopoly or oligopoly markets. The level of protection is also associated with the market welfare deadweight loss.

In many developing countries industries have failed to attain international competitiveness even after 15 to 20 years of protection and may not survive if such measures of protection tariffs are removed.

When crafting a protective policy one important factor to consider is the environmental consequences of used vehicle importation. Vehicles are a major source of carbon dioxide, the principal greenhouse gas associated with climate change (Davis and Kahn, 2010). The study of the trade of used vehicles from United States into Mexico reveals that the used vehicles exported from United States into Mexico were higher emitting on average than the stock of vehicles in United States. Japan's environmental and safety regulatory regime is less tolerant of used vehicles. Vehicles are subjected to a costly inspection and maintenance regime that serves to substantially increase the rate at which vehicles depreciate for customers. This limits the used market in Japan.

### **2.6.1 Brazil**

The government of Brazil in the 1950s put in place stringent trade barriers to promote domestic vehicle market in consistence with the import substitution policy. There was growth of local automobile suppliers which also reduced costs incurred by franchised new car dealers as they no

longer imported. When domestic firms reached a certain level of competitiveness by the end of 1960s the protection policies started to loosen.

### **2.6.2 Cyprus**

Like in Zimbabwe Cyprus has no automobile manufactures, the local market operates on an exclusive dealership system. After the relaxation on import restrictions in 2005, the maximum allowable age of an imported vehicle was raised from 2 to 5 years. The policy change led to an increase of used Japanese vehicles and also led to the change of the market composition by causing some consumers to switch their choice from a new car to a used car.

## **2.7 Performance and Profitability Measures**

Profitability is the ability to add value to the organisation using the available resources in the market. Hofstrand (2009) asserts that profitability is the primary goal of all business processes. If the business does not make profits it faces the risk of closure. Henceforth, measuring current and past profitability and projecting future profitability is crucial for any firm. The measurement is basically an assessment of the company's income and expenses. In a particular period firms which would be profitable would have the income exceeding the firm's expenses. The economic survey of Pakistan 2010-11(Finance Division Government of Pakistan) in its report highlights that the performance and growth in automobile industry across the world depends heavily on economic growth and availability of financing from financial institution at favorable terms (Zareen S). The report highlights the importance of the availability of financial resources and the economic environment to the sustainable growth of firms in the motor industry.

According to Baghai, Smit and Viguerie (2007) on the topic of growth and profitability companies that grew sluggishly than the GDP were five times less likely to service the subsequent business cycle expenses compared to firms that developed quicker than the GDP. Therefore, when assessing the performance of any firm it is of paramount importance to factor in the economic trends of the country so as to craft appropriate strategies for the growth of firm.

### **2.7.1 Average sales Growth rate SGR**

This is the year on year percentage change or increase of the company's revenues over at least two years. The average of the yearly sales values over a predetermined period of time is called the average sales growth rate. The measure is important as so many items in the Statement of Comprehensive Income and Statement of Financial Position vary with changes in sales for example changes in sales will affect labour or raw materials required by a firm.

$$\text{SGR} = \frac{\text{sales}(t) - \text{sales}(t-1)}{\text{sales}(t-1)}$$

### **2.7.2 Profitability Ratios**

According to Eskandari (2007) there are two types of profitability ratios namely margins and returns ratio that show margins, represent the firm's ability to translate sales dollars into profits at various stage of management ratios, that show returns represent the firm's ability to measure the overall efficiency of the firm in generating returns for its shareholders. Some of the various relevant measures that can be used to assess performance include the following profitability measures:

- Gross profit margin – the gross profit margin is the measure of gross profit earned on sales
- The rate earned on total assets - is the measure of how efficiently the firm's assets are being used.
- The ratio of net sales to assets - it measures the return on the assets employed in an organization's operations.
- The rate earned on stockholder's equity- it is the measure of profits for each dollar of the stock.
- Dividend yield- is a measure of income for shareholders from the available profits at the end of the year.

## **Limitations of Profitability ratios**

- A reference point is should be established for the ratios to be useful. To be meaningful, most ratios must be compared to historical values firm, the firm's forecasts or ratios of similar firms.
- Most ratios by themselves cannot depict a meaningful measurement. They should be viewed as indicators, with several of them singularly not able to give a picture of the firm's situation.
- Ratios are subject to the limitations of accounting methods. Different accounting choices may result in significantly different profitability ratios.

### **2.7.3 Assessment of operating business environment**

These ratios can also be used to compare the performance of an organisation against its competitors. The financial ratios have their limitations in interpretation of the company's performance. To help get a better view of the company's position an assessment of operating business environment can be useful. The measure of the business risk becomes useful. According to the Investment dictionary, business risk is the probability that a company will have lower than anticipated profits, or that it will experience a loss rather than a profit. Business risk is influenced by numerous factors, including sales volume, per-unit price, input costs, competition, and overall economic climate. The firm's operating performance can be measured by

- The nature of business activities the company is involved in
- The physical state of the fixed assets
- Political considerations
- Substitute products available
- Availability of complementary products
- Management style
- Future demand for products and services
- Future prospects of the industry

It is important to assess all the business risk factors faced by the company when attempting to form an opinion on the viability of a firm. A company might appear very profitable when looking at its financial ratios but competitive forces in the industry, it might be that the assets are very old which could easily wipe out what appears to be a solid company.

## **2.8 Marketing in the automobile industry**

The marketing structure employed by a firm directly relate to the performance of the firm. According to Perreault and McCarthy (1995) marketing is the performance of activities that seek to accomplish organizational goals by anticipating customer and directing a flow of need satisfying goods and services from producer to consumer. On a macro level they define marketing as the social process that directs an economy's flow of goods and services from producers to consumers in a way that efficiently equals supply and demand and accomplishes the objectives of society.

Perreault and McCarthy (1995) argue that a marketing strategy specifies the target market and a related marketing mix. It is a big picture of what a firm will do in some market. They define target marketing as a marketing mix tailored to fit the targeted customers. They argue that creative strategy planning is becoming even more important because firms can no longer win profits just by spending more money on plant and equipment. Moreover, domestic and foreign competition threatens those who cannot create more satisfying goods and services and find ways to build stronger relationships with their customers. They highlight that new markets, new customers and new ways of conducting business operations should identified if firms are to operate profitably.

### **2.8.1 Customer relationship Marketing**

One of the most important aspects of marketing is establishing strong relationship with the customers. A key principle to Customer Relationship Marketing is retention of customers through varying means and practices to ensure repeat trading from pre-existing customers by satisfying requirements above those of competing companies through a mutually beneficial relationship.



How good the seller buyer relationship depends on how well it is managed by the seller (Ezinkota M 2001,).

Research undertaken by the consultant firm Bain & Co. (Reichheld & Sasser 1990) suggests that there is high degree of correlation between customer retention and profitability. Established customers tend to buy more, are predictable and usually cost less to serve than new customers. Therefore many companies in competing markets will redirect or allocate large amounts of resource of attention towards customer retention as in markets with increasing competition. It may cost five times more to attract new customers than it would to retain current customers as direct or “offensive marketing requires much more extensive resources to cause defection from competitors” (Kotler, 1999).

The discussion of the evolution of customer relationship demonstrates how a firm's relationship with its customers might be enhanced as customers move further along this relationship continuum. As the relationship value of customer increases, the provider is more likely to pursue a closer relationship. The primary goal of relationship marketing is to build and maintain a base of committed customers who are profitable for the organization (Gordon, 1999).

### **2.8.2 Market share**

According to Cooper (2010) in an era of intense competition businesses should become more apprehensive with market share figures they achieve in the marketplace. He highlights that market share commands the attention of business managers as key indices for measuring the performance of a product or brand in the market. Market share is the company's sales revenue divided by the sum of sales revenue available in the market. It can be expressed or calculated as:

$$\text{Market share} = \text{Firm's Sales} / \text{Total market Share}$$

Copper (2010) also highlights that market share is often associated with profitability and thus many firms seek to increase their sales relative to competitors. The following reasons were enlisted

- Economies of scale – high volumes that can be instrumental in developing a cost advantage.
- Increased bargaining power – a larger player has an advantage in negotiating with suppliers and channel members.
- Sales growth in a stagnant industry- where the market is not growing the firm can still grow in sales.

## **2.9 Chapter summary**

This chapter on literature review has tried to capture various aspects that relate to the importation of used vehicles in Zimbabwe. The chapter answered research questions using several sources. The review of different sources of literature help to understand research objectives defined in chapter one and give direction to the research.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter is set out to give a descriptive of how the research study was performed, highlighting all the activities and procedures undertaken during the study. The chapter seeks to elaborate on the researcher's choice of the research subjects and the research methods employed in collecting information for the research. The research design and the methods used will aid in acquiring data relating to the effects of used car importation on the performance of franchised new car suppliers in Zimbabwe.

#### **3.1 Research Design**

According to Zikmund (2003:65) a research design is a master plan specifying methods and procedures for collecting and analyzing the needed information. It is a framework or blueprint that plans the action for the research project. The researcher is going to use both the explanatory and descriptive research designs in fulfilling the needs of the study.

##### **3.1.1 Exploratory and descriptive Design**

According to Burns A and Burns. B (2008) an exploratory study is like a fishing expedition which give insights and suggested directions the main goal being to develop the ultimate research design by becoming acquainted to the elementary truths and concerns. The research design assists in developing an image of what is happening, generating tentative assumptions and defining the practicality and the logic of direction for more rigorous follow-up. According to Zikmund (2003) an exploratory research is the initial research conducted to clarify and define the nature of the problem. The selection of the research design in most instances is prompted by the discovery of general problems where research is needed to gain better understanding of the dimensions of the problem. Adams and Schvaneveldt (1991) commenting on the flexibility of an exploratory study agree that at the start focus of the study is wide-ranging and gradually becomes narrower as the

study develops. Considering the time constraints of the study the design was advantageous because of how it was quick and cheap to establish the direction that the research should take. However to gain conclusive evidence and results the research used the design in conjunction with the descriptive research design.

According to Zickmund (2003) the purpose of a descriptive research is to describe characteristics of a population or phenomenon, giving answers to who, what, when, where and how questions. Saunders (2009) in the same line of thinking propounds that it is commonly used as an extension of the exploratory study to give deeper accurate information.

### **3.2 Qualitative and Quantitative Data**

The researcher used both qualitative and quantitative data. Saunders (2009) defines Qualitative data as all the non-numeric data or data that have not been quantified and can be a product of all research strategies. Qualitative research stresses the validity of multiple meanings of events with 'reality' not a fixed stable entity but a variable that can only be discerned through an analysis of multiple understandings and meanings held by different persons (Burns and Burns 2009:18). Therefore one important advantage of using qualitative data is the flexibility in collection and in interpretation of the data. In essence a qualitative investigation is like the 'net of a deep sea explorer'. It is also essential as a preliminary to a quantitative study as its role of suggesting possible relationships, causes and effects in the business environment leads to a more detailed and controlled quantitative research.

Whilst qualitative data is less tangible concentrating on meanings derived from words quantitative data concentrates on numeric data to derive meaning. Quantitative data concentrates on measuring scale, range, frequency using valid and more reliable instruments. The research made use of tables, graphs and charts to illustrate the quantitative data obtained during the research.

### **3.3 Data sources**

The research made use of both primary and secondary data to fulfil the purpose and objectives of the researcher.

#### **3.3.1 Primary data**

It is the data collected when the researcher notes what actually happened or what was actually said at a time. It can simply be defined as first hand data. Some of primary data relevant to the research was collected during the year 2013 the time the researcher was attached at Puzey and Payne through interaction with employees and management and observations in the work environment.

- **Justification for using primary data**

Primary data was used because of its proximity to the truth and control over error.

#### **3.3.2 Secondary data**

Secondary data is the data that researchers would not have gathered by themselves directly from respondents but from other researchers, newspapers and other publishing research institutions. Most of the secondary data was reviewed in the Literature review section of the research. Secondary data helps to gain a better understanding of the research scope through the eyes of others. The choice of using secondary data was based on how it is cheap and easy to locate relevant information for the research.

However, the major disadvantage of using secondary data is that at times the information may be outdated to give the researcher true perspectives that relate to the present thus a number of assumptions have to be made regarding its validity. The researcher made rigorous efforts in ensuring that the secondary data used was of recent times and related to the study. Data was collected based on its relevance to resolve the research questions and gaining insight to the research problem.

- **Justification for using secondary data**

The method was sought because of the time constraints of the research. To assess the impact of grey imports on the performance of franchised new car dealers there was need to establish trends of new car sales, grey import sales etc. the use of secondary data ensured that the research could be completed rapidly. Also secondary research is less expensive than primary research.

### **3.4 Methods of collecting Data**

#### **3.4.1 Face to face Interviews**

Interviews are generally defined as purposeful discussions between two or more parties. Face to face interviews were used in probing and soliciting data for the research. The interviews gave opportunity for getting instant responses and the chance for deeper inquiries or clarifications on the responses.

#### **3.4.2 Justification of using interviews**

- Flexibility – the interview has the opportunity to adjust questions on assessment of the subject and the total situation in the direction that suits the requirements of the research.
- High response rate – many of the research subjects were comfortable responding verbally than giving written responses. However it is more suited to when a small size of the representative sample. This is why interviews were only conducted to the management of Puzey and Payne because of the time constraints it was not feasible to interview the whole sample.
- It necessitates for the observation of non-verbal communication and assessment of the environment- the observation of such elements condense respondents' meaning and provides some added dimensions to data collection (Burns and Burns 2008). Complex topics can be better understood by the parties involved. This ensures conclusive response.
- Establishes rapport and a high level of motivation – common ground and better understanding may be established through the interaction.

### **3.4.3 Weaknesses of face to face interviews**

- Expensive and time consuming – scheduling for the interviews can be difficult at times especially when trying to interview management and also travelling expenses to meet with the respondents is a challenge.
- Interviewer characteristics which may lead to biased findings – the researcher was careful of variations in the use of interview techniques in trying not to enforce interview characteristics on the respondents.

### **3.5 Self-Administered Questionnaires**

A questionnaire is a set of questions arranged in a predetermined manner for data collection. Mostly the questionnaires questions are closed ended because of how easy it is to categorize and summarize data gathered using the method.

#### **3.5.1 Justification of using Questionnaires**

- Less expensive and save time especially when respondents are dispersed travelling expenses are cut as questionnaires and responses can be mailed.
- The absence of an interviewer when the questionnaires are completed contributes to standardization of responses reducing interviewer effect. The absence of direct contact reduces anxiety through intimidation.

#### **3.5.2 Weaknesses of questionnaires**

- The respondents cannot seek clarification from the researcher. The questionnaires were crafted to cater for this by being simple and specific whilst ensuring the possibility of meaningful answers.
- This method is subject to misinterpretation which could lead to wrong responses.

### **3.6 The Likert scale**

The Likert scale was used in designing most of the closed ended questions. As defined by Shukla (2008) the Likert scale is a psychometric scale commonly used in questionnaires. It gives the option for respondents to specify their level of agreement to a question. The respondent is asked to evaluate according to a subjective/objective criteria.

Format of a typical five level Likert scale is:

- a. Strongly disagree
- b. Disagree
- c. Neutral
- d. agree
- e. strongly disagree

- **Justification for Using the Likert Scale**

The questions that use the Likert scale are easy to analyze, easy to collect data, quick and more expansive. The Likert scale also assists to measure the respondents' attitudes.

### **3.8 Target Population**

The population is the total collection of elements about which we wish to make some inferences (Cooper and Schindler, 2003). Overall population consists of 218 employees and management of Puzey and Payne whilst the target population (population of interest to the researcher) represents the individuals appropriate to partake in the study. The target population was selected using non probability sampling.

#### **3.8.2 Sample Size**

The sample size includes the management and three groups of the employees. The selection of the respondents depended on the period the respondents had been engaged by the company. The number of years at the current dealership was important because a person who has been holding their position for a few months cannot clearly explain and interpret events that happened in their



absence better than the ones that were present in the period of incidence. Number of years in the motor industry was an additional feature which give the respondents better understanding of the trends in the motor industry.

**Table 3.1 Target Population and Sample Size**

<b>Respondent group</b>	<b>Target population</b>	<b>Sample size</b>	<b>Data collection technique</b>
Management	18	5	Interviews and questionnaires
Employees from sales and marketing department	72	5	Questionnaires
Employees from the finance department	26	5	Questionnaires
Employees from the workshop and parts department	102	5	Questionnaires
Total	218	20	

### **3.8 Purposive and Convenience sampling techniques**

The researcher used non probability sampling techniques. According to Saunders et al. (2009) with non-probability sampling the probability of each case being selected from the total population is not known and it is impossible to answer research questions or to address objectives that require you to make statistical inferences about the characteristics of the population. Some information needs do not require the precision and generalizability of probability sampling may not justify the time and expense of probability sampling. The sampling method is best suited to the research at hand because of the time constrains and limited resources for the researcher.

The initial target sample were those who are involved in the vehicle sales and marketing department as they are the ones who would have the ability to interpret sales trends in the business.

Purposive sampling is a non-probability technique in which an experienced individual selects the sample based upon some appropriate characteristics. Some of the characteristics which necessitated for the selection were experience on the subject, period of employment and knowledge of sales and servicing trends. This helped in the investigation of the performance of the organisation in the related period. Some of the advantages of using the method include the speed of data collection, low costs and convenience.

Where selected respondents were unavailable convenience sampling was used. This is a sampling method where selection is based on units that are near and readily available for research purposes. In ensuring that the findings remain relevant and valid to the research objectives whilst using convenient sampling the choice of respondents in instances where the targeted was unavailable was based on selection from those available the ones with characteristics similar to initial target.

### **3.9 Data presentation and analysis procedures**

According to Cooper and Schindler (2003) for researchers to generate meaningful information after data collection there is need to reduce the accumulated data to a manageable size, develop summaries, look for patterns and apply statistical techniques. Thus for data collected, the researcher categorized the findings into different clusters consisting of the views gathered from the respondents before data presentation. The researcher made use of tables, charts and graphs to equate diagrammatically the views collected from the questionnaires and interviews.

- **Justification**

The use of tables, charts and graphs made it easier for the researcher to categories and analyse the data collected. These were also advantageous in presenting data in a standardised manner which is easier for a third party to analyse and interpret.

### **3.10 Chapter Summary**

The chapter detailed how data was collected for the study outlining the advantages and disadvantages of the methods applied in data collection. The chapter paves way for chapter 4 which focuses on the presentation of the findings.

## CHAPTER 4

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Introduction

The chapter is centered on the presentation and analysis of information collected using questionnaires and interviews. The chapter is determined to present, deduce and evaluate the findings of the research. Collected data is presented in tables, diagrams, pie charts and also descriptively. The presentation of data is both qualitative and quantitative.

#### 4.2 Response rate

**Table 4.1 Questionnaire Response Rate**

<b>Distributed questionnaires</b>	<b>Fully completed questionnaires</b>	<b>Response rate</b>
20	19	95%

Twenty questionnaires were distributed and the targeted fully participated. The high response rate was mainly due to the fact that the researcher had been attached to the company for a year for work related learning hence the targeted respondents were willing to participate.

#### 4.3 Analysis of Findings

##### 4.3.1 Models of new cars mostly preferred by consumers of Puzey and Payne

The question was meant to ascertain the models of new cars that are mostly preferred by Puzey and Payne customers and to draw the similarity that exists between the ranges of new cars with the ranges of grey imports available in Zimbabwe. If the preferred model exists as a grey import it usually benefits grey importers as they are likely to free ride on the promotional efforts of franchised dealers. In essence distributors prefer having control of their marketing efforts and do

not want their products in demand to gain access to the market through parallel channels. The results are vital to assess the substitution effect of grey imports so as to know the degree of impact on the performance of Puzey and Payne.

The results show that the Toyota brand is the most preferred with (8/19) respondents. It was concluded also from the results that most sales of new cars at Puzey and Payne are Toyota cars. However, there are various Toyota models sold in the gray market which compete with most preferred brand at Puzey and Payne. The availability of the substitute on the grey market inevitably affects sales trends of the firm. Yutong which specializes in coaches is next best attractive in terms of demand with (5/19) respondents. The model does not exist as a grey import in Zimbabwe and not many potential consumers of the brand are willing to import it as a used product as it reduces the guarantee of expected financial return from the use of the asset. The Peugeot brand is no longer the most preferred because of the range of cars that are available at Puzey and Payne in the past decade. The models available are executive cars which are way too expensive for most Zimbabweans. The availability of cheaper grey imports inevitably makes the brand unattractive to most consumers. Mazda with (2/19) respondents and Forland with (0/19) respondents are of little significance in terms of consumer demand and are highly unlikely to generate sales of significance.

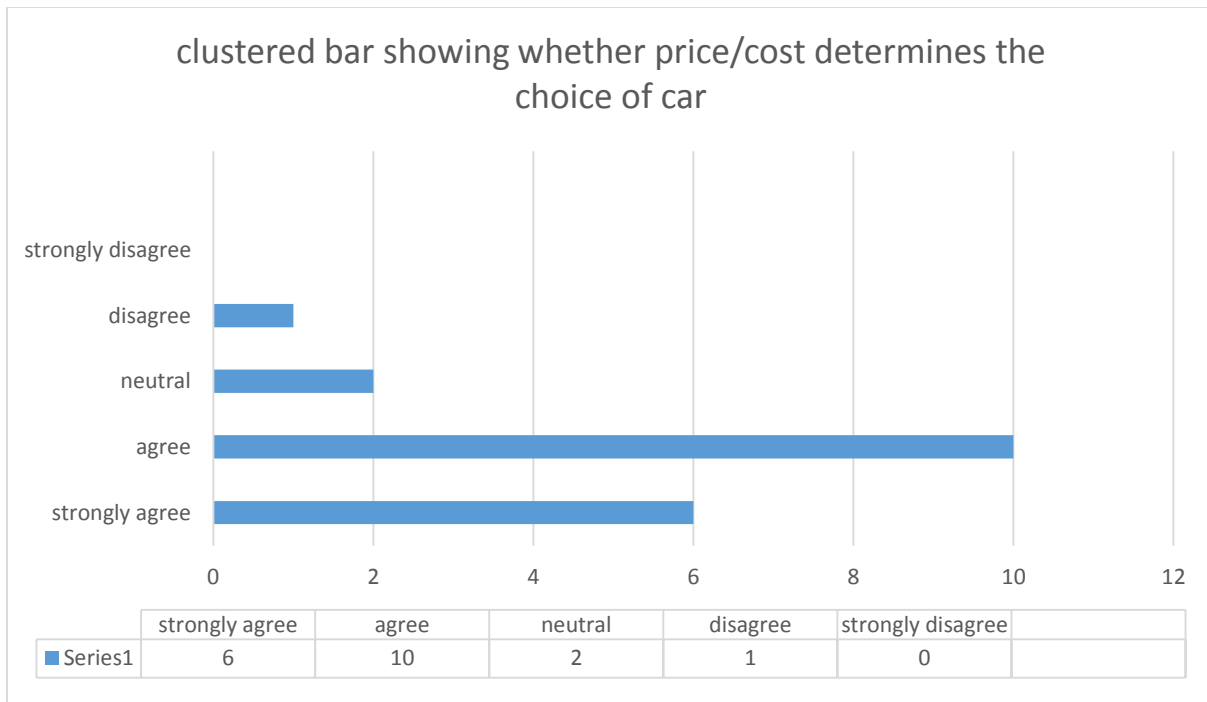
**Table 4.2 the model of new cars mostly bought by customers at Puzey and Payne**

<b>Car brand</b>	<b>Peugeot</b>	<b>Toyota</b>	<b>Mazda</b>	<b>Yutong</b>	<b>Forland</b>
Responses	4	8	2	5	0

#### **4.3.2 Price/cost of the car guides customer choice of car**

The question was meant to gather if price is the important consideration that consumers make when purchasing a vehicle. It was meant to assess the relationship between price/cost of vehicles and the consumer choice. Where there are limited resources to spend it becomes rational to forgo quality for affordability. The used car imports are highly competitive because of their substantially low cost as compared to new cars. If then customers purchase cars due to the cost/price this would

explain the decline of new car sales by franchised dealers as new cars are expensive and the increase of cheap grey imports sales. (6/19) strongly agree and (10/19) agree to the assertion that the cost is the determining factor to the choice of product in the vehicle market. (2/19) respondents are neutral whilst (1/19) disagree. In line with the relationship between consumer preference and price/cost of a product by Tan et al. (1997), some of the respondents highlighted that the price differences between new cars and grey imports arises as low-priced goods from parallel importers normally do not offer the same warranties as those (higher priced) goods available through official channels. According to Kitchen P.J (2003) Only Risk-averse consumers will be prepared to pay higher prices for the security of warranties and after sales service. Risk-preferring consumers will purchase parallel imports in the knowledge that they do not have the same level of security. Zimbabwean motor market is comprised of low to average income earners and whom are by forced by financial constraints to assume the risk associated with cheap parallel imports as they cannot afford new cars.



**Fig. 4.1 The relationship between price/cost and consumer choice**

### **4.3.3 The impact of grey importation of cars on demand for vehicle servicing at Puzey and Payne.**

The question was meant to assess the effects of grey imports on demand of vehicle servicing at Puzey and Payne. Apart from selling new vehicles franchised new car dealers derive their profits from vehicle backup services they offer. The performance of Puzey and Payne is therefore depended on the constant and increased demand for services they offer.

As shown by the table below (15/19) respondents believe that the influx of grey imports have decreased the demand for servicing of vehicles at Puzey and Payne. The increase of gray imports has led to the emergence of unofficial vehicle service providers. Some of the traditional customers for Puzey and Payne have been diverted to some of these small service providers who are cheaper than the franchised dealers. The decline of the population of vehicles imported through official channels of distribution and an increase of grey imported cars have contributed to the demand for vehicle servicing. The data gathered through questionnaires and interviews reveal that the Puzey and Payne has limited capacity to service grey imported vehicles henceforth Puzey and Payne cannot derive meaningful profits from servicing of grey imports. (2/19) of the responses are of the opinion that grey imports have no effect on the demand for sales whilst (2/19) responses believe that grey imports have actually increased the demand.

**Table 4.3 The Effect of grey importation on demand for vehicle servicing**

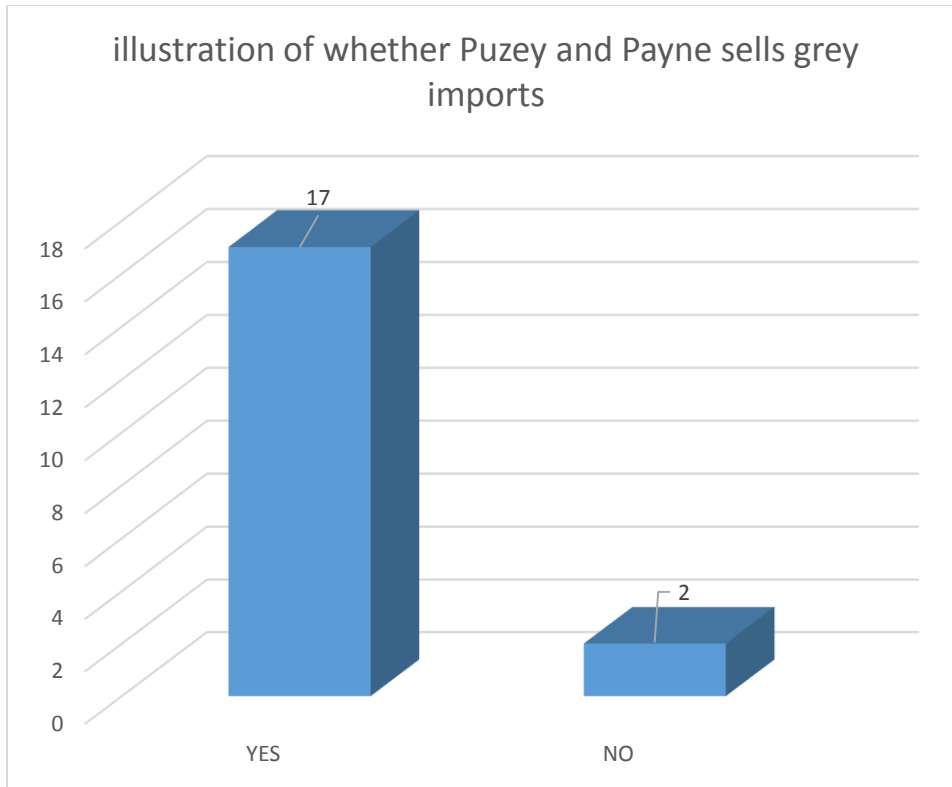
<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Increased demand	2	10.53
Decreased demand	15	78.95
No effect	2	10.53
Total	19	100

#### **4.3.4 Selling of grey imports by Puzey and Payne**

The question was set to establish if franchised dealers gain some advantages from the selling grey imports, so as to establish the extent to which grey importation affect the profitability of the whole organisation.

The data collected from the respondents shows that the firm sells grey imports as (17/19) respondents agree to the assertion. As gathered from the interviews some of the franchised new car dealers are now resorting to the importation of grey imports to supplement the new cars. However some of the (2 /19) respondents replied that the firm does not sell grey imports. However, because selling of grey imports is not the official business of the firm hence not all employees are aware as it is in still in its infancy a measure to counter the decline in sales and performance. Advertising of grey imports on their traditional advertising platforms is still minimal. As gathered from the interviews with the management the firm was struggling to break even and hence at times resorted to the selling of grey imports to generate income. Grey imported car selling is not yet an established venture for the firm and the organisation does not yet offer full backup services for grey imports.





**Fig 4.2 Selling of grey imports at Puzey and Payne**

#### **4.3.5 Current key customers for new vehicles**

The researcher sought to establish the group which constituted the main customers for new cars at Puzey and Payne. (14/19) respondents revealed that Private companies were currently the main customers for new cars. Some of the respondents specifically highlighted mining and construction companies as the main customers. The responses are in line with the surge in performance of the mining and construction sectors in Zimbabwe. Companies in the two industries have been generating considerable profits which puts them in a better position to make new car purchases. (5/19) favored the government and its agencies. Information gathered from interviews highlighted that prior to the economic meltdown around the year 2008 the government and its subsidiaries consisted of the main customers for new vehicles, with large volumes of new car purchases by the Zimbabwe Republic Police and the national army. New cars are sold to the government net of duty thus they are affordable hence explaining high volumes of purchases prior to the economic downturn. No respondents replied in favor of individuals as the part of Puzey and Payne main

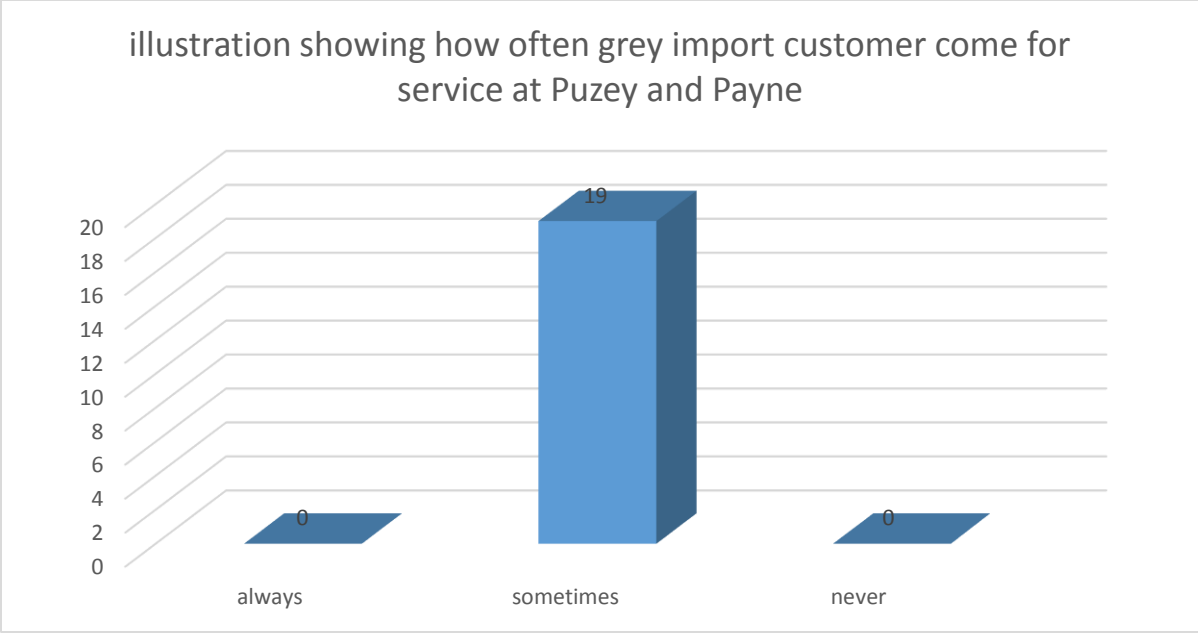
customers for new cars. This is largely to the low disposable income for many individuals and also the unavailability of new vehicle credit lines for individuals.

**Table 4.4 key new vehicle customers at Puzey and Payne**

<b>Response</b>	<b>frequency</b>	<b>percentage</b>
Individuals	0	0
Government and its agencies	14	73.68
Private Companies	5	26.32
Total	19	100

**4.3.6 Servicing of Grey Imports at Puzey and Payne**

The question was aimed at establishing whether there is a potential market for the franchised dealers to service grey imports. The data collected from the respondents (19/19) shows that sometimes customers of grey imports try to service their vehicles with franchised dealers. The data collected from the interviews also shows that owners of grey imports would not always service their vehicles at franchised dealers mainly because of how they are cost sensitive willing to minimize incremental service costs incurred through the asset. They would prefer local small servicing firms which are less expensive than the franchised dealers. The other reason is that franchised dealers have limited capacity to service grey imports. The vehicle service department requires specialized machinery and skills for each particular brand or model and this limits the capacity for many franchised dealers to service car brands that fall outside their franchises.



**Fig 4.3 Servicing of grey imports at Puzey and Payne**

**4.3.7 Strategies implemented by management to counter the competition from grey imports**

The question posed to the respondents was meant to establish whether the management had formulated any strategies to counter the negative impact of grey imports on performance of the organisation. (19/19) of the respondents believe that the management has put in place some measures meant to improve performance. Fifty-three percent of the respondents are not aware of any policies introduced to curb the effects of grey imports on the performance of Puzey and Payne. Such inconsistency amongst the respondents can be attributed to that this management strategies are still in the infancy stage and so not all are aware of their existence. (0/19) respondents who are the management agree of having introduced some strategies to aid recovery of the firm faced by competition of grey imports. The data is not conclusive of the existence of strategies hence it is crucial to establish from those who are aware of the strategies how successful the policies have been thus far in improving performance of Puzey and Payne.

**Table 4.5 Implementation of strategies to counter competition from grey imports by management**

<b>Response</b>	<b>Frequency</b>
YES	19
NO	0

#### **4.3.8 Success rate of the strategies implemented by management**

Illustration indicates that of (19/19) respondents who were aware of the policies implemented by the management belief that the strategies have been a failure. This might also signify the non-existence of improvement of business operations as the management has been unable to curtail effects of the competition from grey imports on the performance of Puzey and Payne. The degree of success of the strategies is crucial with regards to the performance of the firm.

**Table 4.6 Success rate of strategies to counter competition from grey imports**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Disagree	4	21
Disagree	10	53
Agree	2	11
Strongly Agree	2	10
Indifferent	1	5

#### 4.3.9 Impact of Gray Imports on the economy

The data was collected to establish whether grey imports give any economic gain to Zimbabwe. It was established from the respondents that as Zimbabwe is a lower income market hence opening itself up to a much larger and higher income mature market, the net impact of lower new vehicle sales and easy access to used vehicle sales is negative. (7/19) of the respondents strongly disagree and (5/19) disagree to any positive outcome being derived from the importation of grey imports. The respondents relate the rise in unemployment in the motor industry to the influx of grey imports. (3/19) and another (3/19) of the respondents respectively indicated that they strongly disagree and disagree.

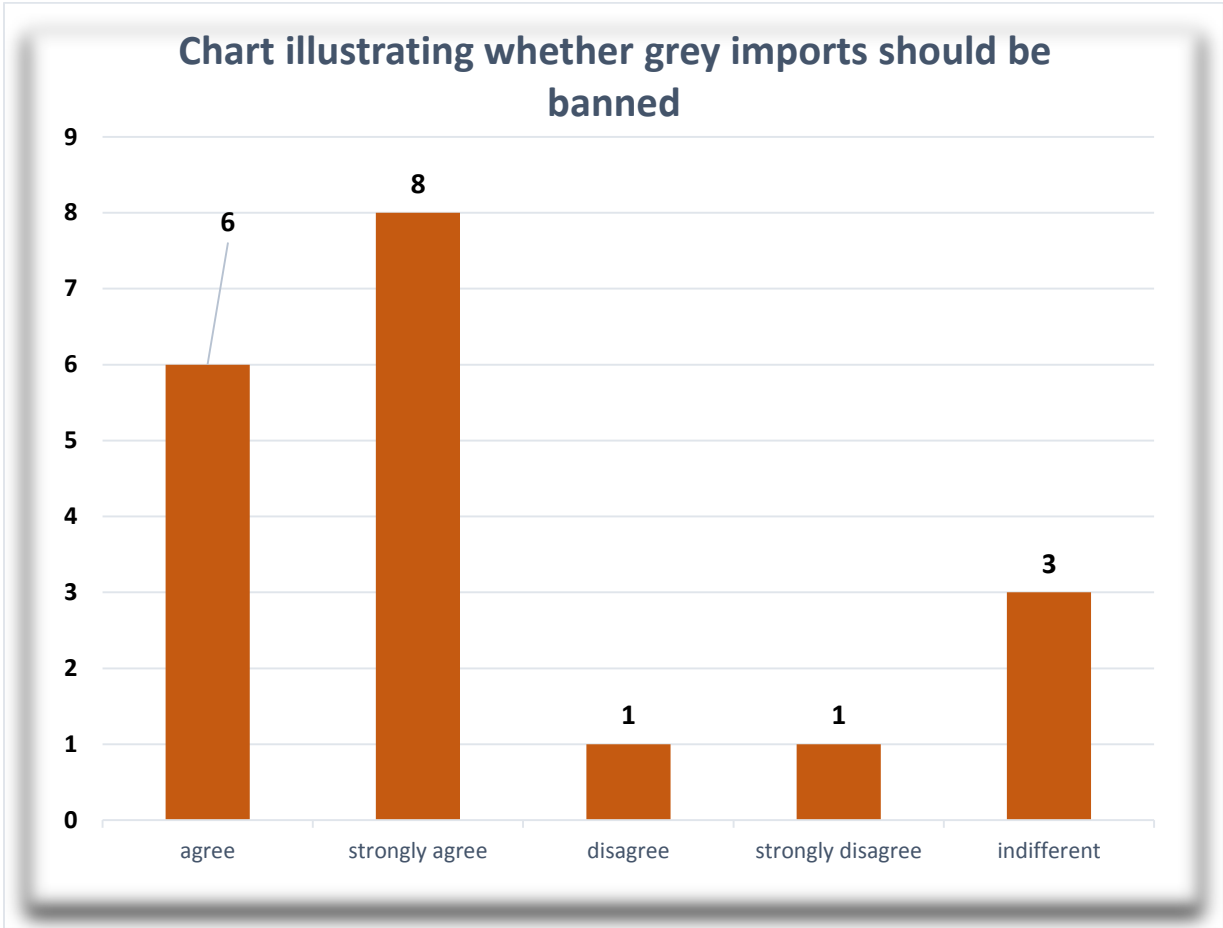
**Table 4.7 The impact of grey imports on the economy**

<b>Response</b>	<b>Results Frequency</b>	<b>Results Percentage (%)</b>
Indifferent	0	0
Agree	3	16
Strongly agree	3	16
Disagree	5	26
Strongly Disagree	7	42
Total	19	100

#### 4.3.10 Banning of grey importation of vehicle

The researcher sought views of employees and management of Puzey and Payne on whether or not grey imported cars should be banned. This would help establish the significance of grey imported cars to the performance of franchised new car dealers. Using the Likert Scale (8/19) responses strongly agree to ban of the grey imports and (6/19) just agree. (1/19) strongly disagree,

(1/19) disagree to the ban of grey imported cars they are skeptical of the benefits that can be derived from the ban. (3/19) were indifferent to the issue as the decision only be made by the government. The majority of the respondents support the banning of the grey importation of vehicles into Zimbabwe. They view the existence of grey imports negatively affect franchised new car dealers. In Accordance with the results Skoko H. (2005) comments that grey imports have a devastating influence on the orderly marketing of new products as grey imports give rise to unauthorized dealers who undercut the sales price of authorized goods, or hurt a brand’s reputation through nonconformity or disruption of warrant support.



**Fig 4.4 Ban on grey imports**

#### **4.4 Interview responses**

Five interviews were conducted with the members of the management. The initial target was to conduct five interviews hence there was 100% response rate.

##### **4.4.1 Description of Puzey and Payne performance in terms of market share, sales growth and brand awareness.**

The interviewees confirmed that performance of the organisation has greatly declined. Sales for the brand new cars have declined which some of the respondents attribute to the competitively low prices of grey imports as compared to new car prices. According to the responses to assess the factors causing the decline it is essential to categorise the product performance for each specific brand.

- Peugeot - brand sales declining due to discontinuation of local assembly
- Mazda - perceived inferior brand to the likes of Toyota, Isuzu
- Forland and Yutong - are recently secured Chinese franchises and the company is still working on market acceptance of Chinese brands.
- Toyota- the Company has secured dealership for Manicaland only. Hence it limits the customer base for Puzey and Payne.

It was established that most of franchise principals mentioned above have long neglected the bottom of the pyramid market, which comprises of low income earners, in that they have not provided the Zimbabwean market with affordable and quality brand new cars.

##### **4.4.2 Changes in the organisation due to the influx of grey imports**

There has been some growth in parts sales and minor services for grey imports. The servicing of grey imports was taken up in trying to exploit the ever growing population of grey imports. The organisation purchases stocks of parts for grey imports as per customer order because of the existence of numerous models of grey imports whose parts can only be sourced outside the country. The management is cautious in avoiding investing in obsolete stock thus the sourcing of the parts as per order.

#### **4.4.3 The capacity to service grey imports**

Interviewees indicated that the major distinguishing factor limiting Puzey and Payne's capacity to service grey imports is that the parts to service grey imports are not readily available to the new car dealers. Also the organisation does not have all the necessary tools and the suitable skill set to perform major service jobs for the grey imports. The franchise principals provide tools and training to back up the services to its franchises for only the new cars that are distributed through their official channels. Gray imports are vehicles which end up in an unintended market which the franchise principals would have not provided adequate service tools and training. The data collected indicated this as the major limiting factor to servicing of grey imports.

#### **4.4.4 Effectiveness of Strategies implemented to combat grey imports competition**

The data collected from the interviews shows that there are some strategies implemented by the management. The organisation has secured new franchises which they perceive can aid the firm in gaining some competitive advantage over grey importers. Puzey and Payne secured franchises for two Chinese brands namely Yutong and Forland. Forland franchise offers relatively cheaper trucks whilst Yutong franchise might help differentiate the organisation from grey importers as the brand specializes in buses. The management looks at diversifying the range of products, from only dealing with various models of small cars to also include trucks and other heavy vehicles. The respondents' view on the importation heavy vehicles by grey importers is that it is not yet customary unlike the importation of small cars.

The interviewees also disclosed that they have been conducting promotions which offer free vehicle diagnosis meant to improve the growth vehicle servicing for the organisation. Another strategy highlighted is the setting up of credit lines with traditional parts suppliers to replace expensive borrowings. The strategy is based on lobbying Peugeot, Barlow, Dubai suppliers amongst others for extended credit so as to insure Puzey and Payne offers its products and services competitive low prices.



Unfortunately, as gathered from the respondents the strategies have been unsuccessful. The diversification strategy has been a failure as Chinese brands which are now included in the range of products for Puzey and Payne are being viewed by many with a skeptic eye. There is a common perception in Zimbabwe that Chinese products are of inferior quality hence sales volumes for the two brands are very low. The strategy to establish credit lines has also been ineffective as the targeted suppliers are unwilling to extend credit lines because of the company, like many Zimbabwean firms, has a high debt ratio.

#### **4.4.5 Ban on grey imports**

The interviewees were overwhelmingly in support of the banning of grey imports by the government indicating that the move would resuscitate the growth of the firm and the industry as a whole. Some of the interviewees said that the organisation was facing stiff competition from imported cheap second hand vehicles from Japan. They believe that it is the duty of the government to protect local companies from unhealthy competition which is detrimental to development.

#### **4.5 Chapter summary**

The chapter is a presentation of the data gathered through questionnaires and interviews. The researcher is of the perspective that the data provided in this chapter in conjunction with the literature review in chapter two will lead to practical recommendations that can aid to the recovery in financial performance for franchised new car dealers as well as the economy.

## **CHAPTER 5**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter comprises of a summary of the research, conclusions made and recommendations. The chapter sums up the research and provides the insight on whether the objectives of the research were accomplished.

#### **5.2 Summary of Findings**

The research sort to establish the impact of grey imported cars on the performance of franchised dealers. The main findings from the research are;

- It was established that grey imports are substitutes to new vehicles are substitutes of new cars.
- Grey imports have competitively low prices. They are the cheaper alternative of new cars.
- Grey importation of cars has affected the sales of new cars at Puzey and Payne. Sales volumes for new cars have greatly declined as a result of the influx of used cars into the country. As a result of the decline in sales, profitability has also declined. Grey importation of cars from Japan, United Kingdom amongst other countries has crippled operations and viability of the franchised new car dealer.
- Puzey and Payne has a limited capacity to service most of grey imported vehicles.
- The majority of employees at Puzey and Payne believe that a ban on grey imported cars will be to the best interest to the firm.
- Gray imports negatively affects the economy. Grey imported cars has led to the increase of unemployment in the sector. The decline in profits due to the effects of grey importation of vehicles has pushed franchised dealers to retrench some of their employees so as to lower salary bills.

## **5.3 Conclusions**

### **5.3.1 Performance of new car dealers**

Grey imported cars have negatively impacted the financial performance of franchised dealers. Most respondents acknowledged that the company's profitability had decreased as a result of competition from grey imports. The influx of grey imports has led to the decrease in demand of brand new vehicles. The decrease in profitability has a strong relationship with the decrease in demand of brand new vehicle sales therefore negatively affecting the financial performance of franchised dealers. Puzey and Payne does not sell any of the grey imports therefore unable to profit from the increased trade of used cars. This view was also highlighted by Porter (2008) who cited in chapter two indicates that the decrease in demand of a product is a natural result of competition and limits a firm's profitability in an industry.

### **5.3.2 Substitution effect of grey imports to new vehicles**

The data gathered from the respondents was significant to the researcher to conclude that grey imported vehicles are substitute products for brand new vehicles. Many individual customers have diverted from buying brand new vehicles to grey imports vehicles because of how affordable they are. Other consumers are diverting due to the fact that some of the grey imported vehicles are better in terms technological advancement than the cars assembled locally. These findings are similar to the views of Swanson, TR (2000) who highlighted that grey imports can pose a threat to the certified suppliers because they act as substitute goods which directly compete with authorized goods. Saito (2002) in the same line of thought highlighted that the general issues between new and used cars as perfect substitutes have continued to trigger the automotive industry.

### **5.3.3 Servicing of Grey imports**

The inability to offer full service packages for grey imports has also affected the profitability of the firm in a market where most new customers are purchasing the used vehicles. Productivity in workshops have declined as the franchise principals does not provide the tools and training for backup services for vehicles which they would have directly distributed to the dealers. The limited

capacity to service grey imported affects the quality of service offered by Puzey and Payne. The quality of service is defined by the customer and not the service provider. Quality service is essential for building customer loyalty. Therefore Puzey and Payne has been unable to win loyalty of most of the customers who would have brought in their grey imported vehicles for service.

#### **5.3.4 Strategies to combat grey import competition**

The research discovered that most of the strategies implemented by franchised dealers to fight against the competition posed by grey imported vehicles were ineffective. The main reason for the letdown was that in developing economics such as Zimbabwe mostly consumers would go for a cheaper purchase, second hand products as opposed to brand new product mainly because of the low disposable income. Strategies like vehicle financing (White, 2004) and service packages (Chojkacki, 2000) have failed to appeal to customers. A lot of workers particularly the civil servants do not have the financial ability to purchase brand new cars as such they are better off using low-priced grey imports.

#### **5.3.5 Impact on the economy**

The research found out that grey imports have more harm than good on a developing economy like that of Zimbabwe. Some of the negatives of the importation of used cars include the fact that it poses a threat to employment of thousands of skilled workers contracted to franchised new car dealers. Workers are in constant threat of retrenchment because of the losses, which the new car sellers are incurring because of the massive importation of used cars. To some extent it erodes the confidence of investors in the industry. It is in the interest of the government to protect and promote foreign and local productive investment especially those that have some bearing on the performance of the economy. Most developed countries have put in place restrictions on the importation of used cars to protect the development of their local industries.

Some of the advantages of grey imports include that they provide many families a substitute when a new vehicle purchase is beyond their resources. Grey imports are cheap alternative to personal transportation for developing countries. The increased importation of grey imports also increases

government revenues through the collection of import duty and other related taxes like toll gate fees. However it was established from the results collected that the positives of the importation of used vehicles is insignificant compared to the negatives it has on the economy of Zimbabwe.

## **5.4 Recommendations**

### **5.4.1 Incorporating grey imports**

Because of the competitive nature of grey imports the organisation has to incorporate them to be part and parcel of their business. The selling of grey imports by franchised dealers can help improve performance of the firms.

### **5.4.2 Extensive marketing strategies**

The new car dealers should increase the number of customers by using extensive marketing strategies and using promotions. Brand new car dealerships that have negatively been affected by gray imports can capitalize on their strength and the weaknesses of gray imports in the marketing efforts. Franchised new car dealers can provide full backup service packages and a warranty for the cars they sell whilst the same does not exist for grey imported cars.

### **5.4.3 Sourcing of affordable vehicles**

Sourcing of smaller, cheaper, fuel efficient brand new vehicles. Franchised dealers can try to sell smaller brand new vehicles to low income earners. An analysis of the prices of new cars reveals that the prices are far beyond the reach of many average income earners in Zimbabwe whilst grey imports are affordable. The sourcing of reasonably affordable products can enhance franchised dealers chances of implementing successful pricing strategies. According to Yaprak (2001) competitor's pricing model can be applied to set prices of products in line with other competitors, prices can be tagged to the competition whilst profits remain acceptable.

#### **5.4.4 Securing government support**

The government can fast track growth of local firms by buying locally assembled vehicles for state-owned companies. The growth of assembling companies in turn promotes growth of franchised new car dealers. Efficient local assembly plants can supply new cars for the franchised dealers at a lower cost which might improve the attractiveness of new vehicles for consumers. Also to create incentive for purchase of brand new cars there the government and other related institutions should put in place some loan facilities for purchase of new cars vehicles.

#### **5.4.5 Moderation import duty on new cars and related accessories by Government**

The government has to moderate the import duty on brand new cars and other related accessories so as to make them reasonably priced, to increase sales volume for franchised dealer. Vehicles for government departments are sold net of duty to make them inexpensive hence such subsidies can be extended to private individuals and companies so as to make their products compete on price with the lowly priced grey imports. The main objective ought to be the creation of a purchasing environment which gains can be generated for consumers as well as the dealers, a rational deal to consumers which will immensely stimulate the motor industry and as well as government treasuries.

#### **5.4.6 Training and equipping workshops**

The organisation can improve its viability by the training of workshop staff on the composition or mechanization of some of the popular grey imports. Training programs combined with acquiring of the relevant tools can increase servicing capacity of Puzey and Payne. The productivity of the workshops is pinnacle to the performance of the company.

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## **Appendix A: Permission Letter**

Midlands State University

P Bag 9055

Gweru

11 February 2014

Puzey and Payne

79 Robson Manyika Avenue

Harare

To the finance manager

### **RF- APPLICATION FOR PERMISSION TO CARRY OUT RESEARCH AT YOUR COMPANY**

My name is R11745E a former attaché student at your company I do hereby apply for permission to carry out a research with the topic “Effects of grey importation of vehicles on the performance of franchised dealers”. The research is a requirement in fulfilling a bachelor in Commerce Business Management (honors) Degree at Midlands State University. I promise that information obtained in the research will be used for academic purposes only.

Hoping that you will consider my application.

Yours Faithfully

R11745E

## Appendix B: Questionnaire Guide

### QUESTIONNAIRE GUIDELINES MANAGEMENT AND EMPLOYEES AT PUZEY AND PAYNE

This questionnaire is designed for collecting information on the impact of grey imports on the performance of franchised new car dealers. Am a fourth year student at the Midlands State University undertaking a Bachelor of Commerce, Business Management honors degree .When answering the questions please provide the most complete and recent information available.

*Information collected shall remain private, confidential and anonymous and will only be used for the purposes of this research*

**Please indicate with a tick in the appropriate boxes.**

1. Indicate your department in the organization

Finance

Marketing

Workshop

Parts

2. Indicate your position in the organization.....

3. Indicate your gender

Male

Female

4. How long have you been working for Puzey and Payne?

0-5 years

5-10 years

10- 15 years

15 + years

5. Which models of cars at Puzey and Payne do you consider as preferable to consumers and profitable?

- a. Peugeot
- b. Toyota
- c. Mazda
- d. Youtong
- e. Foton

6. Price of car guides customers' car preferences at Puzey and Payne?

- a. Strongly agree
- b. Agree
- c. Neutral
- d. Disagree
- e. Strongly disagree

7. Do you see used car imports as substitutes to brand new cars? YES/NO

8. Who are the main customers for brand new vehicles at Puzey and Payne?

- a. Government and its agencies
- b. Private companies
- c. Individuals

9. How has servicing demand of vehicles been affected as result of the influx of used cars in Zimbabwe?

- a. Increased Demand
- b. Decreased Demand
- c. No effect

10. In your own opinion what is the impact of used car importation on buyer behavior at Puzey and Payne?

- d. Increased Demand
- e. Decreased Demand
- f. No effect

11. Do owners of grey imports try to have their cars serviced by franchised dealers like Puzey and Payne?

- a. Always
- b. Sometimes
- c. Never

12. Are there any policies that Puzey and Payne have initiated to combat grey imports?  
YES/NO

13. If YES do you think these policies have been successful?

- a. Indifferent
- b. Strongly Agree
- c. Agree
- d. Disagree
- e. Strongly Disagree

14. In your own opinion do grey imports have a positive impact on the economy?

- a. Agree
- b. Strongly agree
- c. Disagree
- d. Strongly Disagree
- e. Indifferent

15. In your opinion should grey imports be banned?

- a. Agree
- b. Strongly agree
- c. Disagree
- d. Strongly Disagree
- e. Indifferent

Thank you for your co-operation. For any information do not hesitate to contact: R11745E

## **Appendix C: Interview Guide**

### **Interview Guide for Management**

My name is (R11745E), a student currently studying a Bachelor of Commerce Degree in Business Management at Midlands State University. I am carrying out a research on the impact of the importation of used cars on the performance of franchised new car dealers in Zimbabwe's motor industry. Your opinions, views and suggestion is key to this research, your responses will be strictly for academic purposes only and will be treated with strict confidentiality.

1. Can you describe your company performance in terms of market share, sales growth, and brand awareness?
2. Are there any changes that have taken place within the organization after the increase of gray imports on the market (after 2009)?
3. Which strategies have the management put in place to combat competition of grey imports and how effective are they?
4. Does Puzey and Payne have the capacity to service grey imports?
5. Do you see the performance of the organisation improve if used car imports are banned?
6. Which trade policies do you see as favorable in supporting good performance of organizations in the motor industry?
7. What role does the government play in the sustainability of the industry?