MARKETING IN INDIGENOUS AND ASIAN SMALL FIRMS IN THE WEST MIDLANDS

VOLUME TWO

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OCTOBER 1992

MARKETING IN INDIGENOUS AND ASIAN SMALL FIRMS
IN THE WEST MIDLANDS

VOLUME II

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APPENDIX 1.1

MARKETING IN INDIGENOUS AND ASIAN SMALL FIRMS

SCHEDULE OF TOPICS FOR IN-DEPTH PERSONAL INTERVIEWS

MARKETING IN INDIGENOUS AND ASIAN SMALL FIRMS

SCHEDULE FOR IN-DEPTH INTERVIEWS

Details of the business

Business Name: ....

Address: ....

....

....

Telephone No: ....

Business Activity ....

....

....

No. of years in operation ....

No. of employees ....

Sales Turnover: £............................ Year ....

Name of Interviewee: ....

Position ....

Age .... Sex ....

Origin of Owner-Manager: Indigenous/Asian

Date of Interview: ....

Other relevant information ....

....

....

....

....

....

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....

Schedule of topics for discussion

1. **Background of business development**

- Background of proprietors, country of origin, occupation/experience prior to starting business

- Reasons for starting own business and relationship between the type of business and previous experience

2. **Start-Up Operation**

- History of how the business was started, its activities, people employed, premises and source(s) of customers

- Financing of the start-up, planning, business orientation and marketing activity

3. **Current business operation**

- Business activity and how it has changed from original business. Products/Services, Markets Served, Production, Distribution and Finance

- Firms customer base

- Key problems faced

- The extent and nature of business planning and systems.

- Firm's major aims and strategy

- The role of the owner in the running of the business

- Management approach (orientation) to running the business

4. **Application of marketing in the business**

- Understanding/awareness of the marketing function

- Importance and ranking of the main business functions

- Use of marketing techniques in developing and running the business

- Sources of customers and customer base

- Product and business differentiation

- Use of marketing techniques in managing the business-markets, marketing-mix and growth strategies

- Marketing budgets, use of outside specialists.

5. **Business Organisation and Management**

- Organisation structure
- Responsibility for marketing and business development
- Organisation of other functions
- Management systems and controls

6. **Financial Information**

- Company accounts/documents
- Turnover/profitability and rates of growth
- Assets and liabilities

7. **Other information**

APPENDIX 1.2

MARKETING DURING THE START-UP, SURVIVAL AND GROWTH STAGES OF SMALL BUSINESS DEVELOPMENT

A GUIDE FOR IN-DEPTH PERSONAL INTERVIEWS

MARKETING DURING THE START-UP DEVELOPMENT AND GROWTH STAGES OF SMALL BUSINESS DEVELOPMENT

A Guide for in-depth Personal Interviews

1. Details of the business

Business Name: ....

Address: ....

....

....

Telephone No: ....

Business Activity: ....

....

....

No. of years in operation: ....

No. of employees: ....

Sales Turnover: £........................ Year ....

Name of Interviewee: ....

Position: ....

Age: .... Sex ....

Date of Interview: ....

Origin of owner-manager: Indigenous/Asian

Other relevant information: ....

....

....

....

....

....

2. Background of business development

2.1 Background of proprietors, country of origin, duration of settlement in UK

2.2 Occupation of proprietor(s) prior to starting own business, qualifications, managerial and business development experience and experience of similar business activity.

2.3 Reasons for starting own busines

3. Start-up operation

3.1 What was the first business?

3.2 Who started the first business and how was it started?

3.3 What was the legal form of the first business (sole trader, partnership or limited company)?

3.4 How many people were involved in setting up and running the business and how many were from ouside the family?

3.5 From what type of premises did the business operate and where was it located?

3.6 How many times did the business change premises and why? What production facilities were available?

3.7 What was the extent and sources of finance for facilitating the start-up of the business?

3.8 Why and how did the business succeed (low overheads, lower prices, good customer base or unique product)?

3.9 What was the nature and extent of business planning at the start-up stage?

3.10 What was the management approach (orientation) to running the business? (i.e. production, sales, technical or marketing)

3.11 What types of customers did the business serve and rely upon during the early stages of the business?

3.12 What marketing techniques were applied during the early stages of the business? (e.g. pre start-up market research, feasibility, targeting and marketing planning)

3.13 What products/services were offered and was there any planning carried out?

3.14 How was the product priced, distributed and promoted?

4. Current business operation

4.1 What is the current line of business and how has it developed over the years?

4.2 What is the firm's customer base? (How many, sub-contract, direct supply, wholesalers, general public?)

4.3 What are the key problems faced by the firm at this point in time?

4.4 What is the nature and extent of planning in the business? Who is responsible for business planning? Who is involved in preparing plans for the business? To what extent are the plans executed in reality.

4.5 What is the firm's major concern/aim or strategy? (existence, survival, growth, Maximise ROI etc)

4.6 What role does the owner play in the business? (Discuss involvement in decisions, management, driving force, control, etc).

4.7 What is the management approach (orientation) to running the current business? (i.e. is the business production or sales or technical or *marketing* orientated?)

5. <u>Application of marketing in the business</u>

5.1 What does the term 'marketing' mean to you?

5.2 What marketing techniques are used in running and developing the business? (types of customers, sources of business, use of segmentation or targeting and planning the marketing mix)

5.3 How do you differentiate your products/services and/or your business from those/that of your competitors?

5.4 What is the nature and extent of product planning for the different markets? (quality, branding, packaging, specification, options, etc.)

5.5 What channels of distribution are used or developed for your products/services for the different markets?

5.6 How do you price your products/services?

5.7 How do you promote your business and/or products? Do you use advertising, sales promotion, personal selling and merchandising techniques?

5.8 Do you understand the uses and differences between advertising, sales promotion and merchandising?

5.9 What other methods are used to promote your products and services? (direct mail, directories PR etc.)

6. Business Development

6.1 Do you apply or are you aware of any other marketing techniques that could help to develop your business? (e.g. SWOT, niche marketing, product life cycle analysis and planning, market and marketing research, Boston Matrix, sales forecasting and growth techniques).

6.2 What methods or techniques have you used to develop your business? (product development, market development, penetration, concentric diversification, horizontal diversification, complete diversification, or some form of integration).

7. <u>Responsibility for marketing/business development</u>

7.1 How is the business organised and structured? (Ask for company organisation chart). How is the marketing function organised?

7.2 Who in the business is responsible for planning and implementing marketing or developing the business?

7.3 What is their background, job title and experience?

7.4 What other functions does that person perform?

7.5 Has he/she received any training in marketing? Has the firm ever employed the services of a marketing advisor or consultant?

7.6 Would the firm train or employ someone to be responsible for marketing or allocate a budget to buy-in marketing expertise?

8. Business performance

Past performance: How would you describe the firm's past performance?

Future performance: How would you describe the future prospects of your business?

9. Reasons for optimism or pessimism

APPENDIX 1.3

MARKETING

DURING THE START-UP, SURVIVAL AND GROWTH STAGES

OF SMALL BUSINESS DEVELOPMENT

FORMAT FOR CASE STUDIES OF SMALL FIRMS

DURING THE START-UP, DEVELOPMENT AND GROWTH STAGES
OF SMALL BUSINESS

Format for case studies of small firms

DETAILS OF THE BUSINESS

(i) Business Name: ....

....

(ii) Address: ....

....

....

(iii) Telephone: ....

(iv) Business Activity: ....

....

(v) No. of years in operation: ....

(vi) No. of employees: ....

(vii) Sales Turnover: £ .... Year ......

(viii) Name of Contact/Interviewee: ....

....

(ix) Position: ....

(x) Origin of owner-manager: ....

....

BRIEF HISTORY OF THE BUSINESS

Business Background

(i) Background of proprietors, country of origin, duration of settlement in UK.

(ii) Occupation of proprietor(s) prior to start the business, qualifications, managerial and business development experience and experience of similar business activity.

(iii) Reason for starting own business?

Start-up operation

(i) What was the first business? What were the products/services?

(ii) What types of customers did the business serve or rely upon during the early stages of the business (sub contracts, wholesalers, direct orders from organisations, direct to public)?

(iii) Who started the original business and how was it started?

(iv) What was the legal form of the first business (sole trader, partnership or limited company)?

(v) How many people were involved in setting up and running the business and how many were from outside the family?

(vi) From what type of premises did the business operate and where was it located?

(vii) How many times did the business change premises and why? What production facilities were available? What problems were encountered in subsequent moves?

(viii) What was the extent and sources of finance for facilitating the start-up of the business?

(ix) Why and how did the business succeed (low overheads, lower prices, good customer base, quality products, unique product or niche markets)?

(x) What was the nature and extent of business planning at the start-up stage?

(xi) What was the management approach (orientation) to running the business? (ie. was emphasis on producing or stocking the products and then sell to whoever would buy, or was it on technical expertise, or producing/stocking and selling and advertising or was it on researching customer needs and design/manufacturing/stocking/offering the required products/services?)

(xii) How was the business and products/services marketed?

CURRENT BUSINESS OPERATION

(i) What is the current line of business and how has it developed over the years?

(ii) What are the products and services of the business?

(iii) What types of customers/markets does the business cater for? (sub-contractors, direct orders, wholesalers, types of industries/sectors etc.)

(iv) From what type and size of premises does the business operate? Are these leased, rented or bought? Are the premises utilised to full capacity?

(v) What are the product and or warehousing facilities in the business? Are production/warehoulse facilities up-to-date and appropriate for the business needs?

(vi) Are the production facilities utilised to full capacity?

(vii) What is the average value of stock of raw materials, finished products and or products for wholesaling/ retailing carried by the business?

(viii) What systems are used to manage and control stock in the business? How many people are employed in controlling/managing stock?

(ix) What type of financial planning and control system are used in the business? Who is responsible for financial control and planning?

(x) What are the major problems associated with financial control that the firm is aware of?

(xi) Does the firm project/plan and set financial targets for the business? How is this done?

(xii) Can you provide information to complete Appendix I that will help us understand your business's financial performance over the past three years?

(xiii) How many people are employed in this business? How many directors, managers, supervisors, administrative and operatives are there? How many are part-time, casual or out workers (Ask for company organisation structure, if available)

(xiv) What policies are there to retain and train company employees? Who is responsible?

(xv) Does the company carry out research and development and design new products? How is this done?

(xvi) Does the company employ own designers or buy in designers for new products? How is this done?

<u>Business Planning and Marketing</u>

(i) What is the nature and extent of planning in the business? Who is responsible for business planning? Who is involved in preparing plans for the business? To what extent are the plans executed in reality?

(ii) What marketing techniques are used in running and developing the business? (types of customers, sources of business, use of target markets and planning of the marketing-mix)

(iii) How do you differentiate your products/services and or your business from those/that of your competitors?

(iv) What is the nature and extent of product planning for the different markets? (quality, branding, packaging, specification, options etc.)

(v) What channels of distribution are used or developed for your products/services for the different markets?

(vi) How do you price your products/services?

(vii) How do you promote your business and or products? Do you use advertising, sales promotion, personal selling and merchandising techniques?

(viii) Do you understand the uses and differences between advertising sales promotion and merchandising?

(ix) What other methods are used to promote your products and services? (direct mail, directories PR etc.)

BUSINESS DEVELOPMENT

(i) Do you apply or are you aware of any other marketing techniques that could help to develop your business? (eg. SWOT, niche marketing, product life cycle analysis and planning, market and marketing research, Boston Matrix, sales forecasting and growth techniques).

(ii) What methods or techniques have you used to develop your business? (product development, market development, penetration, concentric diversification, horizontal diversification, complete diversification, or some form of integration).

RESPONSIBILITY FOR MARKETING/BUSINESS DEVELOPMENT

(i) Who in the business is responsible for planning and implementing marketing or developing the buisness?

(ii) What is their background, job title and experience?

(iii) What other functions does that person perform?

(iv) Has he/she received any training in marketing?

(v) Has the firm ever employed the services of a marketing adviser or consultant?

(vi) Would the firm train or employ someone to be responsible for marketing or allocate a budget to buy-in marketing expertise?

BUSINESS PERFORMANCE

Past performance: How would you describe the firms' past performance?

Future performance: how would you describe the future prospects of your business?

What are your reasons for this optimism/pessimism?

STRENGTHS AND WEAKNESS

What are your firm's major strengths as you see the business?

THREATS AND OPPORTUNITIES

(i) What are the major threats to your business in the near future?

(ii) What are the major opportunities for your business?

(iii) What are the major problems facing your business and in what areas do you need the most immediate help?

Other comments and observations.

APPENDIX ONE

COMPANY FINANCIAL INFORMATION

Company	YEAR 1	YEAR 2	YEAR 3	YEAR 4
Sales Turnover				
Direct Costs				
Overheads				
Profit				
Balance Sheet				
FIXED ASSETS Depreciation				
CURRENT ASSETS Stock				
Debtors				
Cash				
TOTAL ASSETS				
LIABILITIES Creditors				
CAPITAL EMPLOYED Loans				
Owners Capital				
Profit				

APPENDIX 1.4

A copy of the brochure explaining the Graduate Gateway Programme

APPENDIX 1.5

A copy of the brochure on the Business Development for the Clothing Industry.

APPENDIX 1.6

A copy of the brochure on the Business Development for the Jewellery Industry Programme.

APPENDIX 1.7

A copy of the brochure of the Business Development for Inner-City Small Firms Programme

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APPENDIX 2

DETAILS OF THE SAMPLE OF START-UP FIRMS AND CASE STUDIES OF INDIGENOUS AND ASIAN FIRMS

2.1 Summary of the sample of indigenous and Asian start-up firms selected for in-depth interviews and single point case studies.

2.2 Case Study: Aluminium Boats Company (indigenous)

2.3 Case Study: Marston Engineering Company (indigenous)

2.4 Case Study: Computer Products and Services (indigenous)

2.5 Case Study: Saturn Casualwear Limited (Asian)

2.6 Case Study: Bhogal Heat Limited (Asian)

2.7 Case Study: Laser Computer Services Limited (Asian)

Aston University

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from existing contacts and word-of-mouth recommendations. In March 1984, the company moved to its current premises of 2,500 sq ft unit on the same industrial estate.

The Development of the Business

In July 1984, the company was approached by a large fabrications firm to manufacture small batches of aluminium petrol tanks on a sub-contract basis. To meet the production requirements of this type of work, the partners invested more of their own capital and purchased a breakpress (for bending aluminium sheets), two welding machines, band saws, routers, jig saws and power saws. In 1986 the company had fixed assets of approximately £20,000. Although the company had regular orders for petrol tanks, it had to take on more fabrications work to cover overheads and use the spare capacity of the plant. The company pursued the policy of taking on whatever type of work that came in, and by early 1985 was manufacturing small batches of such items as aluminium racks, cabinets and window frames.

In March 1985, the company decided to manufacture its own range of products from aluminium sheet metal. Mr Tull a keen fisherman, was aware of the availability of light weight aluminium boats that were marketed in this country by American, Australian and Italian manufacturers. The only UK aluminium boats manufacturer specialised in landing craft for the armed forces. With this limited knowledge of the competition and the state of the market, the company designed a model of the aluminium boat aimed at the leisure market.

The research and design process consisted of obtaining competitors' product catalogue, leaflets and specifications and the purchase of a second hand aluminium boat that was manufactured in Italy. The company successfully designed and tested its own model and manufactured a small batch for sale in the UK.

The aluminium boats project injected considerable enthusiasm in the company. A colour leaflet showing the boat being used in leisure pursuits and highlighting its main unique features and benefits was produced. The leaflet also described the boats to be of fully welded construction and to have other features such as the specially designed keel, chine and gunwhale sections. An advertisement was also placed in the trade press that resulted in a number of enquiries from suppliers and retailers. The company sold the first batch of eight boats in four months and embarked on extending both the range and stock.

In 1986 the company was producing a range of 8ft to 14ft boats of welded aluminium construction. The sheet sides and floors of these boats were corrugated to provide not only extra strength and rigidity, but also what Mr Tull described as "an attractive sought-after clinker effect." For use in shallow water, the Company introduced a range of flat-bottomed boats that otherwise had all the same features and design demands of the 'v' shaped models. To secure orders for the boats, the company exhibited at the 1986 Boat Show at Earls Court and revised the product leaflet to include specification of the three models of boats available. These models were given names according to their overall lengths together with the brand name of Alu-Pro. The three models, Alu-Pro 3, Alu-Pro 3.6 and Alu-Pro 4.2 were offered in both 'v' shaped and flat-bottomed styles. The pricing of the product range was calculated on the basis of cost and prices of competing wooden and fibre-glass boats. The company decided to price the product below competition with the hope that this in itself will generate demand and sales. Although exhibiting at the Boat Show was felt to be very expensive, the boats attracted considerable interest and a number of orders and leads were secured.

In order to generate more sales, the company appointed a sales agent who visited and sold directly to boat yards. The company had no office staff and all sales enquiries and commercial aspects were handled by Mr Tull. Mrs Tull was also brought into the business to look after the book-keeping aspects of the business.

In November 1986, the company's activity consisted of: manufacturing of petrol tanks (25%), other aluminium fabrications (25%) and aluminium boats accounted for 50% of total sales turnover. Although orders for boats came in steadily, the company was suffering from lack of capital investment in new machines and equipment, bad debts and low margin of profitability. As a result of the bank's refusal to grant the company additional overdraft facility and a loan for investment, David James decided to leave the company to start another venture. Mr Tull decided to continue to operate the business as a sole trader. Mr Tull also sought the assistant of the Small Firms Services and received three days free business consultancy service of an experienced counsellor.

With the advice of the counsellor, Mr Tull decided to look for other possible markets and customers. He realised that given his financial position, he could not effectively market the boats to the consumer markets. He started to examine the public sector markets such as the water authorities, water boards, police and fire authorities. These organisations required flat-bottomed boats for a great variety of applications and Mr Tull decided to aim some of his existing stock at these types of customers.

At the end of 1986, the business, although generating a sales turnover of £100,000 and employing 3 people was facing major difficulties and needed outside help to give it direction and assistance to secure a bank loan. Mr Tull had very little knowledge of market research, marketing, business planning and business management. The over reliance on a very small customer base for fabrication work and the tendency to take on any order meant that the company continued to operate with very small profit margins. In the absence of finance, marketing effort and management skills required to gain a foothold in the public sector market that exhibited enormous potential, there was little optimism for the company's immediate survival and growth prospects.

Summary of the Company's characteristics for stage identification and marketing practices.

A. Stage Identification

1. Customer base: Four main customers for fabrications work who place orders for small batch production on sub-contract basis. A small number of geographically dispersed suppliers of aluminium boats for the consumer leisure market. Few orders secured from public sector for flat-bottomed boats.

2. Key problem: Lack of clearly defined customer base and capital to fund the production and marketing to public sector.

3. Management style and organisation: With the departure of David James, the owner undertakes all important tasks and makes all decisions. Simple organisation, employs wife and a manual worker.

4. Extent of formal systems and planning. No systems, little or no business planning.

5. Major Strategy: Existence.

6. The Importance of the Owner: The owner is the business.

B. Marketing Practices

1. Changes in orientation: The business was started with strong production orientation, continued with the same philosophy when the boat was introduced. Although external advice and assistance was sought, the owner's background, personality and lack of training in business management tended to force the company to operate from a production perspective.

2. Marketing activity:

   Pre-start-up: nil
   Start-up: Restricted to personal contacts and seeking sub-contract work.
   Development: Restricted to use of product information sheets, an advertisement in trade press, taking a stand at an exhibition and appointment of a sales agent.

3. Sources and methods of securing customers: Personal

contacts, word of mouth and use of advertising.

4. Awareness of marketing: Confined to selling and use of advertising.

5. Responsibility for marketing function: The owner.

6. Application of formal marketing, sources of knowledge and expertise : Outside advice agency but limited to what can be obtained at no or low cost.

APPENDIX 2.3

MARSTON ENGINEERING COMPANY
(COMPANY CODE MEC)

Study of the firm as in 1986

Address: Birmingham

Age: 3 years

Employees: 3

Origin of Owners: Indigenous

Activity: Design and manufacture of specialist tools, fabrications and sheet metal.

Turnover: Not disclosed

Stage of Development: Existence

Origin and Start-up Phase

Marston Engineering is a small firm engaged in different aspects of design and manufacture of one-off products made to customer specifications. The company also offers consultancy and other services to local engineering firms. A qualified engineer by profession, Ray Marston is the sole proprietor of the company he started in 1983 to manufacture specialist products for the printing industry.

Marston is 55 years old and has an impressive track record of working for some of the major engineering companies in the West Midlands. He entered the engineering profession through an apprenticeship with Wilmot Breedon and progressed to work in the firm's design and drawing office. He then spent seven years with the Royal Marine School of Music and returned to engineering as a draughtsman with Wickmans in Coventry. Over a period of thirteen years, his career progressed with the company and he was eventually appointed as a project manager. The company later awarded him two scholarships to study design and manufacturing processes at Manchester University. After three more years of service with Wickmans, Marston moved to GKN as head of their design and development section. Over the next six years he moved to Tucker Fasteners as a research project manager and then to Needle Industries as group design engineer responsible for taking projects from conception to manufacture. His last move was to Lucas Indstries as a senior project engineer where his main responsibilities were in trouble shooting and providing consultancy services to the company's various divisions.

In 1982, Mr Marston decided to take advantage of the early retirement package offered by Lucas to its employees over the age of 50. With the security of a lump sum, a reasonable pension and ample energy reserve, Marston decided to be self-employed when a friend from a printing company indicated the need for specialist products in his industry. Marston rented a small unit in the same industrial building where he currently occupies a larger unit and set himself up in business offering design and manufacture of specialist machines, equipment and tools for the printing and graphics industry.

The setting up of the business was financed entirely by Marston's own resources as he felt the low rent and purchase of basic tools and secondhand machinery did not necessitate a bank loan. No business planning was undertaken and marketing activity was limited to two classified advertisements in the relevant design and engineering magazines. In the first year the business was run on a trial and error basis as Marston did not feel threatened by loss of earnings from the enterprise. No other form of marketing activity to create an awareness of the firm's services was undertaken, as Marston felt confident that there was money to be made in the printing industry. He researched the printing and graphics industries' needs for machines and equipment by scanning the trade journals and depending on the views of his contacts. In the first of operation Marston designed and manufactured a light table for use in the printing and graphics industry. He promoted this product by personally contacting printing and graphic design companies in the Midlands and managed to secure orders for six tables. He attributed the success of these tables to their competitively low pricing which he had achieved by keeping his overhead cost to bare minimum. Although the sales of these tables was slow, they brought in enough revenue to cover his cost and to enable him to introduce a few more small items of specially designed products for this industry.

<u>The Development Phase and Use of Marketing</u>

In 1985, Marston was given some work by an old colleague from Lucas Research to make a prototype of a machine tool. Marston's lower charges than his competitors secured him repeat orders for design and manufacture of small tools, jigs and other equipment from Lucas Research. The expansion of orders required Marston to invest in new machines and larger premises. He received a small grant from the local council for the move into a larger unit, secured a bank loan for the purchase of two machines and an overdraft facility to enable him to operate more effectively.

To cope with the extra work, the firm employed a young trainee and a technician to help Marston with all aspects of the Lucas orders and in manufacture of the light tables. The nature of the specialist one-off prototypes and manufacture of an occasional light table meant that the firm could not rationalise or mechanise its operations. All orders required considerable time to be spent on both the design and manufacture, and Marston found little time in securing work from any other source. The trainee and the technician also spent most of their time in meeting the deadlines for the completion of the projects.

By early 1986, the company's capabilities were mainly in the design of specialist products and could undertake small batches of toolmaking, fabrication and sheet metal work, as these were the essential inputs in the manufacture of the light tables and prototype work for Lucas Research. In an attempt to develop the business, Marston decided to design two new products for the printing and graphics industry. Using the firm's toolmaking and fabrications capability, he improved the designs of existing ammonia machines for processing and duplicating negative film. The unique feature of Marston's designs was the internal filtering system that neutralised the ammonia vapour. Existing machines required the ammonia fumes to be exhausted away from the production area. Although these machines performed well, much more work was needed to make them look functional and of good quality. Marston however felt confident that with his contacts in the printing industry, he would be able to sell them at reasonable profit.

In the third year of the business, the firm continued to operate on the basis of 'inventing' new products and relying heavily on Lucas Research. The enquiries for Marston's consultancy and design skills came only from proprietors of local businesses who were not willing to pay for his services. The pricing of his products and services were based on recovering costs plus a small profit margin and he was unwilling to increase his charges to Lucas Research. Mr Marston could not see the relevance of marketing his small business and accordingly had invested no time or resources in this activity. He felt that he will be able to sell his new products, design and consultancy services to a number of local organisations by approaching them directly and could not justify the expense of advertising, direct mail or literature.

Although Marston refused to reveal the company's financial situation, it was obvious from being there that the enterprise was struggling to make ends meet and that without more orders from Lucas, it would soon cease to exist. The new ammonia processors, designed and manufactured without much research, had little chance of finding customers. In late 1986, no additional orders had been secured for the light tables that had encouraged Marston to set up in business.

Summary of Characteristic for stage identification and marketing practices.

A. Stage Identification

1. Customer base: Very small base. Just one for design and manufacture of specialists tools, equipment and machines.

2. Key problem: Lack of regular business.

3. Management style: Basically a one man business.

4. Extent of formal systems and planning: Nil.

5. Major strategy: Existence.

B. Marketing Practices

1. Orientation: Production (and technical) orientation during pre-start up, start-up and development.

2. Pre-start up marketing: None.

3. Sources and methods of securing customers: Personal contacts, previous employer and ad hoc approach.

4. Awareness of marketing and application: No awareness of marketing and application confined to advertising and selling but with very limited resources.

5. Use of outside agencies/expertise: Untrusting of business and or marketing consultants.

APPENDIX 2.4

COMPUTER PRODUCTS AND SERVICES

(Company Code: CPS)

Study of the firm as in 1987

Address: Birmingham

Age: 3 years

Employees: 4

Origin of owner: Indigenous

Activity: Sale of Computer Software Consumables and allied services.

Turnover: £161,000

Stage of Development: Existence.

Origin and Start-up Phase

CPS was formed in mid 1984 as a wholly owned subsidiary of Schools' Software Limited (SSL). SSL was established in 1982 by Mr R Clent and Mr A Ginger who aimed to develop educational software for the secondary schools' market. Both men had previously worked in Birmingham schools. Mr Clent was a Director of Computing at a King Edwards VI School and Mr Ginger was a maths and computing teacher at Marsh Hill School. The Company was formed with grants from the King Edward Foundation and the Government's Micro Electronic Programme (MEP) for secondary education.

SSL first operated from the grounds of the King Edward VI Five Ways School and then moved to a commercial office unit in the City Centre. The Company grew rapidly and started to develop software packages and services for the primary schools market as well. To cope with this expansion the Company moved to a large (6500 sq ft) office unit in Bournville and employed fifty people. CPS was formed as a response to cope with the workload and was made responsible for the parent company's disk copying and supply side of the business.

In 1984, SSL faced a major crisis as the educational software market reached near saturation point with an increasing number of suppliers offering similar products and services entering the market. SSL decided to move into the Computer Based Training (CBT) market and discovered that the educational establishments generally, and schools in particular were not ready for these developments. The Company, as during the start-up phase, did not engage in extensive business planning, nor carried out much market research to assess the viability of entering the CBT market. The small investment (which at the time was not budgeted) in the CBT market was almost a panic reaction to the declining revenue from the schools market.

CPS however, continued to develop and from mid 1984 to the beginning of 1985 attracted new customers, including a major contract for the distribution of computer software and manuals to the school market for Hutchinson Education. As with the parent company, little formal business planning and marketing activity was undertaken at the early stage of development. The work came in almost by accident and in response to customers enquiries. The big national publishing companies were keen to exploit the schools market and were looking for the most cost effective means of distributing their products. Within months CPS was also approached by Heinemann Distribution and the Company found itself with more work than the parent company.

SSL decided to trim down its operations by laying off all employees and merged with CPS. In 1986, SSL was wound up, the two directors took control of CPS and moved to the Argent Centre premises in Birmingham. Mr M Brown, who ran the CPS operations, was made a director of the Company and put in charge of the day-to-day management of the business. Only one employee (who had assisted Mr Brown in building CPS) was retained and made responsible for the disk copying, disk sales and distribution side of the operations.

<u>The Development Phase and Use of Marketing</u>

Between mid 1986 and early 1987, the Company consolidated its operations and developed six main services for the schools market:

i) Disk Copying - CPS hold licence to copy and sell software packages of a selected range of educational programmes for use in schools.

ii) Disk Sales - CPS buy blank disks and sell them to schools in different quantities.

iii) Distribution - the Company provides a highly specialised distribution service for schools and offer complete packages of books, master disks and manuals from national publishers.

iv) Consumable Sales - sale and distribution of ribbons, listing paper and other computer products.

v) Hardware Sales - CPS negotiated a dealership contract with AST to supply IBM compatible computers for schools and other markets.

vi) Desktop Publishing - the Company offers a bureau service for reports, brochures, newsletters and other applications and plans are afoot to offer customers a consultancy and training service in DTP.

The decision to offer desktop publishing and computer sales was made on the basis of the directors' knowledge and experience in the use of computer technology. The directors also felt that they must engage in developing the Company's product lines by adding services that complemented its existing lines for the educational market. Although a cash flow forecast was produced for the financial year 1986/87, for the purpose of securing an extension on the overdraft facility, no overall business plan was formulated. By the beginning of 1987, the Company had sold four AST computers, but found that the low margins and the time required in their sale, installation and training made this activity unattractive with the manpower available. The DTP work did not attract any customers and the directors were not certain of the demand and the future of the service.

The directors of CPS were not fully aware of what constitutes the marketing function and how marketing could be applied or be relevant to their business. The Company in 1987 was wholly dependent on three major customers - Cambridge University Press, the Northampton Teachers Centre and Heineman Educational Books. The directors were aware of the decline in the market and were expecting at least 20 per cent fewer orders for the distribution of these three customers' products in 1988/89. In an attempt to attract more customers, the only marketing activity that was planned for the year was the possible production of two brochures to promote the DTP and distribution of software products. The Company was also considering producing a brochure in foreign languages aimed at entering the European markets. The Company had not, however, identified the types of people that these brochures would be aimed nor worked out what messages it wanted to communicate. As CPS had relied on the publishing companies to undertake all marketing activity, there was little experience of a publicity or promotional campaign. The lack of time, skills and budget had prevented the Company from carrying out any meaningful market research to identify alternative markets for its services. Most developments could be attributed to the directors' knowledge and experience. New products and services were added to the portfolio because the Company felt confident that it had the skills to deliver them.

Since it was formed (as SSL), the Company had had no organised sales operation, but generally relied on word-of-mouth reputation for quality and reliability. A majority of the orders for software and supplies for schools come from the publishing companies' advertising, direct mail and promotional campaigns. Although CPS distributed the publishers products nationally, it had not taken any action to create an awareness of its existence as a business entity amongst the educational market. The publishers' products all carry their own distinctive branding and blank disks are distributed as they are bought with the suppliers branding. The sales invoice and list of CPS Services printed on letterheaded paper are the only items in a package sent to customers that refer to the Company name.

In the main, CPS pursue cost-plus pricing policy for all its products and services. Disk copying, disk sales and consumable sales all carry a 40 per cent mark up. The pricing of publishers products are priced in accordance with their strict guidelines and the company receives 20 per cent commission on the sale of AST computers and office hardware. Desktop publishing is priced at between £15 - £20 per page and is based on what the competition charges. As CPS had not attracted any customers for DTP, the effectiveness of pursuing this policy was in doubt.

The Company in 1987 did not have a formal accounting or financial control system and carried on with the practice of Mr Clent keeping the books which were audited by an accountant at the end of the year. Towards the middle of 1987 Mr Brown had insisted on the other directors to make greater use of the computer technology and accounting packages to keep track of the Company finances. Although CPS made a small net profit (£20,000 with the directors salaries kept to the minimum) from a sales turnover of £161,000 in 1987, the directors were not very optimistic of much growth and improvement in the next few years. They had decided to seek outside help and were in discussion with the DTI's small firms services. They were keen to apply for the Enterprise Initiative to help them with business planning and marketing of their services.

Summary of characteristics for stage identification and marketing practices

A. Stage Identification

1. Customer base: Heavily reliant on three national publishing companies for the distribution of software business. Small number of regular customers for other services.

2. Key problems: Highly competitive market and difficulty in creating new regular customers.

3. Management style: The original directors, Mr Clents and Mr Ginger, manage the business and make all important decisions and are still actively involved in undertaking many of the routine tasks. The Company however is driven by the efforts and enthusiasm of the third director, Mr Brown.

4. Organisation: No formal organisation of the business as there is only one other employee.

5. Extent of formal system and planning: Only crude computerised financial control system, very little business planning takes place.

6. Major strategy: Existence.

7. The importance of the owner: The business is still synonymous with its directors.

8. Size: Small turnover and insignificant rate of growth. The Company showed a profit only because the directors decided to take out very small salaries.

B. Marketing Practices

1. Changes in orientation

   a) Pre Start-up: Technical competence and production orientation.

   b) Start-Up: Recognised a gap in the educational market but they approached the venture with emphasis still on the products/services.

   c) Development: Remained production orientated adding new services without any reference to the market needs.

2. Marketing Activity:

   a) Pre Start-Up: Little or no research into market needs. Developed the business proposition on the basis of knowledge of the schools markets, personal competences and encouragement from grants from King Edward Foundation and government schemes.

   b) Start-up: Personal contact, direct mail and word-of-mouth. Little marketing effort was required due to the demand in the market place.

   c) Development: Confined to use of brochures (planned). Relied heavily on publishers' marketing activity for distribution of software.

3. Sources of Securing Customers: In the main personal contacts, word-of-mouth and publishers marketing effort.

4. Awareness of marketing and its application: Directors not fully aware of what constitutes marketing. Confined it to selling, advertising, promotion and Company image.

5. Responsibility for marketing function: No director had clearly defined responsibility for marketing. They all got involved in direct mail, brochure design and telephone selling as and when required.

6. Application of formal marketing: The Company was in the process of seeking outside help with business planning and marketing.

APPENDIX 2.5

SATURN CASUALWEAR LIMITED
(COMPANY CODE: SCL)

Study of the Firm as in December 1986

Address: West Bromwich

Age: 5 months

Employees: 31

Origin of Owner: Asian

Activity: Manufacture of Promotional and Leisure wear products.

Turnover: £53,000 (First 4 months)

Stage of development: Survival.

Origin and Start-up Phase

Manraj Singh Chana established Saturn Casualwear in June 1986 after many years of experience of running small clothing manufacture and sales businesses in the West Midlands. Manraj is the eldest of four sons of Tara Singh Chana. Tara, a draper by family tradition and caste, had had 15 years of experience in tailoring in India before he came to England in 1958. After working in a factory as a manual labourer for two years, Tara opened a small shop in Smethwick to retail ladies and childrens garments. In the room behind the shop, Tara started manufacturing simple jackets and other small items of clothing for sale in the shop. The jackets were made by imitating the designs that were in fashion at the time and were aimed at the cheaper end of the market. Gradually Tara started to sell his jackets to other small retailers and market stall operators. In 1967, Tara went into a partnership with one of his close relatives to form T S Chana and Sons, a small clothing manufacturing company that operated from an industrial unit in Smethwick.

In 1969, Manraj was persuaded by his family to come into the business because he had had an English education and had spent two years studying for a Diploma in tailoring at the Tailors and Cutters Academy in London. Manraj had also spent twelve months in India, studying clothing design and manufacturing processes employed in some of the major garments businesses in Bombay and New Delhi. Manraj had many new ideas that he was keen to implement in his father's business. Although Manraj effectively ran the business for ten years, his father and the partner continued to make all major decisions. The business did not progress and ceased to trade in 1980 when the partner decided to retire and return to India.

In March 1981, Manraj established his own wholesale clothing business called Everwear Clothing Limited. Manraj was keen to run a progressive business and felt the neutral name would help him to sell to English customers as well as to the largely Asian retail clients that he had developed over the years. Everwear was based in Hockley, Birmingham and had been going for a year when a fire forced Manraj to move to new premises. In July 1982 Everwear moved to an industrial unit in Smethwick and after two months took over a small clothing manufacturing company in Dudley. Manraj built this business up rapidly by securing sub-contract cut, make and trim (CMT) from contacts he had made in London. Within six months of acquiring the company, Manraj increased the number of machinists and other employees from five to thirty-eight. As much of the CMT work was for contractors who had secured customers for promotional wear, Manraj installed embroidery machines that produced corporate logos and slogans onto jackets and other garments. The company manufactured promotional wear bearing some of the famous household names, such as Jaguar, Shell, Esso and Guinness. The contractors supplied the designs, patterns and fabrics, and the company returned the completed orders for their distribution to the clients.

After eighteen months of relying solely on sub-contract CMT work, Manraj decided to manufacture a small number range (mainly jackets and body warmers) of his own promotional wear. He negotiated with three multi-national companies and a middleman (Trojan Leisurewear Limited) for the use of their corporate logos on his products and paid royalty fees on the numbers sold. The company manufactured good quality products at medium price and sold them to petrol stations, wholesalers and retailers. The company did not engage in any form of market research, targeting, product planning or promotional aspects of marketing. The jackets were designed to the patterns of sub-contract CMT work and carried the company's (Everwear) label. Manraj secured customers by personal selling and through his previous contacts with wholesalers and retailers. The company did not see the need for any research or promotion as it had little difficulty in selling the small batches of items that were produced using the limited production capacity that was available after meeting the CMT requirements. As the company negotiated sub-contract rates of manufacturing CMT orders and never had to formulate a pricing policy for the finished items, it relied on cost, plus between a 20 and 40 per cent margin for its own range of promotional wear. This method was simple to use and the company found that it could adjust its own margin in negotiating with customers.

In June 1983, Manraj landed a £3.5 million contract for the manufacture of jackets and other outer wear for an American company selling promotion wear across the USA and Canada. Manraj expanded the business to meet this order, secured a bank overdraft facility for £120,000 against Manraj's property as security. The company was beginning to install professional business management and control systems and Manraj felt confident of the future of the business. In

September 1983, before the bulk of the American and other orders were processed, a fire, started by some children, destroyed the premises completely. As a result, the business ceased training when the bank withdrew its overdraft facilities and commitment to the firm. The insurance company paid out £90,000 after six months of investigation which enabled Manraj to start again.

Development of the New Business

Manraj Chana established Saturn Casualwear Limited in June 1986. He raised the finance for the new venture by selling his Smethwick premises, securing a £25,000 DTI grant, £25,000 loan from Bank of India and by injecting £60,000 of his own capital. He was determined to start the new business with a positive attitude and by planning his every move. He had formulated a three year financial plan with the assistance of a DTI counsellor and his accountant, but admitted that it did not extend into a formalised business plan. To ensure tight financial control he had invested in computerised accounting, invoicing and payroll system from the outset of the new operations. The company also employed a full-time employee to be responsible for all financial control aspects of the business.

Like Everwear, Saturn Casualwear specialised in the manufacture of promotion and leisure wear garments for the sub-contract market and for marketing its own range. The company had little difficulty in securing sub-contract work for manufacturing promotion wear bearing names and logos of multi-national companies such as Yamaha, Suzuki, Unipart, Rapide and Mercedes-Benz. Manraj had decided, that as a progressive company, he would put high quality as a top priority throughout the business. In implementing this strategy, he had spent considerable time and effort in funding modern, well equipped premises in West Bromwich, and invested heavily in new machinery. The ease of securing orders for promotional wear indicated that there were not enough manufacturers with embroidery facilities. As a long-term measure, Manraj invested in a high quality computerised embroidery machine. He intended to maximise the machine's capacity by manufacturing sub-contract orders, his own range of products and by taking on work for other local manufacturers who did not have this facility.

Manraj brought his wife and his two younger brothers into the business and assigned them clear responsibilities. To meet the needs of the business, Manraj employed twenty machinists, four YTS trainees (one for the reception and three to train on the embroidery machine, a sorter/organiser, production controller, a cutter and a recently qualified fashion designer. Within a month of trading the company had thirty-one employees and three substantial sub-contract orders to meet. Manraj's wife had the overall responsibility for the production process and supervised all other employees. With her years of sewing experience, she also took on special projects to manufacture small batches of products. One of his brothers looked after purchasing raw materials and stock control, whilst the other took charge of sales and office administration.

Before starting this business, Manraj had attended a business development seminar organised by the DTI's Small Firms Services. He had acquired an adequate understanding of the marketing function and planned to apply some of the techniques in his new venture. The decision to take on sub-contract work was made on the basis that there was a large market for this work, and to ensure the business had a regular flow of work. The revenue generated from this work was to be used to fund his real ambition of manufacturing and marketing his own range of high quality promotional wear directly to the multi-national companies. After several unsuccessful attempts at securing orders directly from these customers, the company had commissioned the design and manufacture of its own products for the wholesale market.

Although the company had a qualified designer, it did not allow her to develop a new range of products from a marketing perspective. The designer had only relied on secondary sources of research such as trade magazines and fashion trends to design new jackets, bodywarmers, car coats and windcheaters. The company was keen to develop its own brand names for this range of products and was planning to use such names as Cert X, Saturn Sports, Rock Solid, Motor Bike and Collect Casuals. The fashion designer was expected to do the artwork for these names and the company was going to produce the labels on its embroidery machine.

Although the company described its pricing strategy (for own products) to be high quality at medium price, it however calculated the price of cost, plus between 20 and 30 per cent margin. The company also gave discounts for quantity orders and prompt payments. The main customer groups identified were wholesale distributors, independent petrol stations (and those where managers had freedom to select retail merchandise) and other retail outlets. The company was keen to sell to multiples such as Halfords and car spare shops of major car dealers, but did not yet feel ready to attack these markets.

The company employed two sales agents to sell to wholesalers and retailers and there were plans to employ more in the future. The sub-contract work was secured on Manraj's personal contacts and through word-of-mouth and reputation of the business. Although the company had plans to produce a corporate brochure and advertise in the trade press, it was felt that this could wait another six months as there was no shortage of work.

After four months of trading, the company had achieved a sales turnover of £53,000 and the cash flow forecast for the first year was based on turnover of £50,000 per month after the sixth month of trading. The company was confident of achieving and indeed exceeding the revenue target of £375,000 in the first year. There was ample flow of sub-contract work and the sales of the company's own designs were slowly picking up and there were plans to diversify into manufacture of promotional tee-shirts, caps, trousers, ties and embroidered badges. The company was also planning to export its own range of products and to double the production capacity within the next three years. The optimism was partly due to Manraj's ambition and partly because the company felt there was potentially a large market for its products and services and that it had the capacity to manufacture what was required. On the negative side, the company identified the barriers of non-availability of skilled machinists, additional financing, lack of marketing expertise and limited physical space that will prevent it from achieving its medium term goals. After the first year's trading, the company was planning to apply for the DTI's Enterprise Initiative for marketing and design consultants to help it give direction for the future.

Summary of Characteristics for State Identification and Marketing Practices

A. Stage Identification

1. Customer base and key problems: A small number of sub-contractors for promotional wear products that were manufactured to CMT and where profit margin were low and company operated on volume output. Few established customers for own designs. Key problem was to ensure that sub-contract work was regular to maintain cashflow. Cashflow problems arose due to bad debts and long credit terms.

2. Management style and organisation: Supervised supervision. Although the company had family members responsible for the different functions the managing director still made all key decisions. There is was formal organisation structure and family retain control over production, sales, purchasing and finance.

3. Extent of formal systems and planning: Financial control and payroll systems were in place. Cashflow forecasting took place but there was no formal business planning.

4. Major Strategy: Survival. The company was pursuing several strategies to ensure continuity of work. Sub-contracting and own designs and diversification into allied promotional wear products were the main strategies pursued.

5. The importance of the owner: Managing Director was the driving force and was synonymous with the business.

6. Size: Rapidly increasing sales turnover and labour force, but there were restrictions to further growth in capacity.

B. Marketing Practices

1. Changes in orientation:

   - Pre Start-up: In the original, (the father's and Manraj's own business) the orientation was towards skill and tradition of the family and caste. There was little or no reference to market demand. prior to starting Saturn, owner's orientation was more towards selling to know customers and clients.

   - Start-Up: Production and selling dominated.

   - Development: Moving towards marketing orientation but tendency to revert back to new product development and diversification without much reference to market needs or targeting.

2. Pre Start-up marketing activity: None. Relied on knowledge of the market potential and confidence of securing work from old contacts on a sub-contract basis.

3. Sources and methods of securing customers: Personal contacts and personal selling. Use of sales agents and direct contact with potential customers.

4. Awareness of what constitutes marketing: Had a good comprehension of the term, but did not feel the need to fully implement it in the initial stages of business development. Intuitive marketing practice, for example, new product development, branding, pricing and diversification.

5. Responsibility for marketing function: shared between managing director (overall decisions) and brother in charge of sales.

6. Application of formal marketing, sources of knowledge, expertise and outcome: Attended business development training, and applied for outside marketing and design help. Receptive to new practices but needed help with implementation.

APPENDIX 2.6

BHOGAL HEAT LIMITED
(Company Code: BHL)

Study of the firm as in January 1987

Address: Wolverhampton	Activity: Manufacture of Heating Tapes
Age: 6 months	Turnover: £26,000 (First 6 months).
Employees: 2	
Origin of owners: Asian	Stage of Development: Existence

Origin and Start-up Phase

Bhogal Heat was established in May 1986 by Jaspal Bhogal to manufacture heating tape for industrial and domestic applications. Bhogal came to England with his parents in 1964 when he was 4 years old. His father, a Sikh belonging to the caste of carpenters, builders and engineers worked in the foundry industry in Wolverhampton when young Jaspal was growing up. His father, like most Asian parents, was determined that his son will not follow him into the manual, metal bashing and dirty factory work. Jaspal had a good secondary education, achieving 'A' level results that got him into Aston University to study for a BSc degree in Chemistry and Technology. The qualification however, did not help him to secure a job in the polymers industry because of the cuts in graduate recruitment in 1981/82. He decided to study for a Master of Science degree in the same field at Aston University. When he still could not find a suitable job, he started to work as an Extrusions Operator in a local plastics moulding company.

After nearly three frustrating years of not finding the right job in the chemicals industry, and seeing no future prospects in the plastics company, Bhogal decided to put his academic training and experience of extrusion to more fruitful use. In his spare time he designed and developed a heating tape that could be made from silicone rubber and cost less than half the price of the PVC varieties that were available in the market. Bhogal refined his ideas and applied for a patent to protect his design. The only market research Bhogal had undertaken at this stage was to estimate the value of the heating tape market and compare the prices of competing products available. He relied on the information given in the Kelly's Directory and the directory of Key British Enterprises. The sales turnover of seven major suppliers of heating tapes and allied products suggested that there was considerable potential for a new company to enter a £250 million market. But as these companies were also major suppliers of other electrical products, this figure was misleading and did not provide adequate data on the industrial and consumer markets for heating tapes. The comparison of prices of competing brands was undertaken by referring to suppliers price lists and by observation of prices charged by major DIY stores that sold this type of product. With his knowledge and experience of extrusion processes, Bhogal did some crude calculations based on small scale production of the tape and was convinced that his superior product could be retailed at less than half the price of competing brands. These calculations and pre-determined pricing policy was subsequently used in forecasting cashflow and selling the product.

In early 1986, Bhogal approached Wolverhampton Enterprise Limited (WELD), an enterprise agency, for their help in advising him on the start-up of his business. With the assistance of an enthusiastic counsellor, Bhogal prepared an outline of a business plan and a cash-flow forecast for the purposes of securing funding for the venture. Bhogal and the enterprise counsellor approached all possible sources of grants for new start-ups and managed to secure a level of support beyond their wildest dreams. The DTI pledged 25% funding of all the costs of the venture over the first 18 months of the business. British Coal (who at the time were running a major campaign to help rejuvinate the Black Country's economy after closing down several unprofitable pits) gave Bhogal a grant of £6500. Wolverhampton Borough Council, under its scheme of incentives for new manufacturing ventures gave him a grant of £2000. His bank was also very generous and gave him a £10,000 overdraft facility. Bhogal registered on to the Government's Enterprise Allowance Scheme, and together with an investment of £1,000 of his own capital formed a limited liability company that started to trade in May 1986.

The funding enabled Bhogal to rent a small (1000 sq metres) unit on a industrial estate in Wolverhampton, purchase a second hand extrusion machine and stock up with the necessary supplies of silicone rubber, heating element and copper wire. He proceeded to manufacture 200 metres of heating tape for the purpose of making samples that could be used in demonstrating the product to potential customers.

Use of Marketing

Although Bhogal was well versed in scientific and technological matters and felt confident that he could produce high quality tapes, he admitted to his lack of experience and knowledge of managing a business. The accounting, stock control, and production processes were felt to be straight forward and he was in the process of designing simple paper systems to manage these aspects of the business. He had brought his wife into the business to take care of the office and to keep the books. His major problems lay in the area of business planning and marketing. His awareness of what constituted the marketing function was confined to the promotion of the company's products with a heavy emphasis on the selling process. His approach to running the business was very much based on having a high quality but competitively priced product that he would sell to whoever wanted to buy it.

This attitude reflected very closely on how the company operated during the first six months of its life. In his cash-flow forecast for the first year, Bhogal had set aside £500 for the promotion of the company and its products. He had already spent £200 of this budget on printing company letterheads and business cards. Although he had plans to produce a brochure on the product to demonstrate its benefits over competing bands, he had little product information to give his potential customers. Within the context of broadly defining his markets to be both industrial and consumer, Bhogal had limited knowledge of the many potential segments of these markets. He felt comfortable with the industrial sector and had identified the use of heating tapes in industries where pipes were installed to conduct liquids and gases for the production processes. Heating tapes in such installations were used to prevent pipes from freezing or to keep their contents at constant temperatures. With his knowledge of the chemicals industry, Bhogal compiled a list of manufacturing companies in the West Midlands and Merseyside from Key British Enterprises directory and planned to visit at least 10 buying departments per week to promote his product. Although the refusal rate for appointments was very high, he managed to secure two orders for the product within the second month of starting the business. The orders totalled 13000 metres of heating tape for industrial applications and indicated considerable potential demand in this sector. To meet these orders however, meant that Bhogal had to operate the machine and manufacture the finished product for delivery. Even a small run of 13000 metres took well over two weeks to complete and during which time no further orders could be secured. Because of the low price, high quality, and nature of the industrial market, the company did not have to bother with the branding and packaging of the product. The large lengths required were supplied on simple cardboard spools. The company offered six months warranty on the tapes but had not planned to provide any back up or technical services.

For these initial orders, Bhogal pursued the pricing policy of costs plus a 25% profit margin. This as he had predicted, worked out to be more than half the price per metre charged by his main competitors. But in order to secure customers for the business he had given 10% discounts on orders exceeding 100 metres. Although he was confident of securing more customers on the basis of price and quality, he had no knowledge of the buying behaviour and whether a super bargain pricing strategy would be a viable longer term proposition for the business. In the short-term Bhogal intended to distribute the finished product directly to his customers, using his own transport for local orders, British Rail Parcels services for medium sized orders and a road haulage company for high volume orders. He had not however, thought of developing any attractive channels of distribution for national coverage, but was planning to negotiate with a local refrigeration company that had a national distribution facility.

To sell to the consumer market, Bhogal had done some preliminary work on examining the heating tapes sold through major DIY stores such as B and Q, W H Smiths, Do It All and Homebase for use in greenhouses. His plans included approaching the buying departments of such stores personally and by appointing sales agents. He was also planning to design packaging to contain pre-determined lengths, and branding the product for selling the tape to consumer markets nationally. Bhogal had approached two national stores by telephone to make appointments with the buyers, but found it difficult to get through their secretaries.

Bhogal's short-term plans were to produce a brochure and place some advertisements in the trade press to secure more industrial customers. But with limited resources available he had opted to concentrate on the brochure only. He had plans to undertake a direct mail shot campaign with the brochure, but was not too clear of the target audience that he should address.

With the realisation that he had very little time to devote to market research and implementing any marketing or business planning for the business, he decided, in the beginning of 1987 to take an unemployed recent graduate from Wolverhampton Polytechnic's Graduate Gateway Programme. The brief for the graduates work experience with the company for twelve weeks was to carry out market research of needs of consumer and industrial markets and how the company should go about marketing heating tape in the short and medium term.

<u>Summary of Characteristics for Stage Identification and Marketing Practices</u>

A Stage Identification

1. Customer base and key problem: Started business without clearly defining and researching customers/markets. Only two customers secured. Repeat business - uncertain.

2. Management style and organisation: Owner does all tasks: planning, selling, production and delivery. Only one other employee (wife).

3. Extent of formal systems and planning: Simple financial control systems and no overall business planning. Initial business plan and cash-flow forecast was prepared for securing funding.

4. The importance of the owner: The owner is the business.

B. Marketing Practices

1. Changes in orientation:

   Pre Start-up - Emphasis on design and development of the new product.

   Start-up - Emphasis on getting factors of production in place and producing samples of the product.

2. Marketing activity:

   Pre Start-up - Observation research on alternative products on the markets. No research amongst potential users.

   Start-up - No marketing planning. Emphasis on personal selling. No clearly defined market segments.

3. Sources and methods of securing customers: Direct personal contact with buying departments of industrial companies.

4. Awareness of what constitutes marketing: Narrow interpretation and confined to promotion (mainly advertising) and selling effort.

5. Responsibility for marketing: Owner-selling.

6. Application of formal marketing: None, but responsive to outside help.

APPENDIX 2.7

LASER COMPUTER SERVICES LIMITED
(COMPANY CODE : LCS)

Study of the firm as in January 1987

Address: Birmingham	Activity: Computer Sales Consultancy, Networking and Desktop Publishing
Age: 3 years Employers: 2	Turnover: £200,000
Origin of Owner: Asian	Stage of development: Existence

Origin and Start-Up Phase

LCS was formed in mid 1984 and was located in shared office premises with another Asian business in Birmingham. Ali Karim, the Managing Director, (27 years old) was born in Pakistan and came to England with his parents when he was 7 years old. Karim started his career as a computer operator with a large international company in Birmingham specialising in information systems. Karim made rapid progress with the Company and was soon appointed as a programmes analyst. He learned the skills of this job by self study and from on-the-job experience. Over a period of 4 years in this job, Karim got involved in some major consultancy projects that the company was engaged in. He also developed considerable knowledge of the computer hardware that was becoming available and on occasions worked with his colleagues on evaluating alternative systems for the company's clients. He also gained knowledge of hardware systems that his employers had installed for the provision of a complete package of services to their clients.

As the computer market started to become saturated with numerous machines and software, Karim realising how easily his employers were developing their business, decided to set himself up in a small business. Between 1980 and 1982, he established an operation buying and selling computers to small and medium-sized businesses that achieved a sales turnover of £350,000. But during this period his private life suffered and the breakdown of his marriage lost him his home and eventually destroyed the business.

After 2 years of doing odd jobs with periods of unemployment, Karim decided to pull himself together and started a new computer consultancy and services business. As he already had a powerful IBM computer from his previous, business, was given an office space and a secretary to share by a close friend, Karim did not need much capital to start operating. He invested £4,000 of his own savings to purchase the hardware when the first order came in and was confident of making adequate profits from the initial sales.

There was no formal planning for the new start-up, with the exception of an outline proposition that was required to join the Enterprise Allowance Scheme. Karim had decided that the business would offer consultancy, installations, sourcing, training, problem solving and after sales services to people requiring or having computers in their businesses. During the first few months of the operation, Karim managed to get a number of small consultancy orders on sub-contract basis from one of his old contacts in the business. Karim also undertook a telephone campaign and contacted a number of his previous customers. This brought in some work but it was not enough to cover Karim's own salary. The owner of the insurance business with whom Karim shared the office premises also gave him some leads for the sale of computers. Most of these contacts were other Asian small businesses in the region and Karim had little success in selling them his services.

In November 1984, an old contact in the computer supplies industry introduced Karim to a company called Compugraphics. This American company had developed a sophisticated, high quality computer, the CT 9400PS, for the use in image setting by graphic designers, printers and typesetters. Compugraphics saw the UK as a substantial market for this machine and were looking to set up authorised dealerships as part of their distribution strategy. Karim applied and successfully secured the first UK dealership for the Compugraphic computers and software without any geographical restrictions imposed for the first two years of the contract. Within months of signing the dealership, LCS started to get regular leads for Karim to follow and resulted in the Company's increased sales turnover.

<u>The Development Phase and use of Marketing</u>

In the second year, the business achieved a sales turnover of £150,000 and it was projected to reach £200,000 at the end of the third year. The bulk (80 per cent) of the turnover, however was derived from the sale of Compugraphic's hardware and only 20 per cent was accounted for by business generated through Karim's own efforts and personal contacts. The work generated by following the sales leads passed on by Compugraphic kept Karim fully occupied and therefore he devoted little time to developing business from other sources. Compugraphic's national marketing campaigns, mainly through trade press advertising and tele-sales, generated sales leads across the UK and Karim spent much time on the road. The untapped graphics, printing, public relations and advertising markets for high quality visual and type imaging computers represented enormous opportunities for Compugraphics to expand their UK operations. The Company intensified its marketing activity and provided LPS with all the necessary literature, sales promotion and product demonstration and training packages. Karim relied wholly on the suppliers' marketing effort and successfully converted at least 20 per cent of enquiries into sales. Karim's own inputs in closing the sales successfully included the in-company evaluation of the clients' problems, presentation of a proposal outlining the type of machine and software and his personal selling skills. In addition to selling clients the Compugraphic systems, Karim also usually managed to sell them his consultancy and training services. As this strategy brought him enough work he did not see the need for applying any other marketing. He had produced a simple brochure soon after starting the business but had not used it to any extent. He found that it was more effective to sell his services by direct contact with the customers.

LCS had little control over the pricing of the Compugraphic products as these were published in price lists. LCS worked on distributors' margins of between 25 and 35 per cent. As the Compugraphic model GC 9400PS was sold at £28,000, the exclusive dealership represented a very profitable source of business so long as Karim could successfully convert a small number of sales leads into signed contracts. The pricing policy for his consultancy and training services was based on day rates of between £250 and £500 depending on the nature of the job. For the financial year 1987/88, LPS had set a target to sell ten complete Compugraphic systems together with its own services to achieve a turnover of £300,000. This would have enabled the Company to release £85,000 gross profit (working on average of 30 per cent mark-up). Although Compugraphic were certain to appoint additional dealers to cover the regions, Karim felt confident that with this experience and knowledge of the market, he would easily attain this target so long as the supplier continued to generate the sales leads through their marketing efforts.

To build on the success of the Company, Karim was planning to offer a total printing and publishing service by combining the Compugraphic dealership with his own range services. He was also planning to offer a comprehensive desktop publishing service. To achieve this he was planning to employ two people and to move into his own office premises. The experience of the past 2 years of handling all the tasks himself with the help of a part-time secretary indicated that he had to manage the enterprise more professionally. The secretary, although very helpful in taking messages and typing proposals, did not have the knowledge of computer systems. LCS operates both a manual and computer based financial control system, but it had never been completed up-to-date to be of much use. The Company's accountants normally had to rely on the records of transactions at the end of the year to prepare company accounts.

Karim attributed the Company's performance since its formation to the exclusivity of the Compugraphic dealership and his selling ability. He was optimistic of future prospects because he knew there was a large potential market and that Compugraphic had the right product. He was equally optimistic of the future of his own consultancy and DTP services and was planning to build this side of the business by selling to Compugraphic's customers and to his personal contacts. He was keen to produce a new colour brochure for the Company and to start advertising in trade magazines. He was hoping to continue to aim his services at the graphics and printing industry but also wanted to try exploring other markets.

Summary of Characteristics for Stage Identification and Marketing Practices

A. **Stage Identification**

1. Customer base and key problem: Heavily reliant on exclusive dealership as the single source of customers. Initial contract for exclusivity was due to expire soon.

2. Management style and organisation: Basically a one-man business that responded to the sales leads (national coverage) of its contractor.

3. Extent of formal systems and planning: None.

4. Major strategy: Cope with the workload and to survive.

5. Size: Very small and evolving.

B. **Marketing Practices**

1. Changes in orientation:

Pre start-up:	Had the skills and knowledge of computer/technology and emphasis was on providing a service to whoever wanted to buy.
Start-up:	Sales orientation. Selling to personal contacts and referrals from friends and colleagues.
Development:	Sales orientation. Emphasis on selling techniques to convert leads into sales. Heavily reliant on contractor's marketing effort to create potential customers.

2. Pre start-up marketing activity: None.

3. Sources and methods of securing customers: Personal selling and contractor's marketing.

4. Awareness of marketing: Confined to selling and use of advertising and brochures.

5. Responsibility for the marketing function: Owner (mainly selling).

6. Application of formal marketing: None.

APPENDIX 3

DETAILS OF THE SAMPLE AND SINGLE POINT AND LONGITUDINAL CASE STUDIES OF INDIGENOUS AND ASIAN ESTABLISHED SMALL FIRMS

3.1 Details of the sample of indigenous and Asian firms selected for in-depth interviews, single point and longitudinal studies.

Single-Point Case Studies: Indigenous Firms

3.2 MC Automatic Controls Limited
3.3 Harrisons Engineering Limited
3.4 Danks, Brown and Bates Limited
3.5 Time Systems (UK) Limited

Single-Point Case Studies: Asian Firms

3.6 H S Virdi Bros Limited
3.7 Midland Upholstery Company
3.8 Midland Meat Company Limited
3.9 Eastern Foods Limited

Longitudinal Cases

3.10 Jacqunoid Dodgson and Kenwright Limited (indigenous)
3.11 Bhogal Brothers Limited (Asian)

APPENDIX 3.1.a DETAILS OF THE SAMPLE OF ESTABLISHED INDIGENOUS FIRMS SELECTED FOR IN-DEPTH PERSONAL INTERVIEWS (AS IN 1987)

A Manufacturing

1. Pressworks Engineering Ltd

Address: Birmingham
Activity: Manufacture of tools, pressworks and turned parts
Age: 5 years (1982)
Turnover: £750,000
Employees: 38
Stage of development: Survival

2. Narrow Track Ltd

Address: Bilston (Wolverhampton)
Activity: Manufacture of fork-lift trucks for narrow aisles
Age: 11 years (1976)
Turnover: £4m
Employees: 100
Stage of development: Success-Growth

3. Warwickshire Plating Co Ltd

Address: Coventry
Activity: Electroplating and metal finishing
Age: 42 years (1945)
Turnover: £2.4m
Employees: 130
Stage of development: Survival/growth

4. W.G.S. Jewellers Ltd

Address: Birmingham
Activity: Manufacture and wholesale of precious jewellery
Age: 99 years (1888)
Turnover: £981,000
Employees: 15
Stage of development: Survival

5. Dies and Tools Ltd

Address: Birmingham
Activity: Manufacture of dies and punches for forging industry
Age: 23 years (1964)
Turnover: £950,000
Employees: 47
Stage of development: Survival

6. Components Engineering Ltd

Address: Birmingham
Activity: Manufacture of components and pressings for motor industry
Age: 32 years (1955)
Turnover: £330,000
Employer: 27
Stage of development: Existence/Survival

7. W L Anderson & Sons Ltd

Address: Birmingham
Activity: Manufacture of wire rods, tube components and assemblies
Age: 100 years (1887)
Turnover: £3.287m
Employees: 140
Stage of development: Survival/Success-Growth

B. Retailing

1. The Jewellery Workshop

Address: Birmingham
Activity: Retail and repair of designer jewellery
Age: 9 years (1978)
Turnover: £182,000
Employees: 4
Stage of development: Survival

2. T.B. Chemists

Address: Birmingham
Activity: Pharmacy and retail of related products
Age: 17 years (1970)
Turnover: £380,000
Employees: 6
Stage of development: Survival

3. William Barkers & Co

Address: Birmingham and Solihull
Activity: Shoe repair and retail of allied products/ services
Age: 12 years (1975)
Turnover: £250,000 (3 outlets)
Employees: 10
Stage of development: Survival

C. Wholesaling

1. Cables, Instrument and Equipment Ltd

Address: Wolverhampton
Activity: Wholesale of electrical cables and equipment
Age: 16 years (1971)
Turnover: £600,000
Employees: 22

Stage of development: Survival

2. Electrical Components Ltd

Address: Birmingham
Activity: Manufacture and distributors of electrical equipment for temporary networks
Age: 6 years (1981)
Turnover: £700,000
Employees: 25
Stage of development: Survival

3. W Lace (Hardware) Ltd

Address: Cradley Heath
Activity: Handtools and DIY products wholesalers
Age: 106 years (1881)
Turnover: £361,000
Employees: 14
Stage of development: Survival

D. Miscellaneous Services

1. Express Deliveries

Address: Birmingham
Activity: Courier of small items by motorcycle
Age: 18 years (1969)
Turnover: £200,00
Employees: 8
Stage of development: Existence/Survival

2. Scoldfield Hotel

Address: Birmingham
Activity: Hotel and conference facilities
Age: 7 years (1980)
Turnover: £529,000
Employees: 50
Stage of development: Survival

APPENDIX 3.1.b DETAILS OF THE SAMPLE OF ESTABLISHED INDIGENOUS FIRMS SELECTED FOR SINGLE-POINT AND LONGITUDINAL CASE STUDIES

Single-Point Case Studies

A. Manufacturing

1. MC Automatic Controls Ltd

Address: Bilston (Wolverhampton)
Activity: Controls and monitoring systems for heating and lighting
Age: 4 years (1983)
Turnover: £2.1m
Employees: 52
Stage of development: Survival/Success-Growth

2. Harrisons Engineering Ltd

Address: Birmingham
Activity: Manufacture of pressworks, toolmaking and precision engineering
Age: 107 years (1880)
Turnover: £2.8m
Employees: 140
Stage of development: Success-Growth

B. Miscellaneous Services

1. Danks Brown & Bates Ltd

Address: Birmingham
Activity: Design and photography for promotions materials
Age: 20 years (1967)
Turnover: £500,000
Employees: 27
Stage of development: Survival

2. Time Systems (UK) Ltd

Address: Solihull
Activity: Personal effectiveness training and time management systems
Age: 9 years (1978)
Turnover: £6m (1986)
Employees: 68
Stage of development: Success-Growth/Lift-off

B. Longitudinal

1. Jacqunoid Dodgson & Kenwright

Address: Birmingham
Activity: Manufacture of enamelled badges, trophies and masonic products
Age: 151 years (1835)
Turnover: £2.3m
Employees: 105
Stage of development: Survival/Success-Growth

APPENDIX 3.1.c DETAILS OF THE SAMPLE OF ESTABLISHED ASIAN FIRMS FOR IN-DEPTH PERSONAL INTERVIEWS (AS IN 1987/88)

A Manufacturing

1. R S Clothing Ltd

Address: Coventry
Activity: Manufacture of children's clothing
Age: 12 years (1975)
Turnover: £375,000
Employees: 24
Stage of development: Existence/Survival

2. Brit Fashions Ltd

Address: Coventry
Activity: Manufacture of gloves and socks
Age: 17 years (1970)
Turnover: £1.743m (1986)
Employees: 47
Stage of development: Survival

3. Midlands Metal Spinners

Address: Wolverhampton
Activity: Metal spinning and turned parts manufacture
Age: 10 years (1977)
Turnover: £361,000
Employees: 23
Stage of development: Existence

4. SK Furniture Ltd

Address: Birmingham
Activity: Manufacture of furniture and joinery products
Age: 12 years (1975)
Turnover: £158,000
Employees: 5
Stage of development: Existence

5. Trident Shoes Ltd

Address: Birmingham
Activity: Manufacture of shoes
Age: 5 years (1982)
Turnover: £278,000
Employees: 45
Stage of development: Existence/Survival

6. Eastern Windows Ltd

Address: Wolverhampton
Activity: Manufacture of aluminium and UPVC double glazed windows and doors
Age: 10 years (1977)
Turnover: £450,000
Employees: 12
Stage of development: Survival

7. Amar Jewellers

Address: Smethwick
Activity: Manufacture and retail of Asian jewellery
Age: 15 years (1973)
Turnover: £278,000
Employees: 3
Stage of development: Existence

8. Delight Footwear Ltd

Address: Birmingham
Activity: Manufacture of shoes and sandals
Age: 6 years (1982)
Turnover: £4,291,000
Employees: 27
Stage of development: Survival/Success-growth

B. Retailing

1. Cannon Chemists

Address: Birmingham
Activity: Pharmacy and retail of related products
Age: 5 years (1982)
Turnover: £365,000
Employees: 5
Stage of development: Existence/Survival

C. Wholesaling

1. Khan Wholesale Trades

Address: Birmingham
Activity: Foods wholesaling
Age: 11 years (1976)
Turnover: £650,000
Employees: 13
Stage of development: Existence

2. Blackwell Ltd

Address: Birmingham
Activity: Wholesale of sports clothing and equipment
Age: 16 years (1932)
Turnover: £640,000
Employees: 19
Stage of development: Survival

D. Construction

1. HS Building Services

Address: Coventry
Activity: Builders and general maintenance works
Age: 11 years (1976)
Turnover: £350,000
Employees: 5
Stage of development: Existence

2. Flora Construction

Address: Birmingham
Activity: Building, repairs and joinery
Age: 12 years (1975)
Turnover: £250,000
Employees: 9
Stage of development: Existence

E. Catering

1. Sangam Indian Restaurant

Address: Wolverhampton
Activity: Indian Restaurant
Age: 13 years (1974)
Turnover: £260,000
Employees: 9
Stage of development: Existence

F. Miscellaneous

2. Jet-Set Travel Ltd

Address: Birmingham
Activity: Travel Agents
Age: 15 years (1972)
Turnover: £221,000
Employees: 6
Stage of development: Existence

APPENDIX 3.d DETAILS OF THE SAMPLE OF ESTABLISHED ASIAN FIRMS SELECTED FOR SINGLE-POINT AND LONGITUDINAL

Single-Point Case Studies

1. H S Virdi Bros Ltd

Address: Birmingham
Activity: Manufacture of outwear and casualwear
Age: 18 years (1970)
Turnover: £1.358m
Employees: 40
Stage of development: Survival

2. Midland Upholstery

Address: Birmingham
Activity: Manufacture of upholstered furniture
Age: 13 years (1973)
Turnover: £154,235
Employees: 7
Stage of development: Existence

3. Midlands Meat Co Ltd

Address: Birmingham
Activity: Abattoirs for Halal meat and processed meat products
Age: 23 years (1967)
Turnover: £9.8m (1987)
Employees: 90
Stage of development: Success-Growth/Lift-off

4. Eastern Foods Ltd

Address: Birmingham
Activity: Wholesalers of foods and drinks, warehousing and processing and packaging of ethnic foods
Age: 23 years (1965)
Turnover: £18m
Employees: 54
Stage of development: Success-Growth/Lift-off

Longitudinal Study

1. Bhogal Brother Ltd

Address: Birmingham
Activity: Manufacture of ladies garments
Age: 9 years (1978)
Turnover: £310,000
Employees: 35
Stage of development: Survival

APPENDIX 3.2

MC AUTOMATIC CONTROLS LIMITED
(COMPANY CODE: MCA)

Study of the firm as in 1987

Address: Wolverhampton

Age: 4 years (1983)
Employees: 52

Activity: Manufacture of Automatic controls and monitoring systems for heating and lighting in buildings.
Turnover: £2.1m
Origin of Owner: Indigenous
Stage of development: Survival/success-growth.

1. Origin of the Business

MCA is a small Wolverhampton based company specialising in the manufacture of automatic control and monitoring systems for heating lighting and ventilation installations in private and public sector buildings. MCA started trading in 1983 following the collapse of M C Automated Electronics Limited (MCAE). MCAE manufactured microprocessor based equipment for three major customers and had a well established reputation in this field. The company acted as a sub-contractor for three major clients and produced components and control instruments to the required specifications. MCAE grew to employ fifteen people to make electronic equipment for other companies. Because of the sources of business, MCAE did not invest in any marketing, sales force, own branding, research and development, management systems or planning. MCAE went bankrupt in 1983 because one customer reneged on a very substantial contract. MCA was formed by Mr C Checkland (Chairman) who has 59% of shares and who secured additional 40% shares of a local businessman and financier, Charles Knot and Sons Limited. The remaining 1% of shares were allocated to the Managing Director, Mr P Drake. Based on the Chairman's expertise in electronics and the Managing Director's background and experience in heating and ventilation systems, they identified the automatic control and monitoring for heating, lighting and ventilation as a suitable market for which to develop equipment and services. The move into manufacture of products for this market was based on the director's knowledge and intuition rather than on any investment in research, feasibility study or pre-planning activity.

In the first year of operation, the company secured an unexpected number of contracts for installations in small to medium sized private sector organisations, mainly as a result of the director's personal contacts with heating and ventilation contractors who had customers for total systems installations. MCA invested some resources in producing product literature, participating in exhibitions and selling effort. The main reason for the early success of the firm was its ability to keep the prices much lower than the main competitors. The competition in this market was fierce with large electronics and multinational companies such as Satchwell (owned by GEC), Moneywell, Trend (owned by RTZ), JEL (owned by Thorn) and Transmitton (BICC) operating with the backing of national marketing, administration and resources. In spite of this, MCA successfully penetrated the small installations end of the market and are now considered to be one of the top ten companies in this field.

2. The Current Situation

(i) Products and Markets

The company has continued to target the small to medium sized installation where the customer requirements tend to be more specific. As a result MCA have greater certainty in assessing technical requirements with a reduced likelihood of subsequent technical error or contract costs overruns. The current maximum order for the company is £150,000, but most of its work is concentrated in the £10,000 to £25,000 range (in comparison for example with Trend who undertake million pound contracts for such projects as the Birmingham International Convention Centre).

In addition to securing contracts from the private sector, the company also successfully registered on the Property Services Agency tender list that will enable it to service the local councils and other public sector bodies. The company continued to operate from the MCAE's premises in Wolverhampton, but had recently invested in re-furbishment of the production and offices area. MCA had also developed national sales and services outlets strategically located throughout the UK and Belfast and Dublin in Ireland.

In 1984 MCA launched an ACM (Automatic Control and Monitoring) system which at the time was revolutionary for two reasons:

(a) The company was the first to use extreme distribution of processing power. Rather than using a large central computer system to control heating, lighting and ventilation installations in building, MCA pioneered the use of a number of microprocessor units. In the past, one of the major costs of any control system was its installation. These smaller units not only cost less to produce, but were easily distributed and installed with reduced wiring and as a result, involved lower labour costs. The whole system therefore was designed to reduce overall installation and operation costs.

(b) MCA was the first to pioneer the use of user friendly computer graphics in the market. Rather than keying in queries via a computer keyboard the MCA system used a mouse and pictorial graphics so that the user could see the whole installation circuit at a glance rather than follows rows of facts and figures. MCA's philosophy and unique selling points are that they make complicated products simple so that they are easier to install and use.

The company maintains that their control systems save customers up to 25% of its heating, lighting and ventilation costs when installed. Research statistics also show that if the system is regarded to be easy to use, it saves a further 10% on top of the initial 25% savings. The dynamic graphics system was initially condemned by MCA's competitors in the market, but now the company claim that all its competitors and have developed similar systems. Over the four years, the company also developed an extensive range of stand alone controllers which provided significant future market potential in the area of room temperature control and control of lighting when the rooms are not occupied.

At the time of this study, MCA's major products in addition to ACM were:

- Electronic Thermostats (ET). These are designed to replace the traditional electro-mechanical thermostats and aimed at reducing costs by effective temperature control in many business and public buildings and other installations.

- Listening Electronic Thermostats (ATS). These are similar in design and purpose but use listening sensors to control the temperature in rooms when they are occupied or vacant.

- Listening Automatic Light Switches (ALS). Similar to thermostats but used to turn lights off and on depending on their occupancy.

- Occupancy Detection Systems (APD). These are similar to above but designed to control heating, lighting and ventilation installations depending on their occupancy and hence reduce costs by saving electricity bills.

- Software packages. The company had developed a number of packages to suit customer needs and examples include, ACM PRINT, ACMCOMM and ACMDRAW. These were all developed by the firms in-house expertise and given free to customers buying the main ACM systems and installations. The company regard itself to be in the business of selling control systems and these packages were added to the portfolio to benefit the customer and strengthen client relationship.

The company was proud of its technical expertise and had invested in bringing the latest technology into its product range to keep the costs down and to make the units smaller. MCA anticipated that there was potentially a huge domestic users market which it was keen to exploit. The company also invested heavily in the area of research and new product development and was working with the Building Research Establishment to develop Terminal Node Controls (TNC's). The TNC's were in demand where messages needed to be passed from one control system to another (in different buildings, perhaps miles apart) by radio transmitters as opposed to utilising telephone lines and modems. MCA was in the process of undergoing scrutiny to achieve a BS5750 award and was activity engaged in training its staff in quality assurance methods and procedures.

(ii) Marketing

In 1983/84, MCA targeted small and medium sized private sector organisations through personal contacts, selling to specifiers such as architects and building contracts and advertising in the trade journals. After two years in operation, MCA decided to target local councils as means of selling a greater number of systems for installation in public buildings. To achieve this goal the company decided that the most cost effective method of selling to public bodies was to take part in trade exhibitions which the directors felt attracted a number of county councils' representatives responsible for purchasing. The company participated in a number of such exhibitions but the resulting response and sales indicated that whilst they were productive in projecting the company name and image in the market, they were not very cost effective. In generating sales to help sell the various systems, the company also invested in the production of a corporate brochure to contain product data sheets. These data sheets showed the products (colour photographs) on one side and gave technical details on the other side. As a marketing tool, these were not very successful as they lacked any description of the benefits of the systems or their possible applications. The directors assumed the responsibility for all early marketing of the business and later employed a technical writer to take responsibility of all promotional and marketing activity. The resulting product brochures and leaflets reflected the very technical orientation of this person and the company had a large number of product data sheets and colourful outer brochures depicting the premises and products of the business. In 1986, MCA appointed a local marketing company to work with the technical writer and some selective advertising and public relations were undertaken in the trade press.

1987 saw a major investment in marketing. As the company developed its sales force throughout the country, it found that the first question potential customers asked was about the company itself. There was a great deal of ignorance about the company amongst potential customers and specifiers. MCA appointed a new marketing manager (reporting to the MD) who was charged with the responsibility of developing and implementing a corporate marketing strategy. Although the new manager had marketing experience, he lacked the technical background of the electronics industry and products. For this reason and also because of the autocratic style of management of the Chairman, the marketing manager had little freedom to implement an integrated marketing approach in the business. The directors continued to determine overall strategy and briefed the manager to use all aspects of advertising and public relations to build a higher profile of the company name. The other major areas of marketing strategy such as target markets, product/planning, research and new product development, pricing and distribution were regarded as decisions that the directors should make and control. All aspects of product planning and development were still directed by electronic engineers and industrial designers that the company employed. The marketing manager's role was limited to advice on the design and labelling of the outer casings of control panels. New product development programmes were also technically driven and there was little market research carried out to aid the design processes. Pricing was the preserve of the Managing Director and engineers involved in their installations. Prices were calculated on the basis of the contract and whether there was a likelihood of regular business. Most pricing decisions took into consideration costs, competition and type of customers. As most contacts had the potential to yield reasonable profits, the directors fixed the margins in order to ensure that they secured the work. The company had not considered any alternative strategies for distributing and servicing its products nationwide. It had adopted the strategy of employing sales representatives and service engineers which was proving to be an expensive operation leading to many management control problems. MCA had aspiration for exporting the products and had set up two operations in Northern and Southern Ireland to "practice operating at long distance" with a view to setting up in Germany for the European market. The company also produces a quarterly newsletter for customers setting out technical developments and quoting examples of recent customer achievements.

(iii) <u>Financial and Management Systems</u>

The company has gradually set up *financial control systems* and had a manual Kalamazoo based accounting system in place that produced only management accounts on a quarterly basis. Budgeting was limited to annual orders and sales budgets were updated to produce a rolling three year business plan. The business plan was prepared by the Directors and consisted mainly of revenue and cash-flow forecasts, budgets and indications of the firm's aspirations for moving into the various markets, home and abroad, together with detailed plan of new product development that were in progress. The company was in the process of appointing an accountant to take control of financial control and had purchased a Compaq 386 and accounting software. There were plans for a new accounting team to set up the new computerised accounting systems and to produce monthly management accounts from the next financial year onwards.

In 1987, the company recorded growth of 57% in revenue and 21% in profit compared with its performance in 1986. The Directors were forecasting revenue of over £3.5m, an increase of 64% and profit before tax of £130,000 (13% increase) for the year to 31st December 1988. Net profits, however, were not increasing as rapidly as revenue, as the company was investing significantly in its future. Sales and service personnel had expanded to a level that could cope with the projected future growth rates. Significant costs had also been incurred in 1987 in increasing the research and development facility from one to five engineers to continue MCA's development pre-eminence and to generate new products for new markets in the future.

The company lacked a formal organisation structure and consisted of the directors who made most of the decisions. A structure had evolved over time as the directors bought in managers to execute their decisions and plans, and is summarised below in Figure 1.

3. Summary of the Company's Characteristics for Stage Identification and Marketing Practices

A. Stage Identification

1. Customer base: Has developed a diverse customer base and serves niche markets with technically superior product range. Concentrates on small and medium sized installations in public more than private sector.

2. Key Problem: Perception that growth restrained by non-availability of technically trained sales personnel. In effect, growth is constrained due to lack of alternative marketing strategies and heavy investment and excessive emphasis on product development.

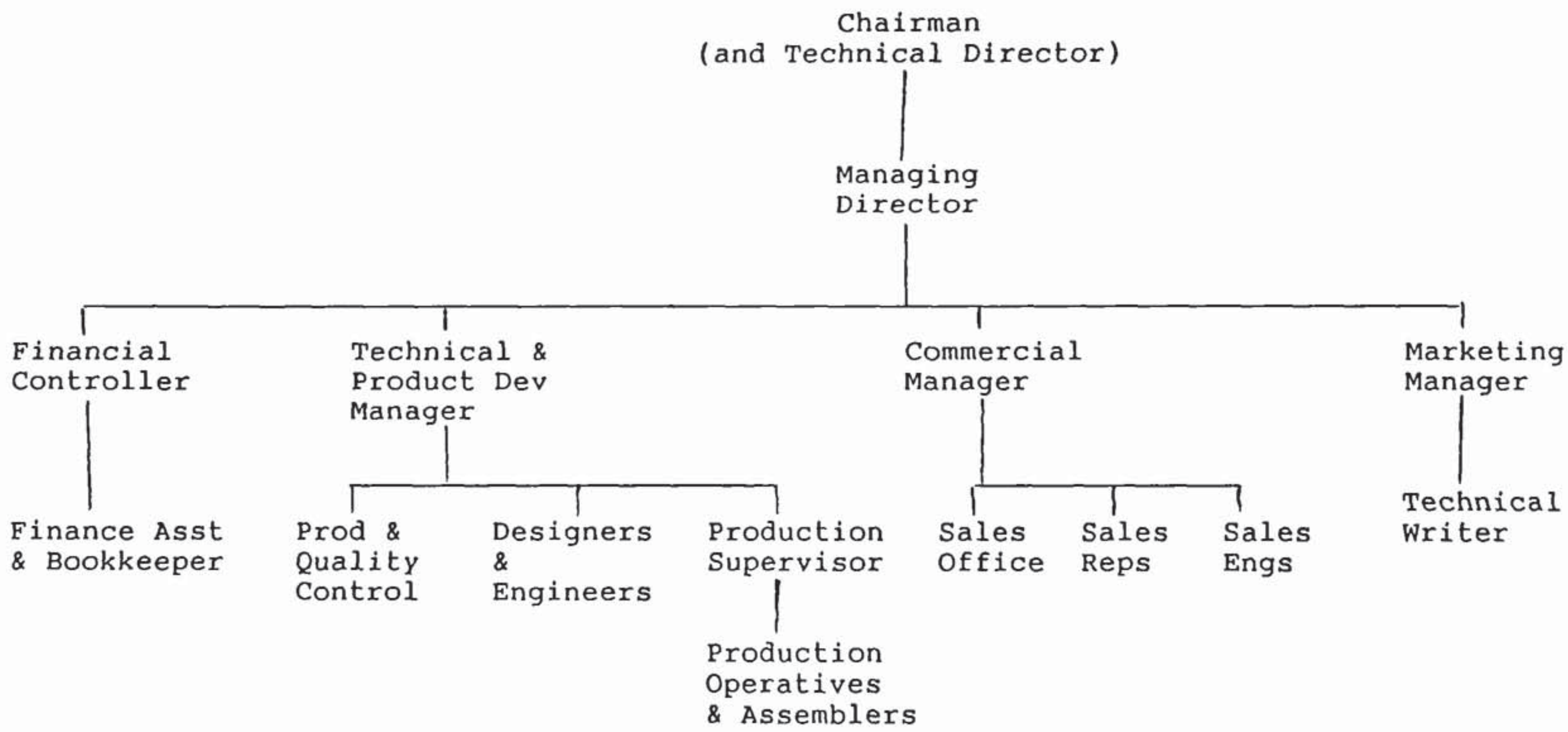
3. Management style and organisation: Autocratic management style and dominance of the chairman in running the business from a technical perspective. Functional managers brought in but directors make key decisions and delegates tasks to functional managers to execute. Confusion between roles of commercial manager and marketing with sales force reporting to commercial manager. Indications of technically and sales driven company.

4. Extent of formal systems and planning: Basic manual systems developed and used in the past. New computerised accounting system and appointment of company accountant planned to be in place in next financial year. Business plans in form of operational plans, forecasts and budgets only.

5. Major strategy: Moving from survival strategies to securing and managing resources for growth.

6. The importance of the owner: Although the business has become more important, the owner (Chairman) is still deeply involved in its management and direction.

Figure 1: Organisation Structure of MCA in 1987



B. Marketing Practices

1. Changes in Orientation: The business was formed from a technical and production orientation and continued to develop on the basis of its product development and sales effort. It was slowly beginning to move towards a marketing orientation but the personality and the background of the chairman still infuses a technical perspective in the management of the business.

2. Marketing Activity:

Pre Start-up:	Nil
Start-up:	Restricted to securing business from personal contacts and selling effort. Small investment in promotional aspects of marketing. Relied heavily on product development.
Early development:	Identified County Councils as a potentially lucrative market and developed systems to sell to buyers for multiple installations. Investment in marketing began with exhibitions, product data sheets and corporate brochures.
Development:	Marketing expenditure increased and marketing manager employed but activity still concentrated on promotional aspects. Product development decisions made by engineers and designers and other aspects of marketing strategy remaining unchanged.

3. Sources and methods of securing customers: Personal contacts and selling to private sector. Tendering for public buildings work. Little effort placed in communicating with specifiers and contractors.

4. Awareness of Marketing: Confined to selling (as a separate function) and promotional aspects of marketing. The projection of company name and image regarded as most important aspect of marketing. Appreciate the need for marketing and employing a marketing manager, but activity not integrated and rationalised.

5. Responsibility for marketing: Marketing manager but ultimately Chairman and Managing Director. The manager

is delegated responsibility and budgets.

6. Application of formal marketing, sources of knowledge and expertise: Gradually beginning to apply formal marketing in the business. Marketing manager brought in as an expert in the field. Marketing budget to increase in future to enable company to carry out research, and new product development.

APPENDIX 3.3

HARRISON ENGINEERING LIMITED
(COMPANY CODE: HEL)

Study of the Firm as in 1987

Address: Birmingham

Age: 107 years (1880)
Employees: 130

Activity: Manufacture of Pressworks and toolmaking.
Turnover: £2.8m
Origin of Owners: Indigenous
Stage of development: Success - Growth

1. Origin of the Business

The origin of HEL dates back to 1880 when the Harrison family established a small business in the jewellery quarter of Birmingham to manufacture brooches and badges. This business gradually moved into manufacture of light pressings by using its existing machinery and the Harrisons merged with the Laycock's family business in this field. With the expansion of the metals, engineering and components manufacturing industries in Birmingham and West Midlands, the company started to specialise in light and heavy pressworks and toolmaking activity. In 1965 the company moved to its present premises in Hockley, and gradually purchased the freeholds of commercial property on both sides of the street so that it now owns approximately two acres of prime real estate between the jewellery quarter and the city centre.

Up until 1975 the company was owned equally by the founding families, but following a decision by the Harrison family to pull out of the company, the Laycock family increased their shareholding to 65%. The balance of shares, 35% were sold to 3i Plc on an equity investment only basis that provided the company with valuable cash resources to fund its expansion activity. In 1981, a restructuring of the company resulted in the formation of a holding company, Pickford Limited which purchased the entire capital of HEL. Pickford's share capital of £700,000 was allocated to the Laycocks and 3i Plc in the same proportion as that previously held in HEL. Pickford Limited is a non-trading company that was established to maximise the tax efficiency of the business and is only responsible for paying the salaries of its directors.

Mr Laycock, the present managing director has been with the company for the last 36 years and has worked his way up from the factory floor. He has a background in engineering and has extensive knowledge of the products manufactured for the various industries served by the firm over the years. Mr Laycock has no formal qualifications in engineering or management but has built the business by his autocratic style and philosophy of 'getting the product right'. The company recently employed a personnel director who has been with the company for 30 years and who slowly developed the administration office into one that has the responsibility for all the employees. The works director is also a time-served member of the company and is responsible for all the various manufacturing units that have developed over the years. The company recently employed an outsider to take control of the financial management aspects of the business. The financial director has over the last year implemented computerised financial control systems and has plans for extending the computerisation of other parts of the business.

With its long presence in Birmingham, the business has developed a very large customer base for its range of products and services. From its inception, the company has manufactured orders for any organisation that has approached it. Initially all items were manufactured to the customers drawings and specifications and the business was run on the basis of developing the tools and manufacturing small batches of pressings. Gradually the company developed its own in-house tool designing capacity and started to sell a toolmaking service to other local and regional manufacturing companies. This expertise enabled HEL to design a range of its own tools and to offer the service of manufacturing non-standard washers and shims in materials ranging from aluminium, brass, copper to nylon and plastic. As HEL's main business came from the automotive, agriculture, domestic appliances manufacturing industries, the company invested in welding and tube bending machinery and started to offer a range of services to its existing customers. This also led the company to move into the manufacture of precision machined components for these industries. Most items manufactured involved milling, drilling, tapping and grinding, and were confined to small components that were required in medium to large production runs by many local business serving the automotive and domestic appliances industries. In 1955, the company secured a contract to manufacture a range of components for the Rolls Royce car division and the company has successfully built this client to represent 25 per cent of the total revenue source of the business, supplying over 400 different pressed and machined parts. The company has historically relied on its reputation and word-of-mouth recommendations for developing new customers. Most selling has been undertaken by the managing director who also directed the marketing activity (confined to the production of colourful brochures and participating in trade exhibitions). There has been little formal business planning and the managing director has assumed all responsibility for directing the business and taking most key decisions.

2. Current Situation

(i) Products and Markets

HEL has the following products and services that evolved from the original pressworks for meeting orders from the various industries.

a) Toolmaking: The company now has a well established and resourced in-house toolroom with a team of skilled toolmakers and offers the service of making tools for pressworks ranging in size from a few pounds to 5 tons capacity. The toolroom makes tools for the company's total package to industry and also on tools only bases. Press tools for all types of presses are manufactured including, power presses, hydraulic presses, multi-slide and coining presses.

b) Presswork: The company's main line of business is pressworks and a complete factory is dedicated to accommodating light to very heavy power presses ranging from 10 tons to over 350 tons capacity. Supporting the power presses is a variety of flypresses for producing low cost or small run items. The majority of items manufactured on these presses are for Rolls Royce, car components manufacturers (such as car lighting housings, dashboard plates, ashtrays etc) and domestic appliance components.

c) Washers (non-standard): Washers and shims for all industries and made from a vast range of materials.

d) Welding and tube bending: The company has invested in machinery and expertise to manufacture simple assemblies or complex fabrications. These may involve different types of welding, tube forming and bending.

e) Precision machining: The company set up machining facilities to cater for large and small batch production of machined parts in ferrous and non-ferrous materials. The bulk of orders processed again come from existing customers who originally placed orders for pressworks, and the company deals with many customers and manufactures small batches of hundreds of items.

f) Technical liaison and consultancy services: In addition to manufacturing, the company offers its services as consultants in all aspects of presswork including:

- Design of parts for pressing
- Tooling
- Selection of machinery
- Selection of ancillary equipment
- Layout of press shops
- Layout of toolrooms
- Quality control of pressing

In terms of quality the company has achieved BS5750/ISO9002 standard and has gained the approval from the Ministry of Defence (MOD ACQP4) for the manufacture of components that go into military hardware. It also holds customer quality approvals from such organisations as Caterpillar, Wabus Automotive and its main customer Rolls Royce. The company also has a special dispensation from the Ministry of Defence to supply Boeing in the United States through Moog Inc for missile components. It recently achieved a quality performance rating from Rolls Royce of 99.8% and is further evidence of the quality of its work.

The markets for the company span the whole spectrum of industries from Aerospace, agriculture, automotive, caravans, defence, double glazing, earth moving to petrochemicals, power generation, tobacco and toys. In fact the company serves any organisation that approaches it and defines its business to be very broadly based in pressworks and engineering for components manufacture.

The lack of any selectivity in the types of industry or size of order has meant that the company has over one thousand customers and at the time of this study had more than six thousand different products lines. The company regarded these statistics as major strengths, but has never attempted to analyse the contributions, profitability or efficiency of pursuing such a policy. As most products require special tools, the company is faced with the constant problem of storing these tools for future use. Occasionally the company takes on unprofitable re-runs of previous tools pressworks to utilise the production capacity.

The company relies heavily on the continuity of orders for the 400 different items it produces for Rolls Royce cars division, representing about 25 per cent of turnover. The remaining 75 per cent of turnover is derived from serving many customers for small batches of production runs, for new items or repeat runs from old tools.

The company accounts show that the export markets represent 5 per cent of total sales. There has been little attempt at marketing the company's services overseas and much of the business generated has been almost accidental or the company has responded to enquiries directed through the local chamber of commerce. The company's consultancy wing is responsible for helping to set up presswork and toolmaking shops, mainly in Eastern Europe and Asia, through the transfer of technology schemes funded by the European commission. The initial work came to the company by no effort on its part but through a DTI consultant who had previously worked for IMI and had knowledge of HEL's expertise in this area. Although opportunities have arisen to enter joint ventures overseas, the company believe that it is not suitably equipped to do this and therefore prefers to limit its involvement to consultancy and advise in technology transfer.

(ii) Marketing

Although HEL prides itself in having a customer base of over one thousand customers, a closer examination revealed that although many customers had used the company's services in the past, only a small proportion (about ten per cent) placed regular orders for repeat runs of production. Of these over 90 per cent placed orders for small production runs of low value items such as washers, lighting housings, and machined parts of components. The main source of the business was Rolls Royce and the work that generated higher profit margins tended to be the specialist toolmaking and precision engineering for aerospace and defence industries. But because the company had always had continuity of orders, it has a tendency to adopt a passive marketing stance. The company has become accustomed to relying on existing customers and promotional literature to promote the business to new customers.

As the company does not manufacture finished products, it does not engage in the process of formal product planning or marketing to the end users. But as a supplier of manufacturing services to other organisations, it does not undertake any form of portfolio analysis or planning of its equivalent of products (its business units or areas of activity) such as pressworks, precision machining and consultancy services. There is scope for example, for the company to plan its precision machining and consultancy services as two separate products and market them to distinct groups of customers in different industries. There is also no clear pricing policy for the range of the company's services. The managing director and the works director determine the prices to be charged for all orders received. As a general rule, a simple cost-plus pricing policy is applied to all new and repeat low value and low volume production runs. A separate charge (also based on cost of labour and materials) is made for the design and production of the tools for such pressworks orders. For specialist production runs involving design and manufacture of complicated tools and one-off or large runs, the company charges premium prices for its services. For example, the company has developed a niche market for the manufacture of high quality machined parts and specialised pressing for the aerospace, defence and construction industries and charges premium prices. The company secures this type of work on a repeat order basis and through word-of-mouth recommendations by its existing customers. It is again the lack of targeting and product planning that has led the company to adopt ad hoc pricing policies. Likewise, promotional effort is not focused on any one aspect of the company. The facilities and services are not marketed separately to identified customer groups but included in a corporate brochure containing brief descriptions and photographs of work being done in the various sections of the business.

The company has no specific marketing department or person responsible for the function. Responsibility for 'marketing' activity is shared amongst the senior management with the managing director taking the key decisions. The company recently appointed a sales manager who reports to the managing director and has been given the task of selling the services to existing customers. Although the MD is keen for the sales manager to develop new business, there is no clear direction as to the markets, industries and types of products that should be marketed. The lack of rationalisation of the customer base or targeting of specific industries and product planning gave the sales manager little scope to get involved in any aspect of formal marketing activity. Since his appointment the manager had been confined to assisting the MD in producing a new corporate brochure and preparing for a trade exhibition. The company participated in three exhibitions every year (one in the UK and two abroad) and considered it a cost effective means of generating sales leads and promoting its consultancy services.

With the exception of entries in suppliers directors aimed at automotive, aerospace, agriculture and defence industries, the company did not invest in any other form of advertising. The MD occasionally prepares press releases and sends them to the trade journals of the main industries. The company was planning to employ a part-time public relations consultant but there was little commitment to external relations. The company had benefited significantly from its membership of the Birmingham Chamber of Commerce, with useful introductions leading to new business opportunities. This however, is another example of the firm's passive approach to business development.

Over the years the company has diversified its activities by investing in new machinery and technology to manufacture products for its existing customers. Although the moves into precision machining, tube bending and welding had been successful in generating revenue from existing customers, there was little attempt at planning or marketing the spare capacity of these units to other potential customers. As a consequence, these units not only absorbed valuable resources in terms of skilled personnel, heavy machinery and space, they operated at less than 50 per cent capacity and were subsidised in periods of slow down in the economy.

(iii) Financial and Management Systems

HEL has maintained a fully computerised accounting system for a number of years but has recently embarked upon a major upgrading of hardware and software. The company has invested £100,000 in a new system using Unix/Altos 486 hardware and new 'off the shelf' software which has been modified to suit the needs of the business. A major step forward for the company with this new system is the development of a production control system which will be integrated with a sales order processing system. When installed it will greatly improve production scheduling monitoring of throughput and lead to higher productivity and efficiency. It is hoped that it will have particular benefits to those customers (for example, Rolls Royce) who operate on a Just-in-Time production philosophy.

In 1987, group turnover increased by 15% over 1986 to £2,769 million and profits grew by 22% to £394,000. The group's balance sheet is extremely strong - reflecting its relative cautious approach taken to expansion in the recent years. The net book value of the tangible assets in 1987 stood at £1.2m and includes the freehold land and buildings of £0.9m. The property occupies a two acre site in a prime development area and whilst there is no intention to move from the site and thus benefit from its significant development values, the acquisitions has served to underpin the company's financial future.

The group is self financing, apart from a small overdraft of £15,000, and has cash in the bank and short term investments (mainly Treasury Stock) amounting to £1.1m. The availability of these funds is seen as being highly beneficial in the current climate allowing the company to take immediate advantage of any opportunities which might arise, for example, purchase of plant and equipment from receiverships and bankruptcy of other businesses in the industry. In anticipation of such opportunity the company is currently rebuilding parts of its factory and newly acquired property to create a new machine workshop area. But there was little evidence of any business planning and rationalisation of its activities in the machining business to justify the investment into this area. The average return on capital employed for 1987 was 14%. The main reason for this figure to be so low was explained by the very high levels of salary and dividends paid to the major shareholders in the business.

In 1987 the company employed 130 people, a majority of whom were unskilled pressing machine operators. Labour cost is a significant element (35%) of production costs, and the average turnover per employee of £21,000 is relatively low. The average cost of an employee, excluding directors, in 1987 was just £8,000. The company was managed by the very autocratic style of its managing director and by a team of other directors, namely works director, personnel director and a financial director. Although there was an organisation structure in place, it was weak on middle management functions. Much of the work of the manufacturing sections was managed by supervisors and foremen reporting to the works director. There were managers only for the finance and sales function. The company had six experienced and highly skilled toolmakers and had recently employed two qualified technicians to operate computerised cutting, turning and forming machines.

Business planning both historically and currently were confined to the financial aspects only. With the recent appointment of a financial director and new computerised system, the company was slowly moving towards more comprehensive operational planning. There was however, a lack of strategic planning of the business overall and direction for its various facilities and units. The financial director was assigned with a new responsibility for planning, setting targets, budgeting and control of the business, but with the managing director maintaining his influence and decision making in all the activities.

3. Summary of Company's Characteristics for Stage Identification and Marketing Practices

A. Stage Identification

1. Customer base: Has developed a large and diverse customer base and serves niche markets for specialist toolmaking and precision machining products. But relies heavily on one customer for 25% of repeat work and a large number of small contracts for low value and low volumes of production runs. Has a very large number of 'products that can be processed' (6,000) but lacks any rationalisation or specialisation.

2. Key problem: Although the company has consolidated its resources and can invest to achieve growth, it lacks strategic direction for the various units. Much of the company's increase in net worth has come from purchasing of adjoining real estate than from its return on investment in manufacturing.

3. Management style and organisation: Autocratic management style and dominance of the Managing Director in running the business from a production perspective. Functional directors brought in but Managing Director takes key decision affecting the direction and progress of the business. Weak middle management structure with too many employees reporting to functional directors. Large majority of employees are unskilled, lowly paid and supervised by departmental supervisors and foremen. There is no marketing director, department or unit. Recently employed a sales manager to assist the Managing Director in selling the company's services.

4. Extent of formal systems and planning: Developing systems using up-dated computer hardware and software and extending into production and stock control. Mature financial management system and a financial director employed to take charge of financial control and planning aspects of the business. Operational plans in the process of being developed, but no overall formal business or strategic planning. Growth as a result of natural evolution and by catering for existing customers needs rather than from any planned or strategic approach.

5. Major strategy: Secure and manage resource for growth mainly through acquisition of adjoining prime site real estate. Tendency to purchase other firms for the land but then continue to operate the businesses irrespective of whether or not they fit the company's mainstream business activity.

6. The importance of the owner: Although the business has become more important, the owner (managing director) is still deeply involved in its management and direction.

B. Marketing Practices

1. Changes in Orientation: The business was started by the founding families applying their skills and knowledge of the jewellery trade to develop a new light engineering business which offered pressing to other local organisation. The focus on production capability continue to dominate the development of the business to 1955 when the Laycock family took over the sole ownership. The business has grown and diversified into allied activity to serve its existing customer base. The new activity has also been driven by production considerations with manufacturing quality and standards as the major strategy. The company has gradually invested in sales effort to increase the utilisation of the spare production capacity of its various units.

2. Marketing Activity:

Start-up:	*Little information available.* Much of the business secured from founders' personal contacts, reputation and word-of-mouth.
Early development:	The development of the automotive industry created demand for pressworks and toolmaking. Marketing or selling were not required to create customers. Reputation and word-of-mouth helped to create a large customer base.
Development:	Secured a small number of major organisations as regular customers for pressworks and toolmaking. Investment in publicity and promotional material.
Growth:	Investment in promotional aspects of marketing continued as the business diversified into offering other manufacturing services to its existing customers. All business activities promoted through one corporate brochure and trade exhibitions. No targeting of industries or customer groups.

3. Sources and methods of securing customers: Reliance on existing customers for small contracts and word-of-mouth to create similar new customers. Heavily dependent upon one major customer for regular (25%) business spread out over a large number of low value product lines.

4. Awareness of marketing: Confined to promotional and selling aspects of marketing with the Managing Director taking key decisions and other members of senior management team getting involved in implementation.

5. Responsibility for marketing: Managing Director and recently appointed sales manager.

6. Application of formal marketing, sources of knowledge and expertise: Nil.

APPENDIX 3.4

DANKS, BROWN AND BATES LIMITED
(COMPANY CODE: DBB)

Study of the firm as in 1987

Address: Birmingham	Activity: Design and Photography for promotion materials.
Age: 20 years (1967) Employees: 27	Turnover: £500,000
Origin of Owner: Indigenous	Stage of development: survival.

1. Origin of the Business

Danks, Brown and Bates is a small firm specialising in design and photography for publicity and promotional materials, based in Edgbaston, Birmingham. The business was started in 1967 as a partnership between Messrs R Danks and D Brown who set themselves as graphic designers servicing advertising agencies in the Midlands. The business operated in the name of Dank Brown Studios. Both men had experience of working in the advertising industry. Mr Danks worked as a graphic designer for twenty years and Mr Brown had five years experience as a typographer finished/artist. Before establishing their own studio both men did freelance work for contacts in the industry in their spare time. As this proved to be successful, both men gave up their jobs to establish their own business. The main source of their work came from a printer in Stourbridge who had customers that required graphic design and illustration work for their brochures and other promotional aids. As the printer did not have in-house design facilities, he sub-contracted this type of work to freelance designers and studios locally.

In the first year, the business operated from a rented room behind a photographers studio in Lye, Stourbridge. The rent was low and no expensive equipment was required, hence overheads were minimal and the partners relied on their own capital to get the business established. As both partners had contacts in the industry, little marketing was thought necessary. Most of the work continued to come from the printer and personal contacts in the advertising industry. The business employed a finished artist, Mr P Bates after nine months of starting the business.

In 1969, Mr Brown secured a servicing contract from an advertising agency in Kidderminster that required him to set up a similar small studio in a rented room in the town. Mr Brown employed two artists in Kidderminster, while Mr Danks and Mr Bates ran the studio in Lye. At this stage the partners obtained an overdraft facility for £6,000 from a bank to cover any short-term cash flow problems. Two years later, the business lease on the rented accommodation in Lye expired and both partners re-located to a rented Victorian detached house in Cradley Heath. The house was converted for use as a studio and offices and the business continued to expand. It was very profitable due to the following main factors.

- The partners skills, expertise and good reputation in the industry.

- Continuity of work from printers, advertising agencies and personal contacts.

- Low overheads due to low rent and little capital investment in equipment and machines.

- No marketing undertaken and therefore little or no investment in marketing effort as the business relied on existing customers.

- Little time, expertise or additional staff required for administrative work.

In 1972, Mr Danks' interest in photography led the partners to approach a local photographer, Mr Francis to join the partnership and establish a photographic department in the Cradley Heath premises. The partners started to offer photographic services to their customers, but the move into this area was unplanned and it took some time to build worthwhile orders for this service. Within nine months, Mr Francis found the space too limiting and moved the photographic department to the current rented premises in Edgbaston. The administration, design and artwork operations remained in Cradley Heath. The original partners had taken out a mortgage on the Cradley Heath property and the overheads of the operations started to increase. Mr Bates was also brought into the partnership with a 10% share in the business as a reward for his dedication and work over the years. At this stage although the physical operations of the partnership had expanded and the overhead increased, the business started to suffer cash flow problems due to the lack of a diverse customer base. This was particularly marked for the photographic and design departments which depended solely on work generated by the partners from advertising agencies and one or two printers in the area.

In 1975, when Mr Francis could not manage the photographic studio and its four staff on his own, Mr Danks and Mr Brown sold the Cradley Heath property, and with their eight employees moved into additional rented units in the Edgbaston premises. In the eight years of operations, the business engaged in little or no planning (except occasional cashflow forecasts) and did not see the need to invest in marketing to broaden its customer base. The effect of the economic recession in the late 1970's was exaggerated by the following problems:

- Two photographers who were dissatisfied with Mr Francis' management left the firm, taking £60,000 of business with them.

- The sales/client contact person employed in 1979 was not effective in replacing this lost business.

- Low revenue - due to recession (which affected advertising industry severely) meant little or no work for the partnership.

- Mr Francis left the partnership because the other partners refused to allow him to set up a separate photographic department.

In response to the lack of business and recession, cutbacks were made by a programme of redundancies and reducing the amount of space rented in the building. The staffing level was reduced to fifteen and the partners decided to make further changes in operating the business. In 1982 Mr Bates was made a joint partner and Mr Danks took over the running of the photography department. During this stage in the life of the business, there was still very little formalised planning. It was felt that any planning was meaningless because of the nature of the work and contracts that the firm processed. Customers served were direct clients (those utilising all the facilities), and advertising agencies, and photography and design made up 40% and 60% of sales revenue respectively. There was little formal marketing and promotion involved entries in the Yellow Pages and Chamber of Commerce Directory. Market research involved obtaining names and addresses of potential clients from trade directories. There was no formalised company structure, but the roles of each member of staff were well defined and known by all concerned.

In 1985, Mr Danks established Studio 2, a specialist photographic facility for a total package to meet the needs of photography for advertising agencies, packaging, promotional literature, exhibitions and fashion industry. The rationale for this development was that there was a gap in the market for such a facility in Birmingham and the West Midlands. There was little research carried out to investigate the market for such a service but the firm decided to set it up on the basis of its existing customers. Mr Danks took effective control and direction of the new studio and had planned to promote it aggressively in the future.

2. The Current Situation

(i) Products and Markets

In 1987 DBB offered the following services to advertising agencies and clients who dealt directly with the firm.

i) Corporate identity design and production. This included design of logos, stationery, livery, signs for building and other promotional material that clients used for projecting their company image.

ii) Packaging design. This involved both graphic (including typography) and photographic work to product packaging design for direct and sub-contract clients.

iii) Literature design and production. This involved design, typographic and photographic work to produce literature that ranged from simple product leaflets to full colour brochures and catalogues. The firm had done work for organisations such as Land Rover, Webley Airguns and Pieff furniture.

iv) Advertising design. Although DBB was not an advertising agency, it handled the design and production of trade advertisements on sub-contract basis for their client agencies.

v) Photography. This service was basically aimed at the advertising agencies who needed a high quality service for use in their work for their clients and at the fashion industry. The clients for fashion photography were mainly direct mail catalogue companies, modelling agencies, retail outlets, and hair studios.

vi) Airbrush Illustrations. This service was again aimed mainly at the advertising agencies who commission design studios to produce technical illustrations that then went into their finished advertisements, product catalogues and display.

vii) Artwork. This was a similar service to (vi) above but had specialist finished artists employed to do detailed artwork for the advertising agencies and direct clients.

These services were organised into five departments and in 1986, an analysis of sales by departments and customer groups produced the following breakdown. In March 1986, the business had a sales turnover of £491,000.

Department	Percentage of Sales
Creative	17
Artwork	21
Photographic	47
Darkroom	10
Studio 2	5

Customer	Percentage of Sales
Direct Clients	66
Advertising Agencies	30
Studio 2	4

Although direct clients contributed the most to the sales turnover and were important to the business because the type of work involved made use of all the departments, the partnership relied heavily on sixteen main customers for a large proportion of the turnover. The advertising agencies represented a steady flow of regular work for photography, artwork and technical illustrations but which was done at much lower profit margins than direct client work. The company had a large number of one-off clients who spent between £100 and £1,000, whilst others (about 18) lapsed customers but no effort had been made to find the reasons why they did not return for further work.

(ii) Marketing

In order to secure more direct clients, DBB invested in producing a glossy full colour brochure to illustrate the type and range of services they offered. The mailing of this brochure to existing and potential clients (selected from trade directories) produced little results. The partners' public relations effort (a press release accompanied by a photograph of their brochure) targeted at 'What's New in Marketing' was much more successful and generated 30 requests for further information. DBB also participated in the Marketing and Promotion Show at the Albany Hotel, Birmingham but this too generated few enquiries. The other 'marketing' effort in 1986 included an audit of potential customers' promotional material with a view to contacting them by letter to explain how their leaflets, brochures and corporate identity could be improved by DBB.

The partners had limited awareness of what constituted marketing and because of their line of business, they emphasised and attempted to use the promotional aspects of marketing to create new customers. The firm also invested heavily in selling and employed two people dedicated to the task of liaising with existing clients and contacting prospective customers. Although these people were given the titles of Account Handlers and

Account Executives, their main brief was to retain existing clients and 'sell' the business to up to 400 potential clients per month. The partners pursued the common pricing policy in the industry of charging by the number of hours worked on the project multiplied by the market rate and adding a profit margin. The only variation to pricing was the offer of 4% discount for early settlement of the invoice.

(iii) Financial and Management Systems

In 1986, the company rented 4,500 square feet of the building in Edgbaston of which 4,000 square feet was taken up by the art and photographic studios. DBB's assets included £70,000 of photographic equipment of which £15,000 was outstanding on hire purchase. Although DBB prepared a comprehensive business plan with the help of a DTI Business and Technical advisory grant, it was abandoned on the grounds of inaccurate sales forecasts basedn limited knowledge of the market. The company produced cash flow forecasts but found difficulties in preparing budgets or meeting specified targets. The company had found the bank unsympathetic to its recent cashflow problems and refused to extend the £20,000 overdraft facilities that was secured on the partners' personal property. With a sales turnover of £500,000 in 1987, from a small established customer base, the partners had some optimism for the company's prospects for surviving and expanding in the short to medium term.

3. Summary of the Company's Characteristics for Stage Identification and Marketing Practices

A. Stage Identification

1. Customer base: Sixteen main direct customers who contribute 66% of sales revenue, a number of sub-contractors (advertising agencies) and a diverse range (untargeted) of small customers for photographic services.

2. Key Problem: Lack of well defined and large enough customer base for optimising operational capacity. Over reliance on low margin sub-contract work.

3. Management style and organisation: Supervised supervision. No formal organisational structure but reliance on departments that are in the main directed by individual partners. Partners make key decisions and also engaged in carrying out the work.

4. Extent of formal systems and planning: Minimal manual systems. Cashflow forecasts prepared. Budgets are emerging but difficulties in meeting them.

5. Major Strategy: Survival.

6. The importance of the owner: The partners are synonymous with the business (in particular the original partners).

B. Marketing Practices

1. Changes in orientation: The business was started on the basis of the skills and experiences of the partners, continued with the same philosophy during most of the period of early and subsequent growth. Sales and technical orientation adopted during period of crisis (recession) and this has continued until present.

2. Marketing Activity:

Pre Start-up:	Restricted to securing business from personal contacts and on sub-contract (freelance) basis from advertising agencies.
Early development:	Restricted to advertising in Directories.
Development:	Restricted to promotional aspects: Advertising in trade journals. Production of a full colour brochure and taking a stand at an exhibition. Market research restricted to extracting names and addresses of potential clients from trade directories.

3. Sources and methods of securing customers: Personal contacts, freelance (sub-contract ad agencies) word of mouth recommendations and simple advertising in directories.

4. Awareness of marketing: Confined to selling and use of promotional methods such as advertising, literature exhibitions and corporate identity.

5. Responsibility for marketing function: All partners.

6. Application of formal marketing, source of knowledge and expertise: DTI Business and Technical Advisory Scheme used for business planning but found it of very little use as consultant had ignored most aspects of marketing and concentrated on financial targets and budgets. Willing to try outside help but only if no or low cost.

APPENDIX 3.5

TIME SYSTEMS (UK) LIMITED
(COMPANY CODE: TSL)

<u>Study of the firm as in 1987</u>

Address: Solihull

Activity: Personal effectiveness training and time management systems

Age: 9 years (1978)

Employees: 68

Turnover: £6m (1986)

Stage of development: Success-Growth

1. <u>Origin of the Business</u>

TSL (UK) is part of the TSL worldwide network which operates on a franchise basis from the original TSL in Denmark. TSL (UK) operates sub-licences in Ireland, USA, Canada, The Middle East and Cyprus. TSL Denmark operates sub-licences in Russia, Europe, Australasia, the Far East and Finland. TSL (UK) is one of the most successful licensed operation and accounts for 40 per cent of the TSL network's existing worldwide business. TSL offer a wide range of training courses to improve individual and organisational productivity, quality, customer and employee relations. It also markets and distributes a range of unigue time management systems and accessories that form the basis of the main stream business and source of customers for its training course.

In 1975, Klaus Mallar - a Danish Psychologist established TSL to market a time and personal effectiveness system that he had developed over a number of years. The nature of the system was such that it required the user to be trained in its philosophy and application to gain the maximum benefit. The time management system proved very successful in Denmark, Norway and Sweden and Mallar started to franchise the operations in these and other countries. In 1978 Clive Lyons, who had worked with Mallar in the past decided to buy a licence for operating in the UK. Having established TSL (UK) as an agency of the Danish company, Clive Lyons started operating from his home in Henley-in-Arden. The initial finance was £100 share capital and £5,000 directors' loan. From this base, the founder worked with his wife and slowly built the business to its present size. Clive acted as presenter, sales consultant and managing director whilst his wife took on the responsibility for all administration, bookkeeping, packaging, organisation, dispatching and stock control. At this early stage, all stocks of time systems and accessories were ordered (specified minimum quantities) from Denmark. The business expanded slowly and the company started to employ the services of the neighbours to help with the packaging of the systems.

In 1979 three rooms of an old house in Henley were rented to accommodate two offices and a stockroom, and the firm employed a sales director who also acted as a general manager. In 1981 the first freelance trainer was engaged to help deliver the increasing number of courses. A full-time office administrator and a part-time tele-sales assistant completed the first formal organisation of the firm from which a customer support team evolved over time. In the beginning of 1982, the market for the products and services grew rapidly and the company experienced significant growth in revenue and profitability. TSL (UK) began to expand with an increase in staff and space, and by the end of that year separate sales customer support and an administration department were established to cope with the work load and to facilitate future growth. To accommodate additional staff, equipment and stocks, the company rented and re-furnished adjacent premises on the High Street. A finance manager was employed in 1983 and Clive's brother joined the company as Managing Director in 1985. To manage the rapidly expanding business the company was re-organised with Clive as the Chief Executive responsible for directing the emerging new functions whilst his brother took charge of the financial and operational aspects of the business.

The business expanded rapidly partly due to the general increase in the market demand for time management products in the early to mid 1980's, but more significantly it was attributable to the changes made by TSL (UK) in adapting the original Time Manager System and accessories for the UK market. In late 1982, a new range of Time Manager System was developed that not only catered for the needs of managers but of any individual irrespective of occupation, profession or industry. At about the same time, TSL (UK) and the Danish company established a joint venture business to develop and market a number of training courses aimed an improving the performance of corporate organisations through training their people in the skills of customer care and attention. These were major developments for the UK market and the systems and new courses have continued to be the major sources of revenue and profitability for business. By 1985, the range of time manager systems and accessories such as specially designed forms, stationery and equipment to help users record and plan activities, goals, meetings and information grew substantially and required the company to produce comprehensive product catalogues and ordering systems.

Financing of the business expansion always came from re-investment of the company profits and overdraft facilities and loans were avoided or kept to a bare minimum. To maintain the franchise, the company always maintained detailed financial records, initially the founder's wife started a manual system which gradually grew and was taken over by the finance manager. Although some business planning was carried out it was not formalised until 1983 when brief written documents started to be produced. The company invested heavily in computers and all financial control budgeting, cashflow forecasts, stock control and customer contact systems were slowly computerised and managed professionally.

Over the years the company relied heavily on Clive's skills, effort and personal contacts to secure corporate clients for the business. The tele-sales operation was developed to contact delegates and encourage word-of-mouth recommendations for the time systems and courses. The company invested significantly in the production of well designed publicity material for all its products and services. The customer support team proved successful in filling courses and started to assist Clive Lyons in all aspects of sales promotion, publicity and customer liaison. Although the company engaged in most aspects of promotion, there was no formal marketing planning or a clearly defined and understood marketing function. The company placed excessive emphasis on selling and publicity but there was little integration or co-ordination of the marketing effort. Although TSL (UK) aimed at specific markets such as larger corporate organisations in the oil, computers and service industries, no market research or planning was conducted to fully exploit these and other potential markets at the time when there was little competitive activity. Formal marketing started to occur in 1986 when the company established a small marketing department by appointing a marketing manager who had many years of experience in the customer support section and who had been studying (part-time) for a degree in business studies and marketing. The company retained the services of a PR agency since 1983 that successfully gained valuable media interest and profile for the Chief Executive and the company. There has been limited use of media advertising directed by Clive and restricted to insertions in professional, management, personnel and training publications.

2. Current Situation

(i) Products and Markets

In 1987, having achieved significant growth, TSL (UK) was regarded as one of the major training organisations in the UK. It had become well established in the market and offered a wide range of training products and courses aimed at improving the productivity, quality, customer and employee relations of individuals and organisations. The company defined its markets to be individuals and organisations, large or small who wanted to become more efficient by setting and achieving their goals. The company had developed the following range of products and courses over the past nine years.

The Time Manager programme and system developed by TSL Denmark in 1978, was a revolutionary concept in training based on:

a) The fact that trainers should entertain to inform, rather than lecture in a school/workshop environment.

b) Trainees were sent away, with a complete package of material with which to practice their new techniques.

c) The time manager concept itself was new and developed by TSL.

The Putting People First programme (introduced in 1983) more than doubled TSL's initial market. This programme can be offered to large groups of up to 100 people and is generally tailored for individual companies. The course covers the motivation of people's attitudes and awareness, of their role within their organisation. The benefit of this course has been a significant increase in the customers perception of a company's service. As such the programme has been used by many Blue Chip companies. This programme was also developed by TSL Denmark and Anglocised by TSL (UK) for the local market.

Stress Manager This was developed in the USA. The TSL Group retain a person in America to observe trends and report back on developments to identify possible new training programmes. Stress was identified as a suitable topic and a training programme was bought in 1982 from an American woman. TSL (UK) then spent two years adapting and Anglicising it for world markets.

Brain Manager (now Information Technology or IT Manager) was developed out of contacts with some BBC TV presenters who had worked on a relevant television programme. Their knowledge was used to create a new programme.

Presentation Manager This programme was developed in Denmark in response to customer demand. People who had been on TSL programmes asked to be trained to present like TSL presenters. TSL personnel state this is difficult because their presenters are "inherently actors and possess certain extrovert qualities which are in built and not taught". However, presentation manager was developed from a TSL in-house training programme.

Personal Quality TSL identified a trend towards quality education and a need to train individuals in how to manage for quality. This was developed in Denmark. Klaus Maller is said to be particularly good at developing programmes around attitudinal training.

Product development and innovation generally evolves from a raw product developed in Scandinavia (or buying in a basic programme as with Stress Manager) which is then adapted and customised by local TSL licensee's for the market it is to be presented to: eg by country or by company. For example the programme for British Airways was described as being "tweaked" from a motivation programme. It was presented internally as a BA training programme.

To capitalise on the existing success of its product range TSL also develops new programmes to update basic courses for example Keeping People First, or Key Results.

Key Results is an electronic version of the basic time manager/time system programme, written and devised in the UK. TSL has been preparing for truly portable ("as opposed to luggable") personal computers for the past five years and claims its research and development to date, will put it ahead of its competitors. Key Results was initially designed to run on a Apple Mackintosh computer to satisfy customer demand. It is also endorsed by IBM and now runs on all IBM compatible machines.

The company's training programmes can be grouped in the following core skill areas:

Productivity:	Time Manager Stress Manager Information Manager	Presentation Manager Time Manager Update Time Manager for Secretaries
Relations:	Putting Customers First Putting People First Keeping People First	
Quality:	Personal Quality	

ii) Marketing

In the early development of TSL, marketing activity began with telephone sales, but the company also identified growth industries to target. In the late 1970's the computer industry was the most stable and fastest growing sector and the company developed its client base amongst the well established computer companies.

Personal contacts enabled TSL to penetrate the British Institute of Managers (Clive Lyons was an established member). This led to a wider customer base and TSL explained that to a certain extent, its customers sold the company by recommendation and repeat bookings. For example an international motor car manufacturer carried out its own branded TSL programme which was so successful that competitors saw it gain a substantial market share and requested TSL to develop similar programmes for their personnel. TSL therefore gained a lot of forward work and other clients in the same industry.

The British Airways training programme was a landmark for the company, because it established credibility in the market that is normally reluctant to take on an 'American' style of training in customer orientation.

Initially, articles and press releases were written internally. TSL then retained a local PR and advertising company but now retains a London PR and advertising company.

TSL also developed an internal marketing department producing regular newsletters (TSL Ideas and TSL Club) and some of the material for training programmes on a desk top publishing system. The department consisted of a marketing manager and an Information Manager.

Its size and development both in the UK and abroad means that TSL appears to have built up an authority base for commenting on training. For example the BBC covered TSL on the Business Matters programme. The BBC then used the programme on video continuously at an NEC exhibition and sold several hundred copies of the same video. In America for example, a successful training programme led to an article in Fortune magazine.

An integral part of the Time Manager programme is the "Time System personal organiser" which requires regular annual repeat orders of stationery. TSL is the only distribution outlet for this product. Having carried out research into the retail market TSL decided it's most profitable option was to market the product itself. The inserts are produced in 15 languages and provide the warehousing/distribution side of the business with a continuity of orders.

The company also produces individual books for each training programme which are printed locally in Stratford-upon-Avon. These books are intended to replace scribbled course notes and act as a source of reference for trainers.

TSL started to market courses to individuals as well as companies. There are on average two open programmes per week, one in London and one in the provinces with over 100 people per week attending the programmes.

TSL pursued premium pricing strategy for all its products and courses. Although the franchise stimulated base prices for the supply of Time Manager System and accessories, prices to customers in the UK were fixed by the Director of TSL in relation to each product, its market position and the exchange rates operative at the time of purchasing the supplies. The company believe its products and services to be very different and superior to the nearest competitors who mainly sold diary systems (such as Filofax and other time management systems) and calculated price on the bases of the markets the company was catering for. TSL operate discounting and other pricing policies for products and services offered to corporate organisations or as part of special promotional events.

The company employed a sales director and two sales consultants who had the responsibility to process sales enquiries and sales leads generated by media advertising and public relations effort. The Sales Department, however, was separate from the Marketing Department and the Customer Support Department was organised under the direction of Operations Manager. This and the organisation structure indicated that although the company had continued to invest heavily in marketing, it was sales driven and much of the marketing effort was directed towards promotional aspects of marketing. This was partly due to the historic role of the Chief Executive who undertook all marketing decisions and the lack of an integrated organisation of the marketing function in the business. The Marketing Manager's initiative and plans were vetted by the Chief Executive and at times this acted as a major barrier to instigating new marketing activity in the company. Until recently, very little formal market research had been undertaken. The Marketing Department had in 1987 commissioned qualitative and quantitative survey of existing, lapsed and potential users of Time Manager Systems, a competitive audit and research to identify organisational buying behaviour of time systems and training programmes. The company employed the services of an advertising agency based in Leamington Spa and had continued to retain the services of the PR agencies it has been working with since 1983.

iii) Financial and Management Systems

The company had a fully computerised integrated accounting systems, with the exception of payroll, operating on an IBM 36 machine utilising a mixture of Eagle Computing Systems packaged software and customised software developed specifically for TSL by a computer company. The system produced regular monthly accounts providing actual year to date, budget and prior year comparisons. The payroll processing function was performed by an outside organisation.

The UK group structure was relatively simple with TSL (UK) being the UK parent and UK operating company holding a 75% share in TSL (North America) Inc, the US operating subsidiary. The minority TSL shareholding in TSL (North America) Inc held by members of the US managed team. TSL (UK) also holds a 50% share in Scandinavian Service (UK) Limited. The associate has transferred its business to TSL (UK) in March 1987 and now simply receives a royalty from TSL (UK).

The group had a sound current ratio of 187.3%, a nil gearing position and cash in the bank at 31 December 1986. With its positive and healthy cash generation from operations, the groups development and expansion had been internally funded to date. With this continuing positive cashflow from UK operations, the group had adequate resources to fund its expansion programme planned for 1987/88.

The company engaged in extensive strategic planning and produced comprehensive short and medium-term business plans. Although the planning was essentially undertaken by the Chief Executive and the Managing Director, the company also involved function managers in the preparation of operational plans and departmental budgets.

The company had an 'organic' organisation structure that had grown over time, with departments and section evolving with the increase workload. A diagram outlining the structure as in 1986 is shown below (but which was under review at the time of the study). The company was driven by the charismatic personality of its Chief Executive and the style of management focused on the 'people and caring' aspects of its employees but with a ruthlessness for professionalism and perfection that permeated from the top. The autocratic decision making and control of the business by the two brothers was very much in evidence in the operation (and the success) of the business to date.

3. Summary of the Company's characteristics for stage identification and marketing practices

A. Stage Identification

1. Customer Base: Large and diverse customer base consisting of individuals, but mainly organisations, small , medium and large firms both public and private sectors. Customer base developed and established by company's own efforts for high quality and differentiated range of products and services.

2. Key Problems: Consolidation of resources for growth and risk in financing growth in increasing competitive markets where high technology makes it attractive for other multi-national organisations to enter and penetrate. Also over reliance on the franchise agreement (licence) from the Danish company.

3. Management Style and Organisation: Functional organisational command structure with owners taking key decisions and risks and delegating their execution to functional managers. Middle managers employed to function positions, most of whom report to Chief Executive rather than to Managing Director.

4. Extent of Formal Systems and Planning: Well developed and computerised system and extensive strategic planning involving the owners.

5. Major Strategy: Plan, develop and manage future growth with resources available (and that can be secured).

6. The Importance of the Owner: Although the business has become more important, the owners are still deeply involved in its direction, management and growth.

B. <u>Marketing Practices</u>

1. Changes in Orientation: The business was started on the basis of a franchise for an existing product to be sold in the UK. The initial sales orientation continued during the development of the business and as the product was gradually modified by TSL for the UK market. The company has over the years moved to become market orientated but there is still a tendency to place greater emphasis on selling than on an integrated marketing approach.

2. Marketing Activity:

   Pre Start-Up: Nil

   Start-Up: Restricted to personal contacts with managers of large organisations and word of mouth recommendations of earlier uses of the system. Telephone sales activity introduced during the early growth.

   Early Development: Identified growth industries such as computer companies, small and medium sized businesses and targeted products/services to senior/middle managers. Introduced sales literature, customer support section and started to use a public relations company to promote the business.

   Development: Created a marketing department, started using advertising and PR agencies. Market research, pricing strategies and personal selling strategies intensified.

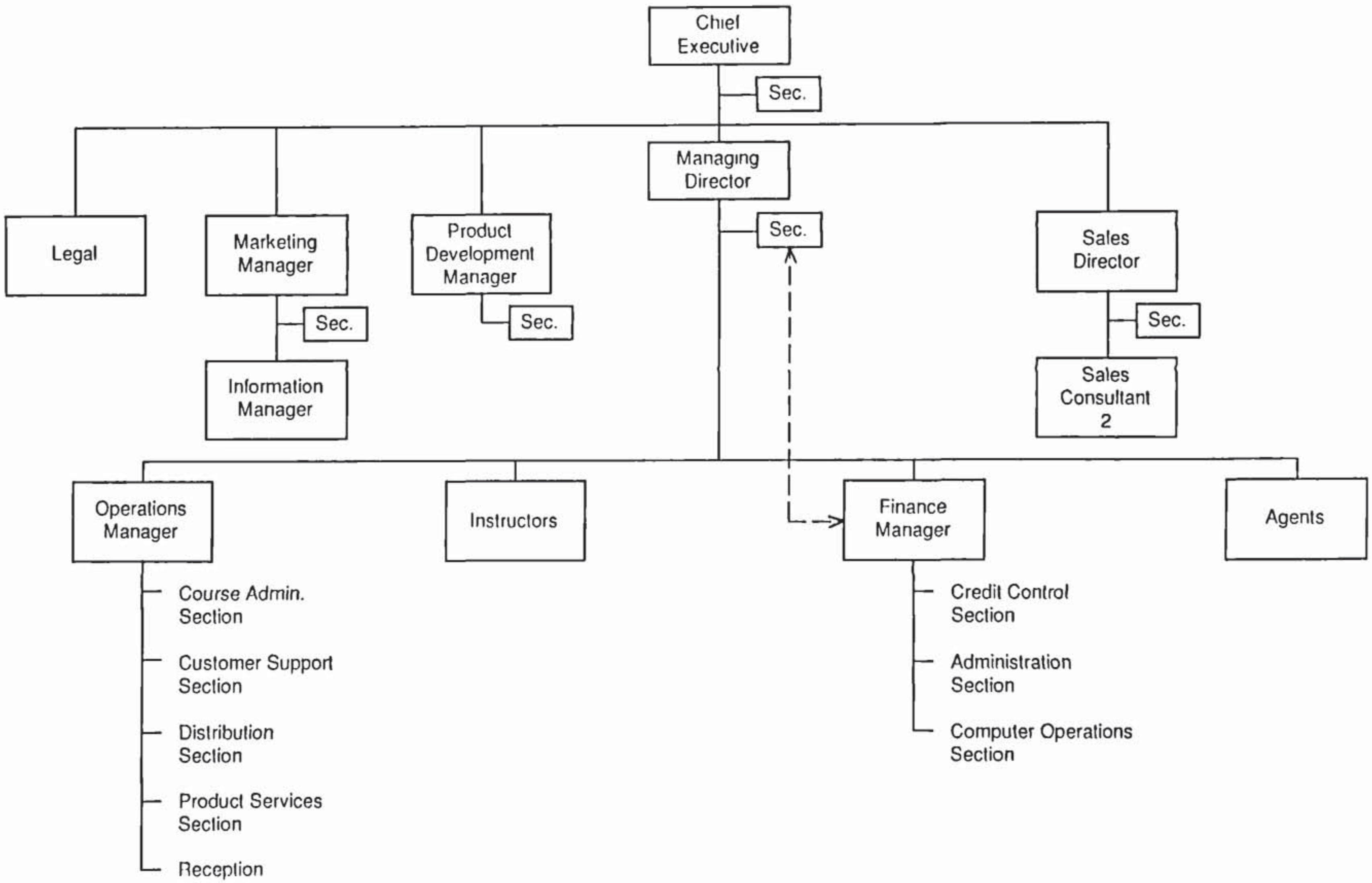
3. Sources and Methods of Securing Customers: Media advertising, personal recommendations, public relations, selling and marketing effort.

4. Awareness of Marketing: Sound awareness of marketing and customer care philosophy but tendency to over emphasise promotional and selling aspects due to the nature of the business and Chief Executive's style of management.

5. Responsibility for Marketing: Historically, Chief Executive responsible. Now employ a Marketing Manager but major decisions and initiatives still come from CE. Marketing effort spread out because of organisation structure and separate customer support, sales and marketing departments.

6. Application of Formal Marketing, Sources of Knowledge and Expertise: Company gradually moving to applying full range of formal marketing methods. Knowledge and expertise comes from Chief Executive, Marketing Manager and advertising and PR agencies.

TIME SYSTEMS (UK) LIMITED ORGANISATION STRUCTURE AS IN DECEMBER 1986



APPENDIX 3.6

H S VIRDI BROS LIMITED
(COMPANY CODE: HSV)

Study of the firm as in 1988

Address: Birmingham

Age: 18 years (1970)
Employees: 40
Stage of development: Survival

Activity: Manufacture of outer-wear garments.
Turnover: £1,358,000
Origin of Owner: Asian

1. Origin of the Business

Mr Harbhajan Singh Virdi came to England from India in 1966 and started his working life as a manual labourer in a die-casting firm in the local metal bashing industry. He had little formal education and learned to speak English from his fellow workers. In 1967, his family started taking on sewing jobs from other Asian anorak manufacturers as out-workers on a part-time basis. This gave the Virdi family their first exposure to manufacturing outer-wear garments and learned the basic skills required in assembling jackets and coats.

In 1969 Mr Virdi started his own small outer-wear manufacturing business, and in 1971 established H S Virdi and Bros in partnership with his mother and brothers. Mr Virdi started this business as a sole trader from a small industrial unit in Fazeley Street, near the City Centre. With the existing machinery and £100 of his own money, the family established the business and started manufacturing from this 1,200 square feet unit. The family business, consisting of three people operated successfully, with low overheads and by serving a small number of wholesalers and by undertaking sub-contract work. Over the period of five years the business grew and became established in the outer-wear manufacturing sector of the local clothing industry.

As a result of steady growth and continuity for orders from wholesalers and sub-contractors, the business moved to a larger unit (2,500 square feet) in Aston Brook Street. Over the next two years the production capacity increased gradually and the firm started to employ Asian machinists and packers. In 1976 the firm employed ten people altogether and started to manufacture jackets similar to those selling in High Street stores. These were mainly sold to wholesalers, market traders and retailers. This resulted in further expansion of the business and need for more space. In July 1976, the firm moved to a 3,200 square feet industrial unit in Water Street, and began to increase the number of employees, machinery and overheads. The higher rent, rates, insurance and increasing payroll resulted in the firm borrowing money from the bank. In spite of full order books and a successful track record, the firm found it without offering the bank some form of security.

The increase in orders, production capacity and need to comfortably accommodate 28 employees, required the firm to move again. In 1979 the family decided to buy a very large factory in Rookery Road, Handsworth. This was achieved by securing a bank loan of £80,000 and family's own money. The lack of planning and anticipation of the running costs of a 24,000 square feet unit resulted in the sudden need for the company to re-structure its financial position. The family had to negotiate an increase of their bank overdraft facility from £12,000 to £40,000 in order to continue in business. The financial implications of operating the business from this modern premises forced the company to implement formal financial recording and planning systems in to the business. In order to utilise the increased manufacturing capacity, the firm started to seek work from alternative sources. In 1980, the firm had its first European export order from an agent in Norway and continued manufacturing for wholesalers and retailers. During this period the company also changed its legal status and the company started to trade as H S Virdi Bros Limited.

The owners had adopted an ad-hoc approach to running the business. The planning was at best described as 'in-the-head' and to 'meet the needs of the day' and 'crisis management'. The six brothers in the family had each been assigned a responsibility. The overall business decisions regarding direction of the business and day-to-day operations were made by the founder. The business continued to operate on the back of the family's ability to secure new orders for their products. In main, the company relied on two wholesalers in Southampton and Manchester who bought on a regular basis and other smaller local wholesalers and market traders. The contacts established in Dublin by Mr Virdi in 1974 for small batches of jackets continued to increase and the business began to move towards breaking even.

2. <u>The Current Situation</u>

(i) <u>Products and Markets</u>

The owners describe their current principal business activity as manufacture of 'casual wear, weather wear, men's and ladies coats and jackets. The business has moved from manufacturing low priced low quality items to outer wear garments aimed at medium priced range catalogue and wholesaler markets. Over the years, manufacturing capacity and quality has improved and the company is aspiring to move into the up market range of products for High Street multiples, export and retail markets.

At the time of this study, the company carried a large range of products for four main types of customers that can be grouped in the following categories.

1. Anoraks:

These products are manufactured mainly for wholesalers, retailers and market stall operators. 60 per cent of these customers are Asians who sell on to the general public but who operation in areas with a high concentration of ethnic populations. These items are designed by the family and have not changed much over the past ten years.

2. Quilted Coats and Jackets

These products are aimed at men, women and children and over 60 per cent of all output is made to orders from agents in Norway, Holland and Ireland. 35 per cent are manufactured and stocked for sale to the trade, namely wholesalers, retailers and market stall operators and 5 per cent is manufactured for catalogue companies and High Street stores through sub-contract orders from buying houses in London. These items are designed by imitating popular lines sold in high Street stores and templates are prepared by the in-house designer.

3. Waxed Jackets

The manufacture of waxed jackets is an example of how the company operates by copying popular designs and innovations that come onto the market to meet the latest fashion trends. These jackets are in the main made for the domestic wholesalers and retailers, are of a much lower quality and sold for less than half the price of designer and retailer labels. Approximately 25 per cent of these jackets are also sold to agents for the Scandinavian markets. Like all other products, the company sell the products without any labels or will sew the wholesalers' or retailers' own labels when required.

4. Skiing Jackets and Pants

The company has developed eight different designs in this line of products. They have been designed by copying samples supplied by agents in Norway and Holland. 75 per cent of these products are made for export markets in Europe and the remaining sold to wholesalers in the UK. In the past year, the company secured orders for these items for sub-contract manufacture for supplying Great Universal Stores and Kays Catalogue. Although this order was delivered to the required design and specification, no repeat business has come from the buyer in London. The company is keen to secure business direct from the catalogue company or obtain more CMT (cut, make and trim) sub-contract work but does not feel that it has the design, quality, and communication skills necessary to do this in the short term.

5. Car and Rally Coats

These products are similar in design to the anoraks and some of the quilted items are made for stocks and sale to wholesalers and retailers. The wholesalers sell on these products to independent petrol stations, car spares shops and to market stall operators. This product line originated when the company secured a sub-contract order to manufacture a volume batch for a contractor who sold them to Ford dealers in the UK the company started manufacturing their own (amended) designs of these items and has been aspiring to secure more sub contract orders or sell directly to Ford, British Leyland and other dealers in the UK.

6. T-Shirts and Shorts

This is a new venture for the company and a product range has been designed to aim at the children's market through the main wholesalers based in Manchester and Southampton. This line has been designed by the in-house designer under the direction of H S Virdi but no research was conducted into understanding the types of outlets that these items would be sold through or the buying behaviour and characteristics of the end users. The company has little experience and knowledge of the children's market for these products and decided to move into this line because the wholesalers had expressed an interest in buying small volumes of products to extend the lines that they carried. The family has been keen to develop their own labelled products and saw this line offering the greatest potential for an up-to-date fashionable brand name that could be applied to all the company's products.

The company currently employs 40 people and a majority are involved in the manufacture, trimmings and packaging of the garments. The very large production facility is dominated by stock piling of fabrics, rolls of polyester for the filling that go into anoraks and jackets, and large cardboard cartons ready for dispatch. The layout of the factory is unorganised, random and unproductive. The various storage rooms and unwalled areas are cramped full of stock that gives the impression of an organisation in chaos. Access to the factory areas is via the reception and office area. The stacked cardboard cartons in the passage way are the first introduction to the factory beyond. The company has invested heavily in two cutting tables and electric fabric cutting machines that occupy a large area in the factory. An in-house designer works in this area and numerous card templates are pinned to the walls, at random. The cutting area is separated from the fabric laminating machine by a stacking storage system bulging with rolls of polyester filling and nylon fabrics. The laminating machinery is constantly in use, producing high quality material for rain coats, jackets and other quilted products. The company decided to invest in this machinery and process to ensure a steady supply of the raw material, but is now finding that it is very difficult to secure supply of polyester filling. This shortage of polyester in the market explains, to a certain extent, the stock piling of many rolls of the material. The laminated polyester and other fabrics are cut in-house and carried to the machining workshop. Here, there are three rows of sewing machines, automatic pocket machines, under bed trimming machines, overlocking, auto studding, bartak (zip strengthening) buttoning and button hole machines. There are sixty machines and thirty five machinists employed in this area. The machinists are trained for specialised functions but can also rotate and work on other functions as needs arise. The linear layout of machines, is surrounded by containers overflowing with part-finished items of jackets. The company has an indication of the time taken for machining individual items that goes to make the finished product, but has not examined alternative production layout or methods. The finished items manufactured in-house, and those commissioned on sub-contract from other manufacturers, or bought-in items are fitted with metallic buttons, and together with in-house production team are trimmed,inspected and packaged for dispatch. The company relies on three main suppliers of raw material, namely D J Chadwick, Dedlex Limited and First Choice. These supplies operate on 30 to 60 days credit.

ii) Marketing

H S Virdi relies on selling to a number of regular export, wholesale and retail customers who buy in large quantities, frequently on forward order basis. Repeat orders are received either by telephone or telex machines or by letters and processed on the basis of batch manufacture. The company has a well organised sales administration office managed by a young Asian lady who also deals with other office procedures, word processing and financial control aspects of the business. The managing director and another brother (qualified in Business Studies) deal with customer enquiries and negotiate with new clients. The managing director takes all decisions regarding pricing, discounts and production processes in the company.

The company has little knowledge of marketing and has continued to manufacture imitated products on the basis of receiving orders from several sources. The slight modification of popular lines of outer-wear garments by the in-house designer and the family has meant the company has restricted its activity to export and wholesaler markets.

The company manufactures products for both sexes and different age groups, but there is little or no research or reasoning behind the decision to cater for all segments. The consequences of such a strategy is that the company produces samples for various segments in the hope of selling a small selection to existing or new customers. The remaining samples get stock piled and the company has two large areas of the factory space wasted on their random storage. The company is keen to take its product range to High Street multiple outlets and catalogue firms but lack an understanding of their buying requirements. Over the past year, the company has attempted to design a range of products for this purpose, but there is no evidence of prior research into the types of customers served by the potential stores and catalogues.

The company has recently invested in the design of a brand name and design of shirts, shorts and trousers for the children's market. The designs for the garments again lack in research and creativity. The design studio in Manchester seem to have produced the work to an undefined brief from the company. The brand name of Ortalan for the new range of childrens products has been accepted by the company. In their enthusiasm to improve corporate identity and to introduce branding, the company has also commissioned the design and use of the word 'Ortalan' on its stationery. But the design work and the name lack professionalism and clear vision and integration. The company needs urgent help in this area to prevent it from pursuing a badly thought out strategy for changing a well established name for a possible brand name for a non-existent range of products.

The existing stationery is very badly designed, with the photograph of the factory on the letterheads. The company feels that it heeds to change its business name to one that is non-Asian or neutral for selling into the more lucrative High Street markets. The business cards are equally poorly designed and there is no consistency in the use of any corporate identity or typographic style. The company does not advertise or produce brochures, production information sheets or any other publicity and promotional material. No one person in the business has the overall responsibility of marketing. In some situations the founder and a brother with a business qualification engage in generating ideas for product designs, labels and what little promotion is used and instruct local printers and suppliers to carry out the work. The company has brought in design expertise for the design of a new corporate identity and labels, but do not have the experience of commission designs or using designers proficiently.

The diversification into shirts and shorts has not been clearly thought out and there is little evidence of the company's ability to compete in the children's market which many Asian manufacturers are attempting to penetrate.

iii) Financial and Management Systems

Since moving to Rookery Road, the company has slowly begun to install better financial control methods. The company seems to be organised for handling its financial transactions. There is both a manual bookkeeping system and a computerised financial recording system in operation. The order processing, income and expenditure aspects of the business are well regulated, but there is an uncertainty in the owners' knowledge of the actual overheads, breakeven sales or gross profit margins at any given time of the year. Cashflow analysis are undertaken on purely hypothetical figures and there is an apparent lack of understanding of the financial structuring of the business. The owner-managers accept that they are surviving and indeed making a profit this year more due to luck than by design. The company enters into negotiating contracts for manufacturing products for various clients without a real understanding of the margins that would be realised from these deals. The overall basis of most contracts tends to centre around the estimated cost of products, plus about 20 per cent mark up for the business. All pricing of finished items are calculated on cost-plus basis with little or no regard to end-user price, channel of distribution, what the market will bear or any reference to the target gross margin for the whole year's trading. Unlike many other small clothing businesses, however, the company does try to calculate cost of producing a finished product systematically by using a detailed design room estimate cost sheet.

The financial information of the business for the past three years is as follows:

YEAR	SALES £	GROSS PROFIT	% OF SALES	NET PROFIT	% OF GROSS
31st May 1988	1,357,859	186,390	13.7	75,543	41
31st May 1987	1,315,846	141,390	10.7	(7,919)	-6
31st May 1986	1,350,840	164,9066	12.2	(31,945)	-20

The company has an overdraft facility of £230,000 but no outstanding loans, hire purchase charges or other financial commitments. The freehold value of the business premises is £239,000. The yearly rates and insurance premises are £12,354 and £18,830 respectively.

The management structure of the business consists of the five brothers taking responsibility for the various tasks and functions under the general direction of H S Virdi, the managing director. Although the brothers have assigned areas of responsibility there is little interaction, integration or communication between them. The brothers meet as a team only in a domestic and family setting and the workload of individuals prevents any formal team building and business planning to take place. The managing director's decisions and instructions are obeyed by the brothers without question as a mark of loyalty, respect and family tradition. As a family concern there is little supervision of the work carried out by the brothers. There is no formal organisation structure and individual roles and functions tend to change depending on the brothers' availability. The machinists and other operatives are supervised by an experienced Asian supervisor and the designer reports to the managing director and the brother with responsibility for sales.

3. Summary of the Company's Characteristics for Stage Identification and Marketing Practices

A. Stage Identification

1. Customer base: For domestic markets the company relies heavily on continuity of orders from two major wholesalers who provide a large proportion of sales revenue. Export sales come from three main agents in Norway, Holland and Southern Ireland. The company moved into export markets purely on the basis of serving these agents and export orders account for approximately 70 per cent of the total sales revenue. Although wholesalers account for 25 per cent of the business the majority (18 per cent) comes from the larger wholesalers. The remaining 7 per cent is accounted for by a large number of local wholesalers and retailers who buy in smaller quantities. The company has been manufacturing for direct mail catalogue companies on a sub-contract basis and this type of work accounts for the remaining 5 per cent of total sales turnover.

2. Key problem: Over reliance on a small number of regular customers. Lack of clearly defined alternative sources of business and lack of managerial competence and ability to develop customers for direct supply of own designed product range. Any source that generate small profit margins.

3. Management Style and Organisation: The business is managed by the six brothers who are assigned function responsibilities under the direction of the founder. The functions are however, ill defined and there is little or no integration or formal organisation of the different tasks performed. The managing director still makes key decisions. The production, packaging and dispatching tasks are well organised under the supervision of the managing director's wife.

4. Extent of Formal Systems and Planning: Financial recording and control system have evolved over time and the function is well managed by a designated person using both manual and computerised systems. There is however no business planning and cash-flow forecasts (when prepared) are based on past performance and hypothetical figures. The management have little understanding of the financial structuring of the business and negotiate contracts on very tentative knowledge of break-even and contributions to fixed overheads of the business.

5. Major Strategy: Survival

6. Importance of the Owner: The owners are synonymous with the business, in particular the managing director who is still deeply involved in the day to day running of the business.

B. **Marketing Practices**

1. Marketing Activity

Pre Start-up:	Nil
Start-up:	Restricted to personal contacts and seeking sub-contract work from other Asian manufacturers. Manufactured to sell to Asian wholesalers.
Early development:	Sales through two main wholesalers who sold to other retailers and market stall operators. No marketing effort or activity was undertaken to develop these contacts. Wholesalers approached the company as a source of supply. Smaller wholesalers and retailers also came to the company through personal contacts, word of mouth recommendations.
Development:	Exporting to Norway, Holland and Ireland through agents in these countries assisted the company in its growth in sales revenue and required increased capacity. Agents developed through a combination of accident, luck and low price of merchandise. Exporting gradually became the dominant source of business. Selling introduced but not as a responsibility of a single person. New product development, (away from the mainstream lines) targeting (at children's market), branding and packaging introduced but without prior research or overall business or marketing planning.

3. Sources and method of securing customers: Relying on well established customer base of a small number of wholesalers and agents. personal contacts, word-of-mouth recommendations and selling effort. Passive approach, depending on smaller Asian wholesalers and retailers for repeat orders. Limited work from buying houses for sub-contract runs for catalogue companies and High Street multiples.

4. Awareness of Marketing: Very limited understanding of the marketing function amongst the managing director and brothers involved in decision making. A younger brother with training in business studies brought in but his role has been confined to selling and negotiating with existing

customers. Emphasis is on selling in order to reduce stock levels and maintain cash-flow.

5. Responsibility for Marketing: No single person responsible for implementing what the company considers to be the 'marketing' function. Managing director and all brothers get involved in selling, new product designs and commissioning designs for branding and packaging.

6. Application of formal marketing, sources of knowledge and expertise: No formal marketing applied. The production-orientated approach of copying designs and producing samples for various existing and potential customers has led to many storage and small batch production problems in the business. The company lacks a planned approach to new product development, pricing, branding and corporate identity. The tendency to rely on the family and in-house designer has resulted in the business producing large quantity orders for a small number of wholesalers and agents and selling at prices that release very low profit margins. The company does not have clearly defined target markets and what the proposed branding and packaging will achieve. consequently, the designers are producing new product and design concepts to satisfy the owners rather than meeting the needs of the market place.

APPENDIX 3.7

MIDLAND UPHOLSTERY COMPANY
(COMPANY CODE: MUC)

Study of the Firm as in May 1986

Address: Birmingham	Activity: Manufacture of Upholstered Furniture
Age: 13 years (1973)	Turnover: £154,235
Employees: 7	Origin of Owner: Asian
	Stage of development: Existence.

1. Origin of the Business

In 1973, Mr Ali started his business career, after many years of working on assembly lines of engineering companies, by setting up a shop to sell second hand furniture in Small Heath, Birmingham. Small Heath is an area with a large proportion of Asian population, and the choice of business was appropriate in meeting the needs of the local market. In addition to second hand furniture, Mr Ali established contacts with manufacturers of wallpaper, linoleum and paint, and extended his offering by selling manufacturers' second or defective items in these product categories.

This business proved successful in the early years as there was little competition for the product categories and due to low overheads of rent and rates for the shop. In the latter part of 1974, competition on the main road increased and other shops started selling manufacturers' rejected items of wallpaper, paints and furnishings. As an extension to the second hand furniture business, Mr Ali learnt to re-upholster and repair old settees and three piece suites. Over a short period of time, Mr Ali was in a position to sell reconditioned bed settees and three piece suites to a ready market in the area. Due to the increasing level of competition in the other product categories, Mr Ali found it more profitable to concentrate on the re-upholstery and repair business.

In 1975, Mr Ali, with the assistance of his three sons started to manufacture bed settees from his shop premises. The shop unit was large enough to accommodate the manufacture and sale of bed settees. As the expertise in manufacture and demand for the product increased, the family started to utilise the cellar as a workshop for making the frames, the ground floor for assembly, upholstery and show room, and the family successfully manufactured upholstered furniture items without the use of modern cutting or stapling machines. They relied solely on domestic hand-held electric tools and mechanical stapling devices. To a large extent the relative success in manufacture was attributed to the family unity and willingness to work very long hours for the family unity and willingness to work very long hours for small financial rewards. The products manufactured were sold to local retailers in the Sparkhill and Small Heath areas of Birmingham, who catered for the Asian markets. During this period, a large number of Asian traders entered the second hand furniture business and were willing to carry bed settees for the cheaper end of the market. Bed settees were also fashionable amongst the Asian market and Mr Ali was the only Asian manufacturer in the area. The manufacture of bed settees was a profitable operation due to the following main reasons.

- Very low overheads and in large covered by the secondhand furniture trade.

- All members of the family worked long hours for the company without adequate financial rewards.

- Existence of a ready market amongst the ethnic population in and around the inner city areas.

- No marketing or selling costs incurred due to the nature of the product range and market served.

- Small storage and transportation costs due to the level of output and the catchment areas served.

- The manufacture and selling of bed settees represented a profit margin of 20 per cent net, which compared with the second hand furniture trade, seemed much more attractive and acceptable to the family.

The combined trading in second hand furniture and manufacture of bed settees from the shop premises continued for two years. In 1977, the family started to manufacture three piece suites by means of imitating a basic design available on the market. Just one type of three piece suite was manufactured in different coloured fabrics, and the bed settees business was also maintained. This extension of the product range took over the shop area for secondhand furniture and the family concentrated solely on the upholstery business. The premises were still not large enough to accommodate the manufacture and storage of upholstered furniture, and the family applied to the Council for permission to extend the premises, but this was rejected on the basis of its residential location. The business activity increased from the premises but the complaints of noise from the neighbours forced the family to move to an industrial unit. In 1980, the company moved into an industrial unit in the Small Heath Trading Estate to manufacture bed settees and three piece suites. The unit was large and suitable for the business but the move represented the beginning of the decline of the company.

The problems that continued for the duration of the occupancy of the new premises started with the unexpected and unplanned costs involved in the initial move. Money was spent on refurbishing the premises, buying machinery, taking on part-time carpenters and upholsterers, and purchase of a delivery van. The family was unprepared for the major expenditure of monthly instalment payments of rent, rates and insurance which led to the complete erosion of the company's cash flow.

During the early stages of the new operation, the company extended the product range by the introduction of two types of ten cushion suites which were designed by family members rather than copied from competitors ranges. But again, the choice of fabrics and the design catered for the ethnic market and sold through previously established contacts with Asian shopkeepers. Although the company was never short of orders, the overheads involved left little profit margin for paying family members sufficient salaries of re-investment in the business. The cashflow problems became more acute but the company could not get any help from the accountant and the owners were not aware of management techniques or expertise available to help them plan and run the business more efficiently.

The company carried on employing the services of an Asian Certified Accountant they had employed when in the second hand furniture trading business. The Accountant failed to produce the accounts for a period of three years and the family had little knowledge of the company's financial position and cash flow matters. As the company moved deeper into debt with the bank and suppliers of materials, the family had to borrow money from the bank and use their house to secure an overdraft facility. The business was sustained purely by the effort and hopes of the family members, who found themselves merely working to pay the rent, rates and insurance instalments.

From 1980 to 1983, the company continued to operate under the Ali and Sons name and generated revenue by selling the product range in Coventry, Wolverhampton, Blackburn and Southall. The products were sold at wholesale prices to Asian and English furniture retailers who in turn sold mainly to their Asian customers. The company name and image was never given much consideration because of the method of distribution and characteristics of the end users who bought mainly on the basis of price. At the end of 1983, the cashflow situation forced the company to move to a smaller and cheaper industrial unit in Saltley. Although the company lowered the fixed overhead cost of rent and rates by £2,000 per annum, the new premises caused many additional problems and did not improve the profitability or efficiency of the operation. The industrial unit (from which the company has continued to operate to date) is an old, decaying, Victorian building lacking in any basic commercial facilities. As only one part of the building is occupied (by Midland Upholstery), the building is vulnerable to burglary, vandalism and fire. The 4,500 square feet occupied by the company are on two floors and inappropriate for the manufacturing process. The family set up the frame making shop on the ground floor and assembly and upholstery on the first floor. Although there is a lift in the building, it is too small and inconveniently located to be of much use to the company. To facilitate the transportation of frames, a trap door has been cut in the first floor and the frames are pulled up manually when required.

The company continued to struggle on with the same product range, selling through existing retailers without any sales or promotional effort. By the beginning of 1985, the company had a bank overdraft of £10,000, outstanding VAT returns amounting to £4,000 and continuing pressure from suppliers to clear the debts before they would consider future supplies. Although the situation pointed to imminent collapse of the business, the family was determined to avoid bankruptcy and started to review the product range, look for new customers and seek professional advice. As a result, the company increased the product range by the addition of two types of sofa beds, a new style of three piece suite and a design of an up-market three piece suite. The company also secured two more retailers who placed regular small quantity orders. The family also changed the company name to Midland Upholstery in an attempt to disassociate from the image of manufacturing for the ethnic market only. The company adopted yellow colour for its business cards and livery. The new products were developed without any research amongst the retailers or end users and were based on copying popular product lines in the market.

In June 1985, the company also contacted the West Midlands County Council for professional advice and to seek financial aid that was so desperately required to secure the employment prospects of the family.

2. The Current Situation

(i) The Production Process

The company buys the timber from a supplier in Dudley and experiences the following problems in handling, storage and cutting of timber for the frames.

a) Manual handling of raw materials due to the lack of any lifting gear or fork-lift truck. The process of unloading and storing timber is very time consuming and involves all the employees and disruption of their duties. It also poses a risk of injury and some employees are reluctant to help.

b) Once the timber has been off loaded, it causes a major problem of storage. The limitation of space makes it necessary to store the timber in the frame shop and around the operators' working area. This slows down the cutting and frame assembly process by restricting the work area and access to the machines and benches.

c) Further problems of cutting timber and assembling the frames arise from the use of antiquated machines installed for the process. The four machines, a cross-cut saw, a bandsaw, and a 12 inches planer were all bought from auctions in 1983. Because the cross-cut saw does not cut squarely, the assembly of frames require additional finishing work. The rip saw gets too hot in normal operation and switches off periodically. The band saw is vital to the process, but again, cuts out of square.

The company employs two men full-time who were trained "on the job" to carry out all the work involved in the frame shop. There is no division of labour and the men are paid basic wages and overtime when required. The men require supervision and re-training when changes are made to the designs, but work conscientiously and diligently as they acquire the necessary skills.

The timber cut for frames and partially assembled frames have to be stored in the restricted corridor space and manually transported to the first floor when required. The ground floor barely has the capacity to store twelve three piece suite frames and forty bed settee frames. Similar problems of assembling and upholstering in very limited space exist on the first floor.

The company purchases upholstery fabrics in small quantities from London, Manchester and Belgium based suppliers. The company does not get any discounts due to its inability to make prompt payments. The fabrics are cut by one of the sons during the weekends and used in the upholstery process in the week days. The lack of manpower and a full-time experienced cutter further contributes to the delay in the manufacturing process. All the necessary sewing of the fabrics is also carried out during the weekends by the youngest of the three sons in the factory, and some at home by other members of the family. The sewing machines are housed in a small tea room which is also used for storing cut and sewn fabrics.

The assembly and upholstery is carried out by the sons (who also do the cutting, sewing, helping with the deliveries and other duties) and a young trainee. Up to ten different operations are involved in the finishing of a three piece suite and it is estimated that the company need five additional experienced upholsterers and a supervisor to enable it to improve the rate of output. The finished items are stored in an area originally designated for a showroom. The showroom and the rest of the premises only have the capacity to store six finished three piece suites at any given time.

The company has only one Ford Transit van to make deliveries of the finished products. The van has the capacity of carrying six three piece suites. The son who is now responsible for running the business is also responsible for making the deliveries, continuing customer relations and collection of payments on delivery. Regular small order deliveries are made to Southall, Blackburn and Coventry, but the selling price does not allow to fully recover the delivery costs.

(ii) Products and Markets

Midland Upholstery relies on a small number of regular customers who buy in quantities ranging from seven three piece suites to two sets per week. The regular customers are all furniture retailers who pay wholesale prices for the company's range of products. To a large extent the company has been heavily dependent on one key customer (English) who has a large furniture shop in Southall. Since late 1982, this customer has been buying an average of 30 sets of three piece suites per month for the mainly ethnic market in and around Southall. The company deals with this and other customers on cash on delivery basis and has no problems in meeting customer requirements. The only other English customer is in Bedford and who retails to small ethnic markets in Luton. All the other regular customers are Asian and geographically dispersed in Birmingham, Coventry, Wolverhampton, Wednesbury, Blackburn and Stoke-on-Trent.

The company continues to manufacture upholstered furniture for the lower end of the market. A list of company's current product range and wholesale prices (as from April 1986) is given below. The products are very well made and the standard of quality is the main reason for the repeat business from the retailers. The company receive very few complaints from the retailers or the end customers. The quality of the product encourages word-of-mouth amongst end customers and the company has been experiencing increased demand for the products directly from the public. The company uses some well established brand names in the furniture trade to describe their products and is unaware that it is infringing copyrights and trade marks regulations. Currently the company is reviewing its corporate image and branding policy through a specialist design studio. All products are guaranteed for twelve months.

PRODUCT AND PRICE LIST AS IN APRIL 1986 AND EXCLUDING VAT

A. Convertible Bed Settees

Name		Price (£)
Ambassador	MkI	65.00
Ambassador	MkII	66.00
Ambassador	MkIII	68.00
Ambassador	Polyprop/Dralon	80.00
Viscount	Polyprop/Dralon	108.00
Royale	Velour	100.00

B. Convertible Bed Suites

Name		Price (£)
Contessa	Polyprop.	130.00
Contessa	Polyprop/Dralon	155.00
Contessa	Velour	168.00
Royale	Polyprop/Dralon	175.00
Royale	Velour	190.00

C. Three Piece Suites

Name		Price (£)
Embassy	Polyprop/Dralon	140.00
Embassy	Polyprop/Dralon	155.00
Embassy	Velour	168.00
Duchess	Polyprop/Dralon	205.00
Duchess	Poly/Dralon/Velour	225.00
Princess	(rev. 10 cushion) Velour	230.00
Seville	(polished frame) Velour	275.00

(iii) Marketing

The company has little knowledge of marketing techniques and has continued to manufacture imitative products on the basis of receiving and meeting orders from any source. Even serving the ethnic market was unintentional and developed mainly from the bed settee business due to prices, designs and the nature and location of the middlemen.

The company has little knowledge of the size and competitiveness of the wider, national upholstery furniture market, customer needs, and changing tastes in home furnishing. There has been very little product development or diversification. The lack in competence in design and lack of resources to employ design consultants explains the very stagnant nature of the product range, and the company's inability to move into markets with potential for higher margins. On the positive side, the family has acquired the technical competence in framing, assembling and upholstery, and can manufacture upholstered furniture of any given design.
The pricing of the product range has traditionally been

based on monitoring local competition and calculated to recover the cost of production plus average of only 5 per cent profit. There has never been any scope for a pricing strategy or discounts.

The levels of profitability and problems of cash flow have always prevented the company from justifying the investment in sales literature, sale promotion, merchandising, or advertising. The company's logo design and the yellow house colour on business cards and livery project a very down market image. The company has produced an album containing photographs of the products that is used to demonstrate the range to existing and potential customers. The photographs are however unprofessional and taken in the factory with a make-shift curtain backdrop. Since its inception, the company has had no sales or selling operation and has relied solely on existing customers and word-of-mouth. In June 1985, two independent sales agents experienced in the upholstery furniture trade were recruited, one for the South and the other to cover the North of England. A number of sales have resulted from these agents and the company is considering increasing the number and the areas to be covered. There is no office based sales administration, monitoring or control. There is a small office but which is used to store fabrics and cushions. All telephone calls are received in the production area, and most frequently by Mr Ali who does not communicate well in English.

With the advice and assistance of the City Council's business enterprise counsellor, the company recently applied for and secured a DTI grant under its Design Initiative Scheme. The company applied for this scheme to help it design a new range of three piece suites that could be aimed at the medium price range market. The company has been assigned a furniture design consultant through the Design Council who will work with the company on the specified project for fifteen days. The designer has carried out some preliminary desk research into the upholstery market and has recommended that the company should design and manufacture a range of product lines that could be sold through a multiple retail chain such as Times Furnishing, Burlingtons, Co-operative Society Stores and other smaller furniture retailing outlets in Birmingham and the West Midlands. At the time of the study the designer had designed a three piece suite that he felt was contemporary and that would appeal to the types of stores the company wished to target. The only research that was carried out at the stage of producing the proto-type involved the sales agent discussing the design drawing with managers of three furniture stores. No research or discussions with buying managers of multiple chains took place and the company agreed to develop the new product on the basis of the design consultants confidence that the design will sell in such outlets. The company had no knowledge of the multiple stores' buying requirements, quality standards, profile of their end customers, pricing and retailer margin structure operating in the trade.

The company also experienced considerable difficulties in producing the proto-type as the frames, joints and other technical aspects of the new design required tools, jigs and machinery that the company did not have. The upholstery involved in the new product also posed many problems and the company had to use the machines and equipment of a local competitor. The company lacked the investment necessary to purchase new machinery and did not think it appropriate to buy new plant simply to make a sample of the product.

Although there was considerable enthusiasm for the new product amongst the sales agents and the regular customers who sold to the Asian market, the company did not share the optimism. There was a general feeling that the DTI design grant and their own £2000 contribution had been wasted because the design consultant had concentrated excessively on seeing his design take shape than on researching the market and the viability of the company to mass produce the new product within their current resource and investment constraints.

iv) <u>Financial and Management Systems</u>

The family has always lacked competence in financial matters and there has never been any attempt to establish a system for keeping records. In the days when the family ran a shop, the proprietor followed a simple method of collecting invoices and receipts, and handing them over to the Accountant at the end of the year. The same practice continued when the family moved into manufacturing. At no time has the Accountant advised or encouraged the company to consider establishing a formal recording system. Due to the lack of a recording system, the company has had little or no basis for estimating the fixed or variable costs that could be used to help determine the price levels for its products. Furthermore, it has contributed to the cumulative losses of the company which have been paid for by large bank overdrafts and from the family members' wages.

In the recent months, the company has had expert evaluation and advice from the Small Businesses Services (via the Business Enterprise Centre) on costing of production. On the basis of this system, the company is working on 50 per cent materials cost, 10 per cent labour and NIC, 25 per cent overheads and 15 per cent net profit.

The family deal directly with NIC and taxation on the employees' earnings, but have little knowledge of tax benefits that could be useful in their financial planning. The VAT is calculated from invoices and receipts kept by the family and handed over to the Accountant to deal with. The Accountant prepares the VAT returns and deals with the tax officials. Over the years the Accountant has failed to prepare the returns on time and in 1985 resulted in arrears of £7,000. Of this amount, £4,000 represented the arrears for the year 1982/3, and is currently being repaid on monthly instalments. This burden of arrears has contributed to recent problems of cash flow and enhanced the cumulative losses to date.

In the financial year ending 31st December 1984 the company's accounts revealed the following.

	£	
Sales turnover	114,235	
Closing stock	61,900	
Gross profit	37,438	
Net profit	24,228	
Fixed Assets	6,065	
Current Assets	62,309	(of which £61,900 was stocks)
Current Liability	24,599	
Financed by balance brought forward and the year profit	23,471	

The current ration was 142%
Cash liquidity ratio (not including stocks) was only 0.9%.

These figure indicates the extent of the financial difficulties faced by the company and the reason why the business had to be financed by what small net profit that was generated. The profit figure was higher than it should have been because of the very low wages and drawing that the family took out of the business (on average £3,000 per employee).

The family lack knowledge in planning financial matters and in particular expressed a complete ignorance of cash flow and budgeting procedures. The son currently in charge of developing the business has been taking corrective action by attending short courses and calling in experts to help.

There is no formal organisation structure and all tasks are shared or performed by the members of the family. The following profile of the company personnel indicates how the business is managed and the problems it faces in trying to survive.

Mr Ali, the Proprietor

- Aged 62, is very fit and healthy.

- An Urdu teacher in a primary school in Pakistan, speaks little English and worked on assembly lines in engineering companies before starting his own business.

- In the past was autocratic and the sons did not question his authority and decisions due to family tradition and loyalty. he has a strong personality, and has been the driving force behind continuing the business in face of adversity and near bankruptcy.

- In the past year he has decided to let one of his sons take control of running the business, but is still willing to take an active part in the future developments and sees himself taking a supervisory role in the upholstery section.

- His ambition is to see the business turn into a profitable operation over the next two years so that he can retire with the knowledge that the sons have been rewarded for the years of hard work, sacrifice and dedication. The family work an average of 14 hours a day, and have little to show for it.

Astif

- Aged 28 and married.

- An expert, within the business, in cutting fabrics. Gained cutting experience and skills in a garments manufacturing company. He also gets involved in upholstery and assembly jobs when required.

- Can communicate in English and prefers to do factory work rather than getting involved in paper work or selling.

Ormar

- Aged 25 and single.

- Currently in charge of running the business. Speaks fluent English and shows managerial ability and leadership, and has taken many of the initiatives this year that have contributed to generating additional business.

- Is very determined and ambitious to turn the business into a profitable operation and has been attending short courses in accounting, marketing and business development. He is also aware of the company's incompetence in design, new product development, financial systems and marketing and keen to invest in these areas.

- Drives the van and makes all deliveries, deals with all new and existing customers. He is also an experienced frame maker and upholsterer, and deals with the accountant, handles all business correspondence, NIC and Tax matters.

Ahmed

- Aged 26 and married.

- Works as a machinist (sewing) and upholsters all sewn fabrics to the frames and also does basic assembly work when required.

- Speaks good English and gets involved in dealing with customers and developing sales.

Other Employees:

Experienced Carpenter

- Carries out all the tasks involved in the frame shop.
- Has been trained by the company and after careful instruction and initial supervision, can work on any changes or designs. A dedicated worker who has the potential for further development.

Two Trainees

- The company recently employed a trainee cutter/frame maker and a trainee upholsterer. Both are 18 years old with no previous work experience and need constant supervision and training. Both work hard and show potential for development: -

3. Summary of the Company's Characteristics for Identification of Stage of Development and Marketing Practices

A. Stage Identification

1. Customer base: A small customer base consisting of furniture retailers who sell to ethnic (mostly Asian) buyers. The company is heavily dependent on one white retailer for regular orders and who serves the ethnic market in an around Southall. All other regular customers for small orders are Asian retailers geographically dispersed in Birmingham, Coventry, Wolverhampton, Wednesbury, Blackburn and Stoke-on-Trent.
2. Key problem: Small and narrow customer base and products that generate very low profit margins. Also lack of capital and cashflow to invest in moving into medium price range of products for ethnic or general market.
3. Management Style and Organisation: History of the father's autocratic style and cultural influence on the sons not to question his authority. Gradually one of the sons has emerged to take overall control of the business, and beginning to make all decisions. Simple organisations with family undertaking most tasks.
4. Extent of formal systems and planning: No financial control or planning systems and no business planning.
5. Major strategy: Existence.
6. The importance of the owner: The owners are the business.

B. Marketing Practices

1. Changes in orientation: The company was started with the knowledge and experience of the demand for second hand and low priced upholstered products amongst the local Asian markets and developed into a production orientated operation when the company moved into furniture manufacture as the main business activity. Although catering for a narrow Asian market, it continued to operate on the basis of manufacturing what it could within the constraints of the resources and sold to whoever wished to buy. The lack of management and business development skills and the desire to keep the business going tended to influence the pricing of the products. The lower prices (and reasonably high quality) generated the repeat orders but which did not allow the company to invest in moving away from the production perspective.

2. Marketing activity:

Pre Start-up:	Nil
Start-up:	Restricted to personal contact with the rising number of Asian furniture (both new and second hand) retailers in Birmingham.
Development:	Personal contacts and word-of-mouth recommendations and limited personal selling. Developed new range of products by imitating popular designs and using well established brand names to describe them. Only recently employed sales agents.

3. Sources and methods of securing customers: personal contacts and repeat business for established retailers and started to sell directly to the public from the factory unit.

4. Awareness of marketing: Confined to mean selling and use of advertising and sales promotion.

5. Responsibility for marketing function: One of the sons is responsible for personal contacts and selling.

6. Application of formal marketing, sources of knowledge and expertise. None until 1986 when outside management/business adviser brought in through the City Council's Economic Development Unit. Some training undertaken by one of the sons.

APPENDIX 3.8

MIDLANDS MEAT COMPANY LIMITED
(COMPANY CODE: MMC)

Study of the Firm as in 1988

Address: Birmingham	Activity: Abattoirs for Halal meat and processed meat products.
Age: 23 years (1965)	Turnover: £9.8m
Employees: 90	Origin of owner: Asian
	Stage of development: Success - growth.

1. Origin of the Business

Mr Tariq Rasool, the founder, chairman and managing director of MMC came to England from Pakistan in 1954. His family in Lahore was involved in a farming business and his elder brother owned what has now become one of the largest soap manufacturing companies in Pakistan. Mr Rasool worked as a manual labourer and as a machine operator in engineering companies for several years and then started a small business selling clothes mainly through door-to-door sales. As he had little experience of selling and of clothing business, Mr Rasool abandoned the venture and opened a butcher's shop. He was prompted to move into this line of business by requests from muslim families for supply of halal meat. Financed from his personal savings, the business successfully catered for meeting the demand for halal meat amongst the gradually increasing Muslim community that settled in Birmingham in the mid to late 1960's.

In 1967, Mr Rasool expanded the operations by acquiring the tenancy of a meat stall in Birmingham meat market in Bradford Street. This enabled him to start selling to other butchers' shops that were being established all over the city in the late 1960's. The continuing influx of Asian families into Britain led to increased demand for the wholesale of meat and Mr Rasool's business prospered and expanded by serving the needs of a ready market. As the business served the needs of a distinct community based market, there was no need for any marketing or promotion effort. New customers were created mainly by word-of-mouth recommendations and through Mr Rasool's standing and popularity in the Muslim community. Although the business only supplied halal meat for the Muslim community, most non-Muslim Asians (for whom halal meat is forbidden) also bought meat from butcher shops run by Pakistanis because there were hardly any butcher's shops set up by Sikhs and Hindus to cater for both communities. Therefore, Midlands Meat Company and all butcher shops only sold lamb, mutton and chicken meat.

1973 saw the closure of the slaughtering facilities in the Birmingham Meat Market. In order to cater for the expansion in the demand for halal meat from butcher shops in Birmingham, Dudley and Walsall, Mr Rasool purchased a large industrial unit in Bishop Street. The property and operating costs continued to be financed by the family, and no overdraft or loan facilities were used by the company during this early development phase of the business. The demand, both locally, and regionally continued to increase and within three years the company was distributing halal meat to almost all major cities with Asian communities in the UK. At this stage the company did not market its services and no financial or business planning was undertaken. The business operated on the basis of reacting to the demand for its products and increased effort in selling to its existing customers.

The business relied on basic machinery and labour intensive slaughtering processes, employing 30 people by the end of 1975. MCC specialised in the supply of lamb and sheep carcases that had been slaughtered according to the Islamic principles requiring the presence of an ordained muslim to bless the meat and total draining of the blood from the animal. To meet the increasing demand for halal meat in the UK and for exporting to Europe, MCC gradually bought a number of adjacent premises and by 1985 the company had substantial property to enable it to double its slaughtering capacity. In 1984 the company also established an abattoir in Wales. The rational for this was to eliminate the costs and time involved in transporting live stock from Wales to Birmingham and transporting carcases back to places such as Cardiff. The welsh abattoir therefore helped the company to cover the South West of the country and also to supply the demand in the West Midlands. In 1986 MCC set up an abattoir in Stock-on-Trent to cover the north of the country and in 1987 a new operation was started in Southern Ireland. Mr Rasool brought his two sons into the business to take charge of the different business functions and the business was considered to be managed effectively.

2. <u>Current Situation</u>

(i) <u>Products and Markets</u>

At the time of the study, MMC operated four abattoirs and had moved from only supplying lamb and mutton to the Asian retailers and wholesalers to supplying beef and poultry as well. The abattoirs in Stoke and Ireland slaughtered beef and a new poultry abattoir in Aston, Birmingham was established in 1987. The operations at Bishop Street were dedicated completely for lamb and mutton as most of the Asian markets in the West Midlands were served from here. Over the past four years the company had started to sell its products to the non-Asian markets and by 1988 significant in roads had been made into the market for supplying multiple retail outlets. The beef abattoir therefore, were established to supply the non-Asian markets in the UK and to export to Europe and the Middle East. To supply the multiple retail market, MMC had to introduce stringent quality control procedures, mechanised slaughtering processes and packaging of joints of meat. The company's reputation for supplying the Asian markets and the fact that it had become a major purchaser of live stock assisted it in gaining a foothold in the wider market. The company was approached by a number of major retailers, including Tescos for supply of packaged meat and it slowly secured a significant customer base in this highly competitive and quality conscious market.

As MCC moved into packaging and using machinery in the various abattoirs, it started to invest in new machines for the Bishop Street operations. In order to add greater value to their end product, and to use the tons of meat and offal that could not be sold for human consumption, the company decided to move into the manufacture of pet foods. There was however, no planning, research and development work undertaken for this venture and the company invested in expensive machinery, cookers, mincers and vacuum packing machines. But as the management of the workforce had had no experience of manufacturing processed meat products and marketing to end users, the pet foods operation was changed to supplying meat to other producers. Only few customers had been secured for this product in 1988 and management were considering the viability of this venture.

In its desire to move into manufacture of processed foods, in 1986 the company decided to develop and manufacture meat burgers. A burger - 'spicy burger' was developed by the Rasool family based on the well established Asian recipe for a meat kebab. The decision to call it a burger was to appeal to the wider non-Asian market. But as with the pet foods venture, no research was conducted amongst the target market and the resulting product was hot, spicy and available in lamb or beef. Although MMC managed to sell these burgers to Asian retailers and wholesalers, there was little effort or investment put into marketing it to the wider market. In 1988 the company's sales by products and markets was as follows:

Asian market for halal meat (nationally): 57%
Multiple chain stores and other non-Asian retailers: 25%
Export (to Europe and Middle East): 15%
Processed foods (Pet foods and spicy burger): 3%

(ii) Marketing

As MMC has a virtual monopoly for supplying halal meat in the West Midlands and had built a significant customer base in all other parts of the country, there had traditionally been little effort or investment in marketing the business. Orders from Asian wholesalers and retailers were processed by a small tele-sales team and a majority of new customers were secured through word-of-mouth recommendations, company's name, image and reputation amongst the muslim community. The sales function was managed by one of

Mr Rasool's sons whose main role was to develop more business from existing customers and to take the company's products into the wider, non-Asian markets. Ahmed Rasool had no previous training or experience in sales and marketing, but was brought into the business at an early age because of his more extrovert personality than his other brother and because of his excellent command of spoken English. Since joining the company, Ahmed has developed the sales function by bringing in a team of tele-sales personnel and computerised ordering and invoicing systems. Ahmed had been the driving force in moving the business towards catering for the wider markets and for seeking new products to add value to their raw product.

Although the company was prompted into supplying the multiple chains market by buyers from such organisations as Tescos, Ahmed had started making direct approaches to a number of national stores and wholesale operators. The selling effort however, lacked a coherent marketing plan, research into buying behaviour, identification of target markets and a budget to achieve any meaningful results. The significant increase in the sales achieved in this market was largely accounted by the company reacting to enquiries and being able to meet the requirements and prices of buyers placing large orders and paying promptly. To further develop this market, MMC had recently produced a corporate brochure and had engaged the services of a local design studio. There was little need for product planning for the carcases side of the business and the supply of different types of packaged joints and meat for supermarkets was determined by the buyers. In common with other abattoirs, the company operated a very simple pricing policy that was based on the fluctuating meat prices plus costs and a profit margin. The supply of meat in volume to customers (such as supermarkets) was negotiated on the basis of the buyers' requirements and to ensure that the abattoirs operated to maximum capacity. The limitations imposed by working to very small profit margins (maximum of 2 per cent) had also encouraged the company to seek new lines of processed meat based products. The introduction of pet foods and spicy burgers was seen as a means of breaking into new markets that would allow the company to secure greater profit margins of between 25 to 30% in processed foods and 50 to 100% in pet foods. But because both these products were developed without any research or clear marketing direction, the company failed to plan the products fully and to set market based prices for them. Although the company developed the physical make up of the pet food with the advice of a consultant from Rank Hovis McDougall, there was no planning undertaken for the packaging, branding, quality and other aspects of the product. Pricing was again based on cost plus a profit margin of 20 per cent. No distribution or promotion strategy was developed for the product.

The development and selling of the spicy burger followed a very similar pattern and it was driven more by production capacity and raw material considerations than on assessing and meeting the needs of identified target market(s). Having developed a spicy burger that could be made by using the machinery bought for the pet foods and some new facilities, the company invested very little in the branding, packaging and promotional aspects of marketing the finished product. A local design studio was briefed on the requirements of the packaging design for the product and the family had decided on its name. It was felt that because of the reputation enjoyed by the company and its position as a major supplier of halal meat that the use of the word 'halal' on the package would be a major attraction to potential customers. Whilst the name may have been appropriate for the muslim market (where the product achieved some sales), little consideration was given to the reaction and opinions of the wider market. As with the pet food, the company set the price for the burgers on cost plus 45 per cent profit margin. The steady increase in the sales of the burger to the Asian markets indicated that there was a substantial potential for such a product and that there was scope for the company to be much more progressive and imagination with its approach to marketing and pricing. Desk research on the state of the conventional beef burgers market indicated that overall the size of this market was expanding and that major manufacturers were in the process of introducing more exotic lines of products. Only one other brand of spicy burger - 'Grillados' (made to Mexican recipe) was available in the market. A report on consumer preferences and trends indicated that as ethnic (and Indian in particular) foods were generally become acceptable in the UK, there was significant potential for high quality spicy burgers amongst the younger (16 to 34 year old) market.

One of the major problems of getting the spicy burgers (and for that matter the pet foods) to the end users experienced by the company was in its attempt in developing and using the channels of distribution. As it had traditionally supplied carcases and packaged meat directly to meat wholesalers and retailers, the company had little experience of dealing with cash and carry food wholesalers, grocers and other retailers in the Asian markets. Whilst the sales of spicy burger to muslim butcher's shops continued to increase the company failed to develop distribution networks to take the product into all the various outlets that served the Asian community. The potential of distributing the product to multiple chains, independent retailers, freezer centres, restaurant, fish and chip shops, canteens, hospitals, colleges and schools that served the wider market was not explored because of the lack of marketing expertise and resources in the company. MMC attempted to sell the spicy burgers to the buyers from multiple chain stores, but these organisations rejected the product because of its name, the predominant use of the word 'halal' on the packaging, the packaging design itself and because they did not feel that the company had developed the product for the non-Asian market. The product was considered to be far too hot and spicy for the conventional customers that these stores served.

At the time of the study, MMC were in the process of designing leaflets on the spicy food for distribution to Asian grocers, wholesalers and supermarkets in the UK. The leaflets were also to be used in a direct mail campaign to buyers in other multiple chains, supermarkets and other retailers. Although the company had realised that in order to penetrate the wider market, it had to invest in research, product development, distribution, more integrated promotional effort and buy in marketing expertise. The spicy burger was however seen as a longer term project and secondary to the mainstream business of selling meat. The diversification into processed and packaged foods for non-Asian end users had not been clearly thought out and there was little evidence of the company's commitment to investing substantial capital necessary to re-develop and formally market the spicy burgers.

(iii) Financial and Management Systems

In 1988, the company employed ninety people - seventy in Birmingham and twenty in the other abattoirs. The three directors (Mr Rasool and his sons) and four managers - one for each abattoir made up the senior management team. The head office in Bishop Street employed ten administrative staff, six of whom were dedicated to the tele-sales function and one working closely with the finance director and was responsible for administering all financial control aspects of the business. Because of the unmechanised and labour intensive nature of slaughtering processes, the company employed ten full-time operatives and a large number of casual staff who worked on hourly rates of pay and were involved in manual tasks ranging from cleaning, washing, cutting, packaging and transporting of meat. The average cost of an employee excluding the directors, in 1987 was approximately £7,500. The business was driven by the energy and autocratic style of its founder with Ahmed Rasool having considerable influence over his father's decisions on the future direction of the company. There was no clearly identifiable organisation structure in place. The managing director, sales director and financial director assumed overall responsibility for the management of the business. The managers were basically employed to oversee the smooth operations of the abattoirs and were predominantly engaged to manage the production processes and had little involvement in managing people, business function or financial resources. All key decisions were taken and executed by the directors.

The company had a well established computerised financial and management control system that had evolved from manual systems over the years. Because of the nature of the business and volume of orders processed, the tele-sales and invoice system had also been integrated with the overall financial management of the business. Business planning was confined to projecting sales by reference to previous years figures and producing cash-flow forecasts and budgets for the year. The business had achieved a reasonably strong balance sheet - reflecting its self sufficiency and increasing share of the market. Although the company had secured £600,000 overdraft facility on the strength of its past performance, and relationship with the bank, it preferred to rely on the directors' loans to finance the expansion of the premises and purchase of new abattoirs. The company's finances for the past four years to 1987 are outlined below:

Company Finance	Year 1 1984	Year 2 1985	Year 3 1986	Year 4 1987
Sales Turnover	5,261,562	6,829,495	8,894,810	9,803,191
Direct Costs	4,842,064	6,411,552	8,383,233	9,216,146
Overheads	418,064	362,339	520,084	
Profit	1,097	55,604	77,257	66,961
Balance Sheet				
<u>FIXED ASSETS</u>	714,118	814,929	909,362	826,761
<u>CURRENT ASSETS</u>				
STOCK	7,907	18,630	4,563	35,917
DEBTORS	277,009	338,845	560,459	838,553
CASH	435	663	12,626	205
<u>*TOTAL ASSETS*</u>	999,496	1,173,067	1,487,010	1,708,111
<u>LIABILITIES</u>				
CREDITORS	863,249	998,567	991,959	1,197,157
	136,220	174,500	495,057	510,954
<u>CAPITAL EMPLOYED</u>			6,750	6,750
LOANS			104,344	104,344
OWNERS CAPITOL	15,000	15,000	8,250	8,250
PROFIT	121,220	159,500	375,707	391,610
	136,220	174,500	495,057	510,954

3. Summary of Company's Characteristics for Stage Identification and Marketing Practices

A. Stage Identification

1. Customer: Has developed a large customer base and has essentially built the business by serving a niche market for halal meat amongst Asian communities in the UK. Has gradually established a small customer base for supply of packaged meat to multiple chain stores serving the wider market. Relies heavily on existing customers for repeat business and has started to export halal meat to the Middle East. Lacks a sufficient customer base for recently introduced processed meat products aimed at end user markets.

2. Key problem: The company has consolidated its resources and can invest to achieve growth. It sees its mainstream business offering very small profit margin (maximum of 2 per cent) and has attempted to move into processing meat to add greater value and realise much higher margins of profit. But it lacks strategic direction, expertise and commitment to investing in formal marketing methods to develop and launch new products aimed at meeting the needs of the wider market.

3. Management style and organisation: Autocratic management style and dominance of traditional Asian values of the founder and managing director. The emphasis is on production and increasing production capacity by setting up new abattoirs for nationalcoverage. But there is a lack of an organisation structure and managerial resources to manage the various operations effectively. Although the company has achieved sales turnover nearing £10 m, there has been a tendency for the family to retain total control of the business. There are no functional managers appointed at middle management level to execute the directors' decisions. Managers are only employed to manage production facilities.

4. Extent of formal systems and planning: Developing systems using up-dated computer hardware and software and extending into sales and production control systems. Mature financial management system and a member of the family employed as financial director to take charge of financial control aspects of the business. No formal business plan prepared. Only cashflow forecasts, budgets and outline operational plans produced annually. Growth of business has occurred as a result of the expanding Asian market for halal meat and to a lesser extent by the company successfully entering the wider market.

5. Major Strategy: Increase the penetration into the market for supplying major multiple chain stores and to develop processed and packaged products for the wider markets that would give greater profit margins.

6. The importance of the owner: Although the business has become more important the founder and his sons are still deeply involved in its management and direction. No outsiders are employed at director or senior manager levels.

B. <u>Marketing Practices</u>

1. Changes in orientation: The business was started to cater for the needs of early muslim settlers in Birmingham for halal meat. The business expanded as the muslim and Asian communities increased in the West Midlands and other parts of the country. The emphasis shifted from serving the market to production and the company reinvested to increase production capacity and facilities. The increased capacity in turn forced the company to seek additional product lines to release greater profitability and use the spare capacity to enter the wider market. The focus on product and production led to the introduction of processed meat products for end-user markets without any research and development to assess the needs and buying behaviour of identified target markets.

2. Marketing activity:

   Start-up: No marketing was required as the company served a niche market where there was little or no competition. Customers developed through word-of-mouth and reputation.

   Early development: Moved from butcher shop to establish an abattoir to sell halal meat to wholesalers and retailer in the West Midlands. Tele-sales introduced to take orders from existing customers. New customers secured through word-of-mouth recommendations and due to lack of alternative suppliers.

   Development: Founder's son employed as Sales Director and a tele-sales team and system developed to process orders from existing customers. Moved into supplying retail chains in response to enquiries and successfully developed new customers for packaged joints of beef, and lamb. Diversified into processed and packaged meat products and started to develop corporate and product brochures and leaflets. New products development for wider markets, branding and packaging introduced but without any prior research or overall business or marketing plan.

3. Sources and methods of securing customers: Monopoly in supplying halal meat locally and therefore little need for marketing. Customers developed through word-of-mouth and company reputation and standing in the community.

4. Awareness of marketing: Very limited awareness of the marketing function amongst the sales director and the other directors. Confined to mean promotional and selling effort.

5. Responsibility for marketing: Sales Director, but who has had little formal training or experience of marketing or sales management prior to joining the company.

6. Application of formal marketing, sources of knowledge and expertise: Nil.

APPENDIX 3.9

EASTERN FOODS LIMITED
(COMPANY CODE: EFL)

Study of the Firm as in 1988

Address: Birmingham	Activity: Wholesalers of foods and drinks, warehousing and processing and packaging of ethnic foods.
Age: 23 years (1965)	Turnover: £18m
Employees: 54	Origin of Owners: Asian
	Stage of development: Success: Growth

1. Origin of the Business

EFL is a family owned business which began as a small grocery shop in Wolverhampton in 1965. It was founded by Mr Jas Matharu who came to Britain from India in 1962 to study law, with a career background in the Indian Civil Service. After two years of study Jas abandoned his ambition for a professional career and with his brother bought a shop for £2,000 and started selling groceries to mainly Asian customers in Wolverhampton. A small canning operation was also started soon after starting the retail business. The canning activity started in a modest way using hand operated machines and chick peas and red beans were canned carrying the company's own label. The own-label lines of canned Asian products expanded rapidly to meet the needs of the Asian Communities settling in the West Midlands. Jas was gradually joined by his three younger brothers from India who also became directors of the growing business. There appears to have been no previous business culture in the family in India, but the family had a tradition of serving in the Indian Civil Service. The unity of the brothers was considered to be the driving force behind the success of the early operations and the company has always maintained the importance of this unity to be greater than the immediacy of maximising profits.

The retail shop moved into butchery for a while, but this activity ceased after two years when it was decided that the family's skills were not best suited to this kind of retail operation. The family also realised the greater market opportunity in carrying a wider range of foods for the Asian community and for sale to other retailers. In 1973, EFL moved to new larger premises on the Dunstall Hill Trading Estate in Wolverhampton with a view to concentrating on canning, packaging and wholesaling Asian foods to serve the expanding ethnic markets nationally. In 1975 the company rented a warehouse in Athole Street in Birmingham and for the next three years operated from both the Wolverhampton and Birmingham depots. The move to Birmingham enabled the company to expand its wholesale operation by selling Asian dried food items such as rice, peas, beans, spices and lentils. As the number of Asian retail outlets increased, EFL added a larger number of ethnic food product lines and started to carry the bulk of general groceries that were also sold by retailers to Asian customers. As a result of this expansion, the company started to import food produce directly from many countries and EFL is now the third largest importer of Asian goods in Britain. The business became well established and secured an impressive customer base amongst Asian retailers and supermarkets in Birmingham and the West Midlands. No marketing effort was requires as new customers came to the business from its reputation, word-of-mouth and from its increasingly familiar brand name and design that registered well amongst the end users. The corporate logo, an oriental type face in bright red was used consistently on all packaging,livery, stationery, and promotional literature. The literature however, was cheaply produced and showed the main lines of products carried by the company.

In 1980, EFL relocated to larger (over 50,000 square feet) premises in Darwin Street, Birmingham and in 1981 joined the Consort Buying Group. The new premises allowed the company to start the process of introducing systems to control and manage the operations more effectively. The company also started a cash and carry operation to add to the wholesaling business that essentially catered for small retail customers. EFL's main business continued to come from the sale of Asian foods and produce to larger supermarkets. The Consort Group merged with Landmark Group which had membership of seventy three cash and carry wholesalers throughout the UK and had an annual turnover in excess of £900 million. Membership of the Landmark Group benefited EFL significantly both in terms of securing merchandise at lower prices but more so from its own brand of products, expertise, training and marketing and advertising support.

The growth of demand for EFL's Asian products continued to expand and the company started supplying some of the major Asian wholesalers and retailers in London, Manchester and other cities in the UK. To plan and implement its expansion, EFL in 1987 acquired a new distribution depot of 45,000 square feet in Alcester Street, Birmingham - almost opposite the premises in Darwin Street. At the time of the study EFL was in the process of acquiring neighbouring freehold units for redevelopments to bring the total warehousing space to over 100,000 square feet.

2. The Current Situation

(i) Products and Markets

In 1988 the owners described their principle business activity as produce merchants, importers, exporters, packers, cash and carry wholesalers and distributors of foods, juices and spices. The business had developed significantly from wholesaling Asian produce and a few lines of packaged own label products to some 250 products and 600 lines covering the entire field of ethnic foods and spices. The range of products imported, cleaned, dried and packaged to carry the EFL label can be divided into the following nine groups. These products are imported from Australia, Canada, China, Europe, India, Pakistan, Taiwan, Thailand and Turkey.

1. Full selection of spices: Dried whole and powder form of all spices are packed in sizes of 100g, 400g and 1.5kg.

2. Beans, pulses and rice.

3. Edible oils: vegetable/corn oil packed in 1 litre, 4 litre and 15 litre containers. The company recently secured a franchise for the national distribution of Medina Oil (a well established brand name manufactured by another Asian firm in Birmingham).

4. Chapati flours of different varieties and grades.

5. Margarine (no animal fats).

6. Mango juice: Tetra packed in 200 ml and 1 litre.

7. Canned products: A wide range of vegetables, exotic fruits, spinach, tomatoes, yams, and other more conventional products such as baked beans.

8. Pickles and chutnies.

9. Nuts, dried fruits and snacks: ranging from peanuts, pistachio nuts to almonds and dried apricots.

The cash and carry wholesale operations of EFL catered for the smaller Asian retailers and offered a full range of ethnic foods (mostly own labels) and general products such as cigarettes, wines, spirits, soft drinks, tobacco, hardware and frozen products. Although this part of the business was well managed and had seen considerable growth over the years, it yielded much lower returns than the packaging and distribution of ethnic foods activity. The margins in cash and carry were constantly being squeezed as more Asian wholesale businesses became established in all parts of the country. In order to compensate for the decline of the wholesale business, the directors were determined to exploit the enormous potential market for ethnic foods that existed amongst the wider community.

In 1985, the company had responded to enquiries from Gateway supermarket for the supply of beans, pulses, rice and a small number of spices. The move by such multiple retailers indicated the increase in demand for ethnic products amongst the indigenous population and Asian shoppers in larger supermarkets. EFL also secured contracts to supply Co-op stores in Coventry and other areas in the West Midlands. These trial contracts indicated that whilst there was demand for ethnic foods amongst the wider population, the packaging design, colour and overall presentation of EFL products required up-dating and made to appeal to the new class of customers. The buyers from multiple stores also felt that EFL did not fully understand the needs and buying habits of the indigenous consumers and that much work was necessary to get the product range and merchandising right.

Desk research showed that in 1987 the total retail ethnic food market was valued at £333m (Asian Trader). Neilson estimated that packaged ethnic food market (products aimed at indigenous or European consumers) was £37.7m and the market for speciality ethnic products aimed at ethnic consumers was worth £163m. Sharwood predicted that the packaged Indian food ingredients market will grow by 10 per cent and reach £43m by 1992, and Chinese food ingredients will double in market value from £11m to £22m in 1991.

To exploit the potential of selling ethnic foods to the indigenous population, EFL had started to invest in examining the needs of the market, new product development and possibilities of changing its corporate identity. Whilst 85% of EFL's total sales revenue from the packaging and wholesale distribution side of the business was accounted for by serving the Asian market, it was beginning to feel the affects of increasing competition from other Asian suppliers, importers and European companies. Ten per cent of the revenue came from exporting Asian products to Holland and Canada and only 5 per cent in 1988 came from sales to the multiple chain stores. The company was planning to generate 30 per cent of its business from the new markets in the medium term.

(ii) Marketing

As a first supplier of ethnic foods in the West Midlands (and later own label range) EFL had built its customer base on the needs of the market and little promotion effort was necessary. The emphasis had been on selling to gradually achieve broader geographical coverage. The sales orientation continued as the business expanded and a large number of new product lines were added to sell to its existing customers. The serving of a clearly definable niche market of Asian retailers and supermarkets nationally meant that little research was undertaken to access the changing needs of the Asian community and the emergence of competing businesses established in the UK. The expansion of the cash and carry business was also aimed at Asian retailers only rather than targeting and promoting the business to non-Asian retailers as well. During the development stage, the company invested in the promotional aspects of marketing and regularly printed leaflets and posters aimed at informing retailers of new product lines and special offers in the cash and carry operations. Promotion of the packaged ethnic products was much more aggressive and expensive. EFL had invested in leaflets, posters and advertising in Asian trade press and directly to the end users. In 1986 the company advertised on Channel Four to reach the Asian audiences nationally when a series of

Indian films were broadcast. In 1988 the company had set aside £15,000 for advertising and promotions. A trial video presentation on the company's range of products that was prepared in 1986 was to be improved and distributed to major wholesalers, retailers and multiple chain stores. Over the past two years EFL had also started to advertise on local radio stations broadcasting to Asian communities. Advertising the company on buses and hoardings was also to continue in 1988 and beyond.

Although the company assigned one of the brothers to the role of sales director responsible for sales and marketing, there was a lack of an integrated approach to the function. The sales orientation and lack of knowledge of formal marketing led the company to invest heavily on promotional aspects which were not co-ordinated and planned to achieve the central aims and market aspirations of the business.

In preparation to increase its efforts to secure more customers amongst multiple retailers, EFL had developed a support package that was on offer as part of the 'selling-in' process. This included a full-mail shot of special offers of ethnic foods in the catchment areas of the supermarkets. The company had recently employed an experienced merchandiser who was to be made available to retailers to help display the goods at point-of-sale. There were also opportunities for the retailers to benefit from the public relations that were possible from their move into catering for the demand for ethnic foods and ingredients.

The company was aware of the need for a more professional approach to its marketing function and had recently appointed Jas Mathari's son (who had gained a degree in Business Studies and Marketing from the local Polytechnic) Marketing Manager. The commitment to invest in marketing and to penetrate the multiple stores sector was demonstrated by the firm appointing a team of design consultants to revamp its corporate identity and make recommendations for packaging design to cater for the new markets.

(iii) Financial and Management Systems

The business had largely been self financing in line with the philosophy of its directors who continually reinvested to finance the future growth of the company. Bank credit had been required however from time to time, but an early unfortunate experience with a major bank had probably contributed further to the natural prudence of the directors with respect to taking extended lines of credit. The financial propriety which characterised the business meant that all premises and stock are paid for on acquisition and the company took justifiable pride in the management of its financial affairs. In 1986/87 the company had achieved £18m sales turnover and 10 per cent growth over the previous year. Its strong financial position, well established and efficiently managed operations gave the directors confidence to work on the next phase of its development to take its products into the wider markets.

EFL is in every sense, a family business. It is controlled and managed by a board of six related directors, four brothers and two sons. The functional responsibilities are allocated to the director as follows.

A S Matharu, the eldest brother is the Financial Director and is also responsible for the purchase of produce from the East and import quality assurance.

Jas Matharu, the founder, is Company Secretary and also responsible for buying produce from EEC countries, Canada and America. He is regarded as an innovator and brings new ideas and enthusiasm to the business through this contacts in the industry world wide.

T Matharu is Sales Director with special responsibility for marketing and sales and additional responsibility for production processes. He has also been instrumental in introducing computerisation into the business and has a special interest in plant and machinery.

D Matharu is a director in charge of distribution and export, with a background in accountancy, he is responsible for credit control and for keeping the company;s buyers' informed of stock movements and requirements.

G Matharu is a director responsible for handling imports, executing port inspections and supervising goods inward operations.

J S Matharu is the eldest son of A S Matharu and is in the cash and carry side of the business and for the company's fleet of vehicles.

Paul Matharu (Jas Matharu's son) is a marketing manager responsible for all aspects of marketing and has recently graduated in marketing.

The titles and lines of responsibility for the members of the family indicate some duplication and confusion over the tasks performed. There seems to be a lack of clearly defined functional responsibilities. The financial control aspects are directed by two people, as is sales and marketing. The other directors have main functional responsibilities but tend to be pre-occupied with routine running of the various facets of the business. The need to retain control of the business has obviously resulted in this evolution of responsibilities. But if the business is to expand into new markets, it needs to bring in outsiders with the expertise and experience necessary to guide the company through its next phase of development.

The business has a weak middle management structure with only two managers appointed to manage the stock lines and dispatch. The remainder of the workforce is involved in the cash and carry, production, packaging and transport aspects of the business.

As can be seen from the descriptions of the responsibilities of its directors, the business has extensive computerised systems for production, inventory control, financial control and personnel management. Although comprehensive business plans are not prepared, the directors work to detailed cash-flow forecasts, targets and budgets.

3. <u>Summary of the Company's Characteristics for Stage Identification and Marketing Practices</u>

A. <u>Stage Identification</u>

1. Customer base: A large national and developing international customer base amongst Asian wholesalers and retailers for processed packaged ethnic produce. Also a large customer base for *cash and carry wholesale* business amongst Asian retailers for repeat businesses. Started to penetrate the lucrative and expanding indigenous market for ethnic foods and ingredients by selling to national multiple retail chains. But only a small base on trial basis. Repeat business and expansion into other stores is dependent upon the company's ability to change its identity and packaging and presentation to appeal to indigenous end users.

2. Key Problem: The company has resources to invest to achieve growth through penetration of new markets. Its weakening position in the cash and carry business and lower profit margins and increasing competition in the packaged foods activity requires it to move its product into the wider markets. To achieve this the company needs to invest heavily in bringing professional middle managers from outside the family to implement its plans. The company also lacks strategic direction and marketing orientation to tackle the challenge of penetrating new and demanding markets.

3. Management style and organisation: The business is directed and managed by the strong personality and position (eldest in the family) of its financial director. Although there is unity of the brothers that energises the business, there is a tendency to obey the decisions of the eldest brother. There is a lack of clearly defined organisation of middle management and operatives. The directors take and implement all key decisions but there is excessive duplication of effort and confusion over the exact roles of the directors of the various roles. At times the title of directors is cosmetic as they tend to be engaged in routine management and manual duties. The desire for the family to retain control on the business imposes considerable constraints on its future growth and efficiency.

4. Extent of formal systems and planning: Well established management control systems in place and functioning effectively. There is expertise and commitment to computerise the running of the business and investment in new technology and machinery has enabled the company to increase its capacity and quality of products and services. No formal comprehensive business plans prepared but the company relies on detailed cash-flow forecasts and budgets. There is commitment to more formal planning, especially with a view to moving into serving wider European and international markets.

5. Major Strategy; The company has adequate resources to invest in achieving growth by slowly penetrating the wider markets through developing business with national multiple retail chains and independent retailers. The business however, needs to develop strategies and investing in business development and marketing expertise to achieve the goal.

6. The importance of the owner: The business has become well established but the owners are still deeply involved in its management and development. No outsiders are employed at director or senior managerial levels to execute the various functions.

B. Marketing Practices

1. Changes in Orientation: The original grocery retail business (and move into packaging of ethnic food items) was started to cater for the needs of the Asian end users in Wolverhampton. The expansion into wholesale operations and own-label packaged ethnic products was also market led and the business prospered on firm foundation of an increasing niche market nationally. The development of the business however saw the emphasis shift towards increasing the product lines and investment in the sales function. The sales orientation dominated the business until recently when the company decided to move into serving the needs of wider markets. The business is slowly gearing up to become marketing orientated but lacks professional and experienced personnel to implement the marketing philosophy.

2. Marketing Activity:

   Start-up: No marketing was required as the company served a local niche market of Asian customers. The expansion into packaged own-label products also had a ready market and therefore required little effort to gain customers.

   Early development: With increasing product lines of own labelled imported items, selling and publicity material introduced. Emphasis on brand identity and company image continued.

Development: Advertising in media reaching Asian audiences (Channel 4, local radio and posters) introduced. Video presentations for retailers and advertising on Asian video film release developed to promote a range of own-label products. Cash and carry business relied on publicity material only backed by promotion support given by the Landmark Buying Group. To reach wider markets, advertising budget (albeit small) set aside and use of outside specialists increased.

3. Sources and Methods of Securing Customers: Serving an expanding niche market required making the products/services available and to create an awareness of the company and own-label's existence. This was achieved by word-of-mouth recommendations originally and then through media advertising, publicity and promotional effort. Reliance on repeat business and securing customers from wider markets through emphasis on personal selling.

4. Awareness of Marketing: Generally there was a sound understanding of marketing philosophy, which to a large extent had been applied in the business. The Company Secretary had a good comprehension and commitment to the marketing functions but there was a tendency towards training and educating members of the family to fulfil the role rather than to bring in outside expertise. The business historically, however had been reliant on selling and promotional aspects of marketing.

5. Responsibility for Marketing: Sales director with assigned responsibility, but company secretary and his son (marketing manager) also involved in the function. No clearly defined and integrated marketing strategy in place.

6. Application of formal marketing, sources of knowledge and expertise: Formal market research, targeting, product development and promotional aspects started to b • applied recently in an attempt to penetrate new markets. Commissioning of design consultants also recently implemented with a view to improving/changing corporate identity and brand image for new markets.

APPENDIX 3.10

JACQUNOID DODGSON AND KENWRIGHT
(COMPANY CODE JDK)

Longitudinal Study of the Firm from January 1987 to December 1988

Address: Birmingham

Activity: Manufacture of enamelled badges, trophies and masonic products.

Age: 151 years (1835)

Turnover: £2.3m

Employees: 105

Origin of Owners: Indigenous

Stage of Development: In between survival and success. Growth with potential to consolidate resources for further growth.

Introduction

This study traces the historic development of the business and concentrates on the management and marketing decisions and events that took place in one department between the period January 1987 to December 1988. The enamel box department was selected for this longitudinal study because the company was planning to make most changes in this area by reviewing its current marketing effort. The account of study that follows is divided into five sections. The first two sections give a brief account of the origin and the current situation of the business. Section three gives a summary of the characteristics of the business for identifying stage of development and marketing practices in line with all the other case studies and in-depth interviews reported in this thesis. Section four focuses on the enamel box department to trace its history, future plans and aspirations. Section five gives an outline account of the events and decisions that took place over the study period. It also outlines some of the outcomes of these decisions. This longitudinal study has been based on the outcomes of a marketing graduate placed in the firm for a period of twelve weeks and on the reports and discussions with a marketing consultant who was assigned to assist the company in assessing the future of the enamelled boxes. The company name and some information has been changed to preserve the anonymity of the firm. This study has to be read prior to reading Chapter Five in Volume One as it relates to the conclusions on the implications of applying formal marketing in small businesses.

1. Origin of the Business

In 1685, Henri Jaqunoid, a Huguenot weaver fled France and with his family settled in Bethnal Green London. Here, he started to weave silk, velvet, gold and silver laces for the adornment of military uniforms. These products were a fashion commodity and in great demand. The business was passed on to his sons who carried on the trade in a modest way until 1793 when the Henri's great grandson, Charles, broke away from the family to establish his own factory in Camden to produce gold and silver wires, threads, cords, laces and braids for naval and military accoutrements. The specialised needs of military adornments were met by the original craft and skills of Charles' family and the business prospered as there was little competition locally. In 1835, William Jacqunoid - Charles' eldest son, also broke away to start his own business to create the fore-runner of the present parent company. The introduction of the rifle and other fire arms saw the nature of warfare change from close combat to weapons fired from a distance. As highly decorated uniforms became identifiable and targets for enemy fire, dull khaki uniforms were soon introduced to aid soldier camouflage.

With the decline in the demand for military adornments, William Jacqunoid diversified into the manufacture of regalia, embroidered and hand painted banners and ornamental sashes for the emerging trade union movement and friendly societies. The company also started to work in metal-producing sporting trophies and cups for different organisations. With the increasing prosperity, Jacqunoid took over some of the local small firms in the similar trade that were finding it difficult to cope with the changes in the market place. In 1937, the coronation of King George VI and Queen Elizabeth generated an upsurge of work for the company to produce banners, emblems, robes and insignia for the celebrations. In 1953, following the coronation of Queen Elizabeth II, Jacqunoid's firm was recognised for its services and granted the royal warrant. In 1956, Dodgson and Kenwright, a company making ceremonial insignia was taken over by the Jacqunoid family to form a new company - Jacqunoid Dodgson and Kenwright. Twelve years later, in 1968, a holding company of JDK, Jacqunoid and Company was floated on the stock exchange.

In 1982, JDK was restructured and the following companies were formed as part of the Jacqunoid and company Plc (holding company).

i) Jacqunoid, Dodgson and Kenwright Limited: London based showrooms.

ii) Jacqunoid Dodgson and Kenwright (Birmingham) Limited: Manufacturers of insignia, medals, badges, trophies and awards.

iii) Jacqunoid Dodgson and Kenwright (Bedworth) Limited: Textile production and screen printing, fraternal societies and uniform accoutrements division.

iv) Plaistow, Barstock and Company Limited: London based showroom and trading in jewellery and silverware.

The JDK business had been built on the skills and craftsmanship of its employees and the company prided itself on the quality, services and its ability to meet the exact requirements of its many customers. But during the recession in the early and mid 1980's the company experienced decline of its traditional markets and was forced to develop new products that could be made by utilising existing skills and machinery. The company slowly moved into corporate identity enamelled products and a range of other related products for private and public organisations, schools and societies.

2. Current Situation

(i) Products and Markets

In 1987, JDK defined its business to be the creation of identity by explaining that in the past the company's ribbons and laces adorned resplendent uniforms creating a recognisable identity for the wearer. Today, the armed services, social and sports clubs, corporations and official organisations still express their identity through their dress, whether it is a badge and a chain for a Lord Mayor, a service medal, a t-shirt or a club tie. The firm claims to take advantage of the latest technology with screen printing, computerised looms for weaving ribbon, and the most modern equipment to produce "insert badges". But it also still employs many of the traditional skills which date back centuries, such as hand embroidery, making military accoutrements in gold and silver thread and hand enamelling. The company's product range can be summarised as medals, badges, regalia, insignia, trophies, corporate jewellery, models, statuettes and business gifts.

The firm defines its markets as uniformed services; clubs, societies, colleges and schools; and corporate organisations. Products for the uniformed services include medals, uniform buttons and metal badges for army, navy and air force, police, fire, ambulance,nurses, museum staff and park keepers. Some basic skills involved in the production of these products have changed little over two centuries as certain areas where mass production cannot replace individual craftsmanship. High technology and computerised equipment is used to process major high volume orders.

For clubs, societies, colleges and school's market, the company has been manufacturing such items as chains and badges of office for presidents, masters, mayors and sheriffs. The intricate and elaborate jewels are made by traditional methods and hand-enamelled by skilled enamel painters. To build up density of colour, the enamel is painted and fired at least four times before being coated with a layer of clear glass. For sports clubs, JDK design and manufacture (and put together a package of products from its group of companies) a range of embroidered and metal products such as emblems for blazers, hats, badges, enamelled cufflinks and pendants. Trophies, medals, presentation spoons and tankards are made for clubs, schools and colleges.

The corporate market has grown rapidly over the past two decades and the company design and manufactures a wide range of products to promote organisations corporate identity programmes. Products include enamel and printed badges that are used to identify staff in supermarkets, banks, showrooms and retail outlet staff.

Overall the company has a very large number of products that have been added to the portfolio as new customers have ordered them. Many of these products are continually manufactured with the hope of selling to other customers. The company adopts a mixture of approaches to running the business. Although, in general the company places considerable emphasis on producing a range of products and selling to whoever wants to buy them, it also attempts to secure orders from any source to keep the business viable. In certain areas, where it has well established technical skills and expertise, the company make new ranges of products and put selling effort in moving stock. The employment of a large number of skilled craftsmen and designers means that there is continual pressure on the management to keep the workforce fully occupied by manufacturing a standardised product range for stock and sales. The production capacity is switched easily when new or existing customers place orders for specific products.

(ii) Marketing

The management has limited knowledge of formal marketing and has continued to manufacture products on the basis of receiving orders from several sources and by selling from stock to whoever wished to buy from them. The management consider marketing techniques to only be applicable to the 'selling' of consumers goods and services and not appropriate or necessary for metal based products that were sold directly to distributors or directly to organisations. JDK had developed its customer base on the back of its long history, tradition and reputation gained from word-of-mouth recommendations for its range of high quality corporate identity and related products. Most of the orders from new customers came from entries in the trade directories and repeat business resulted from customer satisfaction. The company engaged in a limited form of promotions and targeted existing companies with colour brochures and other product information material. The company also occasionally advertised in specialist trade journals and had gained a valuable company profile in the market. The present brochures and point of sale materials are glossy, traditional and expensively produced using the Royal Warrant and "traditional English handcrafted enamels" as the main selling message.

JDK employs a sales and marketing manager who is responsible for managing four sales representatives. There is a separate sales and office manager responsible for a separate section made up of design, general products, jewellery and masonic products and schools and associations. The company relies heavily on selling to many and varied end users, wholesalers and buying houses. The sales office is responsible for receiving orders, sales administrations and records. Although the term marketing has been a recent addition to the sales manager's title, little formal marketing is carried out by him. The employment of four sales representatives was seen as a major revolution in the company and the team deals with the complete JDK range of products and most sell and liaise with existing customers. In addition to the sales team securing orders, work also comes in from response to advertising/publicity/mailings, word-of-mouth recommendations and by contracts (especially for medals for OBE's and MBE's etc). A very large proportion of the total orders, however come in as repeat business, mainly for small batch production runs. The company seldom refuses such work and has never attempted to analyse its product range to assess what the various activities contribute to the fixed cost of the business.

Product planning is limited to the design of the physical products and the company ensures that it matches the quality of its main competitors. Because most products are sold directly to end users or to buying houses, the company does not have any branding (with the exception of using the company name where this is practicable); packaging and product line policies. Most products are sold on the basis of their designs and craftsmanship of the company's employees. The company's pricing has been generally based on cost-plus basis and by reference to competition. For major volume orders the pricing is calculated on securing the order and to meeting the costs. Profit margins vary according to the types of products, customers and volume runs.

The company has inadvertently diversified to manufacture a range of products from existing raw material, labour, skills and by using existing machines and/or technology. These products are sold, or ordered by existing customers and the company can realise higher profit margins than new orders. The company started a new venture to manufacture enamelled boxes aimed at consumer markets (see Section 4). This product was seen as having substantial potential but the company found that it could not secure enough customers to break even for a number of years since it was established. The company relied on the same methods of attempting to sell these products as its conventional items and experienced many problems in achieving the revenue targets that would make the venture pay for itself.

(iii) Financial and Management Systems

The company employs 105 people and is also responsible for a small factory in South Wales that employs 40 people. The unit in Wales was 'inherited' and is run as a profit centre. It is managed by a general and works manager reporting to the Managing Director of the JDK in Birmingham. The 105 employees are organised into 31 separate sections (as shown in Figure 1 below). Although the structure is simple, it is riddled with curious working/reporting relationships. The organisation seems to have evolved over time and there is little or no logic or planning behind it. This is largely explained by lack of formal annual or medium-term business planning. Although the group has a corporate policy for cashflow forecasts, annual budgets and capital investment plans, the management does not prepare comprehensive plans.

An examination of the company structure reveals many odd practices such as:

a) Four staff report to the Managing Director on a day-to-day basis leaving him little time to devote to forward planning and business development.

b) The sales and office manager does not report directly to sales and marketing manager.

c) The marketing function appears to have been added to the sales department but everyone gets involved in the activity.

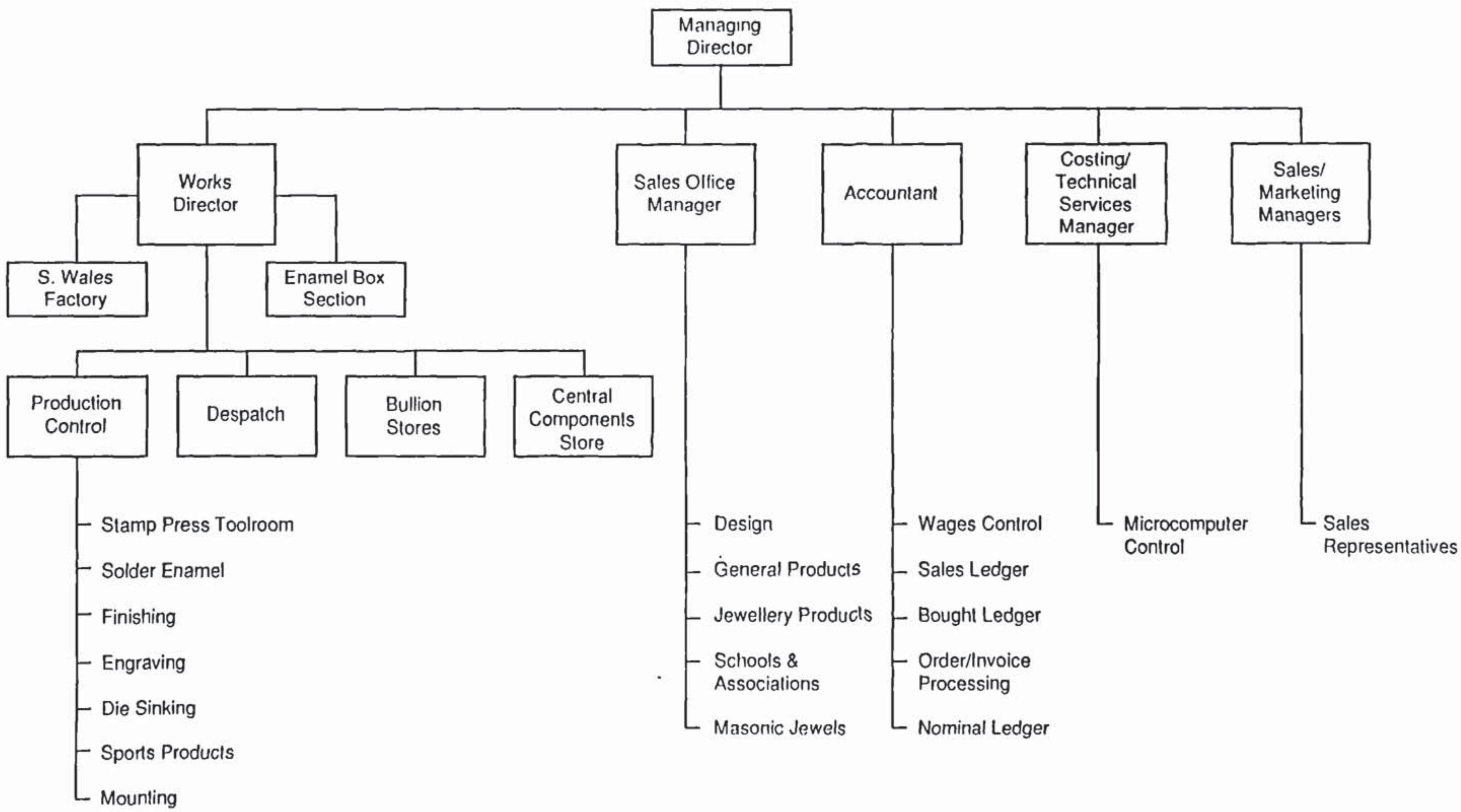
d) The design department reports to the sales and office manager (and in reality to Works Director as well) and not to the marketing function.

e) The Works Director controls the copper enamels department.

The company had identified a deficiency within its employee policy and had recently engaged the services of a personnel manager on one half day a week basis for one year in the first instance. But the organisational problems were not being addressed by the Managing Director as any such changes would have to be approved by the Group Board.

The company employs a full-time accountant who reports to the Managing Director and who is responsible for all purchases, salaries, financial transactions and control. The accountant has eight other staff to assist in the finance department. The company's finances are computerised and strict financial control ensures bad debts are kept to a minimum and cashflow is described as "reasonable and well under control". The Managing Director takes the responsibility of producing annual cashflow forecasts, sets revenue targets and budgets with the assistant of the accountant and his works director. But these projections are normally based on previous years performance and do not reflect any strategic aims and objectives that the firm

JACQUNOID DODGSON AND KENWRIGHT LIMITED ORGANISATION STRUCTURE AS IN JANUARY 1987



wishes to achieve.

3. Summary of Company's Characteristics for Stage Identification and Marketing Practices

A. Stage Identification

1. Customer base: Has established a customer base made up of many organisations who buy in small batches. Few customers for volume production runs. The company keeps on adding products to its portfolio as customers request them. There is therefore little rationalisation of product range based on contribution analysis or efficient use of resources. Very passive in its approach to generating new customers.

2. Key problem: Lack of managerial competence and direction on how to streamline and organise the business to exploit the potential for growth and efficiency.

3. Management style and organisation: Managing Director making key decisions and autocratic style of management. Functional managers brought in but not organised for the main business functions. Organisational structure is heavy on management of manufacturing and sales and the number of orders/products the business is in has created 31 different sections or positions that lack cohesion and direction. All these are signs of a production and sales orientated business.

4. Extent of formal systems and planning: Developing financial control systems but planning limited to cashflow forecasts, budgets and operational plans.

5. Major strategy: Survival and move to a position to consolidate and secure resources for growth.

6. The importance of the owner: A very old business where the owners are removed from running the company.

B. Marketing Practices

1. Changes in orientation: The business was established by building on family tradition and by take over of other small businesses. The emphasis has always been on the ability to produce hand made and skillfully crafted products. The current business has continued in that tradition with all the signs of emphasis on manufacturing and selling to anybody who wished to buy. Although marketing introduced as a term in the sales function, it remains undeveloped and confined to promotional aspects.

2. Marketing Activity:

Pre-start-up:	Nil
Start-up:	Nil

Early development:	Promotional aspects
Development:	Promotional, selling and public relations.

3. Sources and methods of securing customers: Personal contacts, word-of-mouth, repeat business, advertising and selling effort.

4. Awareness of marketing: Confined to selling (as a separate function) and promotional aspects of marketing.

5. Responsibility for marketing: Employs sales and marketing manager and a sales and office manager. Confused lines of responsibility for marketing. Promotional aspects handled by both with involvement of Managing Director and Works Director.

6. Application of formal marketing, sources of knowledge and expertise: No formal marketing applied. Some training in marketing undertaken by sales and office manager and seen as young injector of ideas into the business. Sales and marketing manager and MD lack awareness of marketing as a business function.

4. The Enamel Box Department

As outlined in Section Three, the company has a history of manufacturing enamel based products and had developed customers amongst the uniformed services and corporate identity markets. In the late 1970's when the rise in prices of silver and bullion and decline in commemorative work occurred, many companies in the field moved to manufacturing products using copper as the base metal. JDK followed competitive activity and established a department to produce hand crafted English enamel boxes that also used traditional manufacturing processes dating back to the eighteenth century.

The original idea for the enamel boxes was proposed by the then manager of the company's fine arts department and with the previous managing director, an outline plan was presented to the main board for approval. Although no comprehensive planning, market research or feasibility study was conducted, the board approved the scheme on the back of the overall UK annual budgets. Originally, the manager, a very talented artist, produced a limited number of products and targeted them to collectors as collectable items. The company invested in a colour brochure and sold the items to existing customers and personal contacts. As sales of the boxes gradually increased (at premium prices and little profit margin because of the labour extensive nature of manufacturing) the company decided to increase the production output. As existing equipment and tools were unsuitable for volume output, a new factory unit in Wolverhampton was leased on a five year contract to house two furnaces, spray booths and an assembly area. The company employed ten people at this factory and also employed the services of out workers and freelance artists when required. In order to reduce costs, the company relied on its ability to add value to copper boxes bought in as shells from local suppliers. These were cleaned, dipped and fired to prepare for the enamel spray - a glass and water solution, and fired at 800^{o}C. To build the depth of colour, the enamel was painted and fired at least four times and finally coated with a protective layer of clear glass. The lids were made separately and required either hand-painting (for one-offs) illustrations or transfers (for quantity runs) to be applied before firing in the furnace.

The project did not achieve break-even during its life and in 1982 the company received a large order from a retail jewellery chain, H Samuel for the supply of 213,000 enamel ring boxes at the price of £3.45 each. The client planned to use these boxes as part of his promotion campaign for selling rings and had no intention of selling them as stand alone items. The order meant a ten fold increase in production capacity for the unit and a night shift was employed to cope with the volume required. Although the contract seemed attractive for a unit that had sold small batches in the past and barely covered costs, the company gave little consideration to the original concept of manufacturing high quality, small batches and premium priced products aimed at collectors and other small volume customers. overall there was little or no planning or strategic direction for operating the unit. The unit delivered the H Samuel contract but experienced little real return for the work and the unit made a substantial loss in the financial year ending in 1982. The board decided to close the Wolverhampton unit and move the manufacture of enamel boxes to the factory in Birmingham.

Since 1983 the enamel box department has been operating using the machines and equipment moved from the Wolverhampton unit and employs 8 people to continue their design and manufacture in Birmingham. In the recent years the company has had a relatively small customer base for the enamel boxes. A large proportion of sales turnover has been accounted for by regular orders from an up-market catalogue sales company called Eximious. This company has been buying from TKS and selling on at margins between 100 and 200 per cent. The other main customer was an agent who operated in the USA under the name 'Mona Chase' and who represented the company's product using the branding 'Chase Collections'. The agent operated on the basis of a 'gentleman's' agreement and put his own mark-up in determining the price to his customers. The company however, no longer deals with this agent. In 1987, the company described its markets to be retail outlets, other companies (mainly buying houses) and export. But there was little evidence of any planning or marketing effort to strengthen or exploit these markets. The company, by history and habit had relied on orders and enquiries that came in, and was generally very passive in its approach to the market place.

The company recently invested in the production of a brochure and related point-of-sales material for marketing the boxes. The promotional material has been designed around the Royal Warrant that the company received in the past and uses colour photographs detailing the designs on the products. With the exception of reference numbers for the items shown, a brief introduction and history of the company, there is no other information contained in the brochures. The brochure seems to have been designed exclusively for the UK retail market but it is used to promote the product range to amongst all other types of customers, including export markets. The failure of management to identify distinct market segments for the enamel boxes followed by appropriate marketing mix strategies is very evident in all it has attempted to do to achieve sales. This is further complicated by not treating the enamel box unit as a profit centre with clearly defined managerial and financial targets. The company has always adopted the same philosophy to 'marketing' of the enamel boxes as its main line of business - low value, high volume production of badges and insignia mainly made to order and sold through intermediaries. The selling effort is an example of the management's approach to marketing the boxes. A sales office (a separate unit from the sales and marketing function) is responsible for receiving orders and sales administration. Most enquiries for the enamel boxes are responses to advertising or repeat business and the office deals with the whole range of the company's products. The company's four sales representatives and the sales and marketing manager also have the responsibility for selling the boxes. But as they handle the sales of the company's total range, there is little or no pressure or incentive for them to concentrate on these items. In general the sales department has found it much easier to secure orders for the main line products and experienced great difficulties in dealing with potential customers for the boxes. The sales representatives are experienced people, but they have basic levels of qualifications, are given little training (none for selling the enamel boxes) and are paid on salary only basis. The company is currently considering the introduction of performance related pay for all its managers and sales representatives. In addition to sales representatives, the company also employed the services of manufacturers agents. But again, as these agents were not exclusively handling JDK's products, they were not always very productive in generating new customers for the enamel boxes.

Organisationally (see chart), the enamel box department comes under the responsibility of the Works Director who also oversees the factory in Wales and all the production related units of the business. The department is treated as any other unit of the business, and no formal plans, forecasts or budgets are prepared for directing and controlling its operations. This makes it difficult for management to proportion fixed overhead costs to the department and the pricing of the product range tends to be based on adding a profit margin to an estimation of costs of production. Likewise, it has been difficult to accurately determine the sales turnover attributable to the enamel boxes. The sales turnover figures estimated for 1985 and 1986 were £40,000 and £60,1088 respectively and it was envisaged that it would be about £100,000 for 1987, representing break-even for the first time. The style of management of the department is that of supervised supervision with the key decision, including design being taken by the Works Director. The sales and marketing functions are given the brief to assist in the sales of the product range but there is a complete lack of co-ordination or planning of the commercial activity. The key problem faced by the department (and the company) is the lack of a customer base for the product range and therefore the inadequate levels of revenue generated to meet the costs.

5. Monitoring of Events and Decisions (Longitudinal Study)

In January 1987, the company decided to focus attention on the enamel box department and assigned the Sales and Marketing Manager to assess the situation and report to the Managing Director on future action. The commitment to take action came from the Group Chairman's personal interest in the department and from recent reports of the success of the competitors in the markets for enamel boxes. The events and developments that took place from January 1987 to December 1988 regarding the enamel box department were monitored for this study. An outline of those developments is given below followed by a brief discussion of the observations and outcomes.

Month 1

At a meeting between the Managing Director, Sales and Marketing Manager, the Works Director and Sales Office and Administration Manager, it was decided that although ideally the company should employ the services of a management consultant to analyse and recommend action for the department, the company at this stage could not justify the expense involved. It was also felt that there was a need for a more 'hands on' approach to the initial study. It was decided that the company will apply to have a marketing graduate from the Birmingham Polytechnic's Graduate Gateway Programme on a secondment project for a period of three months to assist the sales and marketing manager in conducting the initial study. The group decided on the following project brief for the graduate and the Polytechnic.

(i) To conduct a comprehensive and independent audit of the company and the enamel box department.

(ii) To conduct a competitor audit to highlight the main competitors, their market share, product range, pricing, distribution and promotional policies.

(iii) To provide data on the market for enamel boxes and to highlight future trends and developments.

(iv) To research the needs of potential customers of the product range and to assess the importance of company image, the product, pricing, packaging and promotion by customer types.

(v) To make recommendations on how the department should operate and how the product range should be marketed.

Months 2 to 4

A company audit was conducted (along the similar lines as that contained in Sections 1 and 2 of this study) and a graduate placed in the company to carry out the project brief. The following were conducted over a twelve week period and a report presented to management outlining the findings and recommendations for future action.

(i) A comprehensive competitive audit was conducted by obtaining competitors' promotional materials, product catalogues, price lists and by the display and merchandising of the products in retail and specialist outlets. Copies of the competitors' recent published accounts were also collected and analysed.

(ii) Desk research was conducted to gather data on the nature, size and future of the enamel boxes market. Although data on enamelled products as a separate category was not available, they were included in market intelligence on the general giftware products.

(iii) Conducted face-to-face personal interviews and a postal survey amongst small samples of potential customers of enamel boxes and existing and potential retail outlets and giftware shops selling the company's products. A telephone survey amongst forty five gift shops located in popular tourist towns and cities was also conducted to ascertain the likely demand for the product range.

The research project's main findings were as follows:

1. The company had four main competitors in the enamel giftware (and boxes) market. All were major organisations that specialised in enamel products and were geared up to cater for the different segments of the market. They all produced high quality merchandise and positioned them as premium products. The quality and range of their promotional material, advertising, targeting and merchandising policies suggested that they

had much more planned and integrated marketing programmes. The larger (Plc) companies (and to a lesser extent, the medium sized competitors) segmented the market by size of product required, theme (Victorian, animals, sports etc) and by use (desk, sewing and labelling).

2. The competitors had a much more extensive range of enamel boxes than JDK and most did not rely just on boxes. Other enamelled products included coin holders, spirit measures, pendants, wine and spirit labels on chains and rectangular and oval boxes. The competitors' pricing for comparable products were much higher than JDK's (up to 60% higher in some cases) and they also operated on much higher profit margins. The main competitors also launched a new and topical range of products each year and maintained a high public relations profile by introducing limited edition designs of special interest events and themes. They also launched a premium priced range of special commissions (by famous artists) and offered a service of manufacturing personalised boxes.

3. An analysis of the market intelligence indicated that the four main competitors had the largest share of the market and that they were increasing their respective shares with the increasing size and value of the market. There was much growth potential in the market, especially amongst the corporate, tourism and export segments of the market.

4. The surveys and qualitative research amongst retailers and giftware outlets indicated a general acceptance of the product but commented on quality, prices, delivery and margins offered to be the main factors in their choice of a supplier. The potential customers indicated preferences of higher quality items that would represent an investment at the extreme to low priced items to give as gifts to friends and relatives. There was however, a greater leaning towards acceptance of higher price products but which were not just enamel boxes.

5. In view of the SWOT analysis contained in the company audit and the research findings the following main recommendations were made to the management.

   (a) Re-organise the company management structure and make the enamel box section a profit centre.

   (b) Appoint one person to be responsible for the enamel box section.

   (c) In the short term, only one sales/marketing manager should deal with the range, or the company should employ a marketing/management consultant to give direction/recommendations for the department.

   (d) Streamline the production processes and introduce quality control procedures.

(e) Conduct further, more thorough market research into identifying potential markets and product requirements.

(f) Update the existing brochures and other promotional literature and invest more in public relations work than on advertising.

(g) The company should review how its sales department functions and to introduce incentive payments and training amongst the sales representatives to encourage them to make an effort to sell the enamel boxes.

<u>Months 5 to 8</u>

The report and the recommendations were well received by management and the audit was regarded as a valuable document as it was the first time that the company had an outsider's view of the business. Several meetings took place between the managing director and his senior managers to discuss the implementation of some of the reports' recommendations. In the four months period the following decisions and events took place in the company.

1. It was decided that no major changes in the organisational structure were possible in the short to medium term and that it would require the approval of the main board. The enamel box department was to continue to report to the Works Director; but greater accountability for use of fixed overheads were to be introduced over a six months period. Separate accounting and financial recording systems were introduced and all internal supplies and services were to be charged against the department.

2. The production processes, layout and use of labour were studies and the department was re-organised to operate more efficiently within the resources available. The use of operatives was streamlined by reducing the number employed to eight.

3. With the exception of a briefing session on the range of enamel boxes, no other changes were made to the sales department.

4. A new brochure for the boxes (that was proposed prior to the research project) was produced with minor changes made as a result of the research findings.

5. A limited direct mail campaign was launched with the new brochure that was mainly targeted at existing or lapsed customers.

6. The company achieved a sales turnover for the financial year 1986/87 £97,594. This was in line with the

anticipated turnover and not attributable to any changes made since the start of this research.

Months 9 to 12

The following main events and decisions affecting the enamel box department took place in the four months.

1. Appointment of new manufacturers' agents (on similar terms and conditions as in the past) to sell to domestic and export markets.

2. Introduction of a new range of designs. These were inspired and pushed through by the designer and accepted by the works director and sales manager as potential sellers. Little prior research or planning was undertaken for this development. Additional promotional material was produced to promote the new line with the rest of the range. The product line was aimed at all three of the company's markets:- retail, corporate, giftware and export.

3. A number of colour advertisements placed in the trade journals aimed to promote the new range.

4. The sales turnover for the first quarter of the financial year (1987/88 increased marginally over last year, but did not achieve the new target (£250,000 for the year) set.

5. Sales office manager and sales marketing manager started to work closely, especially on implementing promotional strategies, such as production of brochures and exhibition planning. But there was still evidence of lack of co-ordinated and planned approach to the tasks in hand. Marketing activity continued to be confined to promotional work and launch of new lines of products.

Month 13

No further developments.

Months 14 to 15

The managing director was persuaded to attend a training and consultancy programme in business development offered by the Birmingham Polytechnic Business School. The programme offered action-based training at weekends and a consultant to work with the company on a specified project. The managing director accompanied by the sales office manager and sales and marketing manager attended the first three weekend sessions of the programme that dealt with business analysis, business planning, marketing and business development aspects of managing an established small business. The JDK team had to conduct their own SWOT, product portfolio and contribution analyses. They were assisted in these tasks by a consultant appointed to work closely with the company. This was the first time in the history of the business that the management had taken the time and effort to reflect and analyse its business situation. The realisation of the extent to which the company had added on unprofitable product lines and subsidised the enamel box department prompted the Managing Director to commission further research into the potential of the enamel boxes. The consultant was asked to carry out the following brief.

1. Identify existing and potential markets for the product range and recommend how the company could penetrate them.

2. Supplement the previous qualitative research amongst potential domestic end customers to ascertain their perceptions, opinions and buying patterns and to ascertain the buying habits of foreign tourists.

3. Recommend how the product range should be marketed to these groups of customers and give an indication of the costs that would be involved.

Months 16 to 18

The consultant made the following main recommendations and presented the company with the research findings listed below.

Recommendations on marketing:

(i) The company should postpone any future new product development and adopt a policy of developing products for identified and researched markets rather than finding markets for existing and future products.

(ii) Research the requirements and buying behaviour of the following potential markets.

   a) End users in the domestic market, mainly amongst ABC1 socio-economic group between the ages of 35 and 55 (as highlighted by Keynotes Publication survey as the group that purchases such giftware the most).

   b) European tourists in the similar age and social groups as (a) above.

The Consultant undertook the following qualitative research.

(i) Focused Group Discussion

A focused group discussion amongst a small sample of the defined target market was conducted to gather data on potential customers' needs and reactions to the company's product range, quality, pricing and promotion that will assist the future direction of the firm's marketing effort. The main outcomes of the discussion were as follows.

Function

A strong agreement emerged for there to be a need to associate the product with a function, over and above that of an ornamental item. The group found some products difficult to open and identify with any worthwhile utility. The boxes were seen as potential containers in which other gifts could be presented. The copper enamel box that played a musical tune was considered poor and if a tune was to be incorporated, it must be selected very carefully to cater for the target markets' tastes etc.

Design

The group were highly critical of the design content of the product range and thought it to be very weak. Terms such as 'wishy washy', non-descript and 'too fancy' were used to describe the product range. The brighter coloured boxes were thought to be 'cheap' and colour co-ordination (ie top and sides) was seen as an important purchasing factor. Colour, consistency and matching in some items and sets was identified to be poor. The flowers and animal themes were regarded as out dated and unlikely to be purchased by the types customers represented in the group. Overall there was a feeling that the designs on the products were aiming at such diverse customer types that any evaluation by a small group was of little value. Box size seemed to effect perceptions of the product and the smaller boxes were found to be more attractive and appealing than the larger ones.

Quality

The group was unanimous in its opinion of the poor quality level of the products displaced. The group commented on the inappropriateness of the designs and themes, colours and details. The Royal Warrant and company's guarantees promoted in the brochures and on products were not identified as having any additional value or influence in buying the product.

Cost

The price of the products was regarded to be far too high and the group considered the alternatives which could be purchased with the same amount of money. The group was generally very disappointed with 'such an expensive range of products as these'.

Markets

In the opinion of the group, the likely main purchaser of the product was a middle-aged woman, affluent and likely to be a tourist. The product was not seen as a male item, but possibly would appeal 'to older people'. It was felt that the product would also appeal to collectors, tourists and people who were looking for a sentimental momento or gift. The product would most likely be retailed through outlets such as H Samuels, up-market hotels, antiques and gift shops.

Packaging/Brochure

The group strongly endorsed the brochure as a very valuable piece of promotional literature. The brochure looked expensively produced and communicated the product in all its glory. On the negative side however, the brochure built up expectations that the product range did not live up to when comparing the product with the brochure. The group felt 'misled' and disappointed. The packaging was seen to have several weaknesses. The product was difficult to remove from the box, and the packaging design, rather than enhancing the product, cheapened its image.

Buying Behaviour

The group did not see the product to be an item that a potential purchaser would plan to buy. It was regarded more of an impulse purchase product because it was likely to be based on a want rather than a need to solve a particular problem. More members of the group said that they would not purchase such a product for their own personal use but were likely to buy it, if the price was right, as a gift item to be given on special occasions. The target end users was again likely to be a bride, a wife, mother or other elderly person who would appreciate the ornamental value of the product rather than one that fulfils any particular function. When purchasing this type of product, the buyer is more likely to be influenced at the point-of-sale rather than through media advertising or brochures. As an impulse purchase item, most potential customers would not have the brochure available prior to being in a retail outlet. The group felt that training of retail staff and point of sale material should be emphasised by the company to help retailers push the product.

The overall impression was that the company's products lacked in quality, were highly priced, did not have appropriate designs and were aimed at the wrong end of the market domestically and the only future they saw was for tourists and export markets.

(ii) Interviews Amongst European Tourists

The consultant conducted twenty personal interviews amongst tourists from Spain, France, Italy and

Germany. The aim of the interviews was to collect qualitative data on the tourists opinions, attitudes, reactions to the product design, pricing, promotion and to ascertain their buying habits and preferences. The interviews also aimed to assess whether European tourists in the UK would purchase such items and whether the product had sales potential in their own countries.

The main findings are outlined below.

The Spanish tourists thought the product to be of good quality and attractive, but did not think them to be distinctively English. Some thought that the products may have been made in Germany or Hong Kong. The tourists were interested in the product concept but would consider buying them only if their prices compared favourably with other products of greater value and association with England. In Spain the product would face intense competition from other giftware especially ceramic/china products made locally. The product was associated with perfume bottles and pill containers and may be more attractive to elderly Spanish ladies. Overall, whilst respondents thought the product had potential, there was limited interest in it as a tourist item.

The French respondents made the following contributions to understanding the French tourist and consumers of imported products.

a) The product quality was regarded as medium to low and would have to be raised for both markets.

b) The French tourists, like the Spanish, whilst interested in the product, would not purchase if the price was regarded to be higher than the perceived value of the items.

c) The product may find customers in France but would face fierce competition from similar products made from ivory, leather, china and papier mache.

The Italian interviewees responded positively towards the product but criticised the design and quality aspects. The designs were thought to lack definition and depth of colour. Designs and themes were thought inappropriate for the Italian market and further research and considerations were necessary. The price, again was considered to be too high for the tourist market but may be acceptable in Italy if the designs, themes and quality aspects were imported. It was suggested that there may be two types of buyers for the items. The AB equivalent and C1-C2 equivalent for a lower priced product range. The promotional material, including the brochure were thought appropriate but would require more background information on the product themes, the history of the company and the English tradition of such products and their manufacture.

Consultants Recommendations

The consultant's report to the company made the following main recommendations under two alternative options. As requested by management, the consultant gave estimates of costs involved in implementing the recommendations.

OPTION 1: Close the enamel box department and continue to serve existing customers by buying in enamel boxes from other suppliers.

Recommendations:

a) Seek and secure a supplier or manufacturer that could supply the company's current short-term requirements of enamelled boxes to meet existing orders. Assess the supplier's ability to manufacture to the required quality standards.

b) Gradually cease manufacturing enamel boxes and close the department. Utilise machinery and equipment in other parts of the business or auction to release resources that could be used in marketing the bought-in boxes.

c) Apply for DTI assistance under the Enterprise Initiative for further comprehensive marketing and design consultancy to more clearly define the target markets for the products and to design the products appropriate to meet their needs. The cost to the company of these schemes would be between £3,000 and £7,000.

d) Invest in new product development that incorporates the recent and future research findings and commission designs from freelance artists to meet the needs of the target markets as in (c) above. Restrict the in-house designers involvement in this range of products. Cost of this, could depend on artists chosen and an estimated cost per design if £1,500.

(e) Re-organise the sales and marketing function by integrating the sales office manager with the sales and marketing section. Assign one person to be responsible for marketing the enamel boxes and set sales targets for managers and sales representatives. Alternatively appoint a new marketing manager who has the experience, qualification and knowledge of formal marketing to be responsible for marketing the boxes and giving direction for other lines of products. The estimated cost per annum of this would be in excess of £20,000.

(f) Invest in promotion material to secure orders from existing and new customers. When a new range of products are designed, a new corporate brochure on boxes should be produced together with material to facilitate the selling-in process into retail and wholesaler distribution networks. It is recommended that the company sets a budget for promotion in line with what it wishes to achieve and employ the services of a professional advertising agency for all promotional aspects of the operation. it is also recommended that the company should retain the services of a public relations agency to handle all the products but in particular the enamel boxes. The indicative cost of a professional promotional and PR campaign is £40,000 in the first year of the new operation.

OPTION 2: Continue to manufacture enamelled boxes but research and develop a new range of products aimed at well defined markets. This option requires the company to buy in marketing expertise to formulate a strategic marketing plan and will also require a major investment in implementing the following programmes and changes in the organisation of the department and the sales and marketing function of the business. The requirements and indicative costs of implementing this option are outlined below.

(i) Market research: Commission a market research agency to conduct more comprehensive market research involving secondary, qualitative and quantitative research methods to provide the company data to enable it to:

(a) Understand the profiles of the giftware and souvenir markets in the UK, Europe and USA and to assist in the selection of the target groups that it should design the products for.

(b) Provide data on the buying behaviour of the selected target markets including, types of products, designs, packaging, branding, pricing, types of outlets and promotional techniques.

(c) Quantitative data on the types of outlets, middlemen and other distribution networks for getting the products into retail and other outlets. Identify other channels of distribution and methods of marketing the products through these networks.

Estimated cost £15,000.

(ii) Development of a Marketing Plan: Commission a marketing consultancy firm either directly or through the DTI Enterprise Initiative and develop a strategic marketing plan for the enamel boxes that uses the market research data to:

a) select target market(s) for domestic and exporting operations.

b) recommend products, designs, branding, packaging, quality etc that should be developed for the defined markets.

c) recommend overall strategies and policies for pricing, distribution and promotion of the range of products for the different markets.

d) recommend organisation of the enamel box department with particular reference to how the marketing of this range of products should be undertaken and integrated with the company structure.

e) advise company on costing and schedule of implementing the marketing plan.

Estimated cost: between £2,000 and £7,000 depending on whether DTI scheme is utilised or not.

(iii) New Product Development: Commission new designs to match the target markets recommended in the marketing plan by using in-house and outside designers. use well known artists and freelance designers if required. Commission initial design for new packaging, branding and introduce quality control procedure and incorporate projection of quality through branding and packaging. Manufacture a range of samples of new designs and test them amongst existing and potential distributors and end-users.

Estimated cost: Between £5,000 and £10,000 depending on the artists fees and design charges.

(iv) Secure orders from existing and new customers: Select and hire sales agents to work alongside company sales representatives to secure orders for the new range of enamelled boxes. Implement marketing plan and develop distributor networks for domestic and export markets. Organise UK into sales territories and commission sales agents to work in assigned regions. Secure export sales agents in Europe and USA. Re-organise company sales force and introduce targets and bonus scheme. The cost of this operation to be included in the pricing structure of the product lines and commission to sales agent negotiated on the industry norms.

(v) Promotional material: The marketing consultants to include a promotional mix strategy and costings. It is recommended at this stage and based on recent research findings that the company should concentrate its promotional efforts in securing distribution of the product range (selling - into the trade) and therefore requires trade advertising, personal selling, promotional brochure, merchandising (point of sale material) and training retailers to sell the product. The estimated cost of achieving this is £30,000 in the first year.

(vi) Re-organisation of the sales/marketing function: The following are indicative of changes that are recommended for implementing marketing in the company.

a) employ a Marketing Director to be responsible for all the company's range of products.

b) re-organise the sales function and integrate it with the role of the marketing director. Re-define the role of sales and marketing manager and make him responsible for part of the selling function and for the sales representatives and agents employed by the company. Re-define the role of the sales and office manager and train him to take on the responsibility of marketing (as a marketing manager), customer relations, design and new product development. The estimated costs of implementing the re-organisation is between £25 and £40,000 depending on the importance the company would attach to the marketing director's role.

<u>Months 19-20</u>

The consultant's report was presented to the senior management of the company and three meetings took place to discuss the options and recommendations. The Managing Director prepared an additional report outlining the company's preference for Option Two and requesting the Board to approve the investment and organisation changes recommended in the consultant's report.

<u>Month 21</u>

A meeting of the main board was held to discuss the consultant's report and JDK's request for investment to implement Option Two. The outcome of the discussions were:

(i) The Board voted in favour of adopting Option One for the following reasons.

a) The history of the enamel box department. The board felt that the department had had ample opportunity and investment to prove its viability but had failed to do so.

b) The costs involved in implementing Option One could be met out of the savings made by closing the department and utilising the space and people more productively on other product lines or by making them redundant.

c) The investment required to implement Option Two would not necessarily result in turning the department around and the company would have to continue to subsidise its operations and losses. The Board also felt that the organisational changes recommended were far too radical for the company and it voted for cautious and slow changes to take place. The changes to the existing sales function were not approved in the short-term and the managing director was required to report back in six months on the process of implementing Option One with the existing organisation structure.

d) The Board agreed with the consultant's report that the company's strengths were in manufacturing products for other organisations and did not have adequate resources or expertise to successfully operate in a range of products aimed at the consumer markets.

<u>Months 22-24</u>

The following events and decisions took place in the final months of monitoring this company.

(i) The company found (and negotiated) with two local and one Battersea based enamelled products manufacturing company that could supply boxes of any designs, specifications and volume requirements.

(ii) The sales office compiled a list of all existing customers for the enamelled boxes together with the order requirements and contracted with one local company for a supply of necessary items to be produced on a trial bases. The company successfully met its orders from this source and placed new orders to be completed over the next two months. The Battersea supplier was also given a successful trial contract.

(iii) The enamelled box department's closure was phased out over the three months. The staff and most of the machinery was redeployed in other parts of the business.

(iv) The company went ahead with the production of a full colour brochure that was planned prior to the research and consultants report and none of the recommendations were incorporated in its design.

(v) No major changes were introduced to the product range as it was felt that the existing lines had some customers and also that the products should be those that were contained in the brochure.

(vi) A new price list was introduced and the prices were brought down by 10 per cent to reflect the significant savings made by buying in the products.

(vii) No changes were made to the roles or integration of the sales/marketing manager and the sales and office manager. The company retained the in-house designer with no changes to the organisation of sections under the sales office manager's responsibility.

(viii) The sales representatives were given training into the changes made to the selling of enamelled boxes, but no changes were made to their remuneration package, targets or incentives. A sales presentation package was developed for the representatives to use with the promotional brochures to secure orders from existing and potential wholesalers, retailers and other distribution networks.

(ix) The company had indicated that it would be employing sales agents on commission bases in the UK and Europe to help find customers for the product range. There were also proposals to change the product range along the lines of the consultant's recommendations over the next two to three years.

APPENDIX 3.11

BHOGAL BROTHERS (UK) LIMITED
(COMPANY CODE BBL)

Longitudinal Study of the Firm from January 1987 to December 1988

Address: Birmingham

Activity: Manufacture of ladies garments.

Age: 9 years (1978)

Turnover: £310,000

Employees: 35

Origin of Owners: Asian

Stage of Development: In between existence and survival.

Introduction

This study traces the historic development of the business and concentrates on the management decisions and events that took place in the period January 1987 to December 1988. This company was selected for the longitudinal study because it had a brief history of attempting to change its customer base and was planning to seek marketing expertise to advice it on developing new customers through market research, new product development and promotional activity. The account of the study that follows is divided into four sections. The first two sections give a brief account of the origin and the situation of the firm as in January 1987. Section three gives a summary of the characteristics of the business for identifying stage of development and marketing practices in line with all the other case studies and in-depth interviews reported in this thesis. Section four gives an outline account of the events and decisions that took place over the study period. This study has been based on periodic visits to the firm and on discussions with marketing consultants who assisted the firm in assessing and advising on its future operations. This study has to be read prior to reading chapters five and six in volume one as it relates to the conclusions on the implications of applying formal marketing in small businesses.

1. Origin of the Business

Mr Surinder Bhogal was 17 years old when he came to England in 1969. He was educated in an English medium school in India and had little difficulty in coping with the language when he started working as a machine operator in a tool making firm in Smethwick. Mr Bhogal changed several jobs in the first six years and worked for four years as a

Laboratory Technician for a large firm in Oldbury. In order to save money to start his own business, Mr Bhogal also worked part-time as Security Guard for a local engineering firm. In 1978, Mr Bhogal started a small clothing manufacturing business with his brother and their wives that operated from a garage of their home in Great Barr. The brothers invested their own savings in second hand machines and secured simple sewing jobs from other Asian anoraks and garment manufacturers who were keen to break the bulk of their manufacturing by using outworkers and newly established small businesses. Although the Bhogals belong to the caste of drapers, they had no previous experience of the local clothing industry. The brothers kept their full-time jobs whilst the wives started to work full-time on completing the orders from other manufacturers. Within a year, the orders increased in volume and in complexity of operations from simple sewing to assembling of whole garments. The product range consisted mainly of ladies blouses, dresses and skirts. In 1980, the brothers joined the business full-time as the production capacity expanded from two to six machines. The work continued to flow from other manufacturers and the expansion of the business from the garage led to complaints from the neighbours over the misuse of residential property.

In 1981, the business moved to the first floor of a cheap commercial property over a cars repair garage in Lozells (near Handsworth). The move allowed the business to increase its production capacity by accommodating ten women machine operators. The overheads continued to be very low and the brothers succeeded in doubling the sales turnover in the first year of the move. In addition to taking on sub-contract work for other Asian manufacturers, the firm started to manufacture a range of ladies garments for sale to local wholesalers. The product range consisted of simple blouses and dresses that were designed by imitating popular lines. As a result of steady growth and continuity of orders from wholesalers and sub-contractors, the business moved to a larger (1000 square feet) rented industrial unit in Hockley. This unit soon proved to be too small for the volume of work generated and in 1983, Mr Bhogal decided to purchase a unit in Sycamore Industrial Estate in Smethwick. The move to a larger (2, 500 square feet) premises was however, unplanned and was based on Mr Bhogal's limited knowledge and experience of financial projections and control. The unit was purchased on a mortgage secured on Mr Bhogal's home and no other institutional loans were used in financing the expansion of the business. To pay for the increased overheads, the company started to expand its production capacity by employing 25 employees and by taking on more 'Cut, Make and Trim' (CMT) work on sub-contract basis. The manufacture of products for wholesalers also increased, but with little planning in terms of the market requirements, product range or pricing. The investment in additional (second hand) machines was funded from loans from friends and relatives. During this rapid expansion phase, the company secured its first CMT order directly from a design house in London. Although the firm successfully completed the order, the financial structure and over trading led the business to suffer its first major decline in profitability. Within twelve months of purchasing the property, the business was forced into liquidation.

Six months later, Mr Bhogal started two new businesses: Bhogal Brothers (UK) Limited (BBL) and Bhogal Leasing Limited. The Leasing company was established to enable BBL to lease machinery needed to operate and expand the business. Mr Bhogal bought most of his old machines from the liquidation company for £5,000 and rented 3,500 square feet, modern third floor premises in Hockley from Modiwear - an Asian jeans manufacturing company that moved to larger premises, leaving behind thirteen sewing machines and other equipment for BBL to use. With a grant of £18,000 from Birmingham City Council, Mr Bhogal retrained Modiwear's previous staff to work on manufacturing ladies' garments and hired new staff to become a supplier to CMT sub-contractors. By late 1985, the company employed 35 employees and had established itself in the CMT sub-contract and wholesalers markets. Mr Bhogal had developed extensive personal networks with the local clothing industry and with design houses and contractors in London who dealt directly with the company. In May 1985, BBL had a sales turnover of £310,000 and there were signs of potential for the business to survive and achieve sustained growth and expansion. In June 1986, Surinder's brother decided to leave the firm to start his own clothing manufacturing business. At this point Surinder involved Di Patel, the finance and office administrator more in the management of the business. In October 1986, Mr Bhogal registered another company: Esteem Garments Limited to design own products (and labels) and sell ladies garments to independent and multiple retail outlets, with Di Patel as the Managing Director.

2. The Current Situation

(i) Products and Markets

The owner describe the current principal activity as manufacture and sale of ladies' light garments. The main product ranges consist of vests, blouses, skirts, dresses and jackets. The business has developed from serving narrow markets of Asian sub-contractors to selling directly to contractors (who have High Street multiples and catalogue companies as their customers), manufacturing for wholesalers and selling a small range of own designed products to independent retail chains. In early 1987, the composition of the firm's customer base was as follows.

CMT manufacturing service sold to Asian and other sub-contractors.	70%
CMT manufacturing service sold directly to main contractors (design houses)	10%
Manufacture of garments for wholesalers	15%
Design and manufacture of own designs for sale to independent retailers	5%

The firm's reliance on CMT manufacture for sub-contract meant that although there was no shortage of orders, the profit margin was very low, and the business had to work to full capacity to turn out volume production runs to make viable returns on investment. In an attempt to gradually break out of this situation, BBL had started to put more effort in designing its own range of products for sale to independent retail chains. Though the firm had achieved some success in penetrating this market, it lacked marketing and communication skills to take advantage of the potential that existed. Whereas CMT work flowed in from Mr Bhogal's personal networks amongst local Asian business community, the independent retail chains represented the wider, non-Asian customer base that required different skills and communication techniques to penetrate. The management's emphasis on products and production encouraged them to manufacture a range of merchandise and to put effort in selling to whoever wished to buy from them.

(ii) Marketing

BBL relies on selling their manufacturing service to a small number of regular CMT sub-contractors (who tend to be other Asian clothing manufacturers with volume orders from design houses, or main contractors), wholesalers and retail customers on forward order basis. The company also produces a range of products for wholesalers and retailers in the hope of selling them either to its existing or new customers. Repeat orders are received either by telephone, telex or by letters and processed on the basis of batch manufacture. The CMT work is processed by receiving all fabrics, design templates, zips, buttons and other accessories and organising the cutting, sewing, trimming, ironing and packaging. The company has a well organised sales administration office managed by a young Asian lady who also deals with other office procedures and reception duties. The company recently employed Ms Patel, a college leaver with business education to control and administer financial aspects of the firm. Mr Bhogal deal with customer enquiries and negotiate with new clients and takes all decisions regarding pricing, discounts and production processes in the company.

Mr Bhogal has little knowledge of what constitutes the marketing function and limits its meaning to promotional and selling activity. The business is seen very much as providing a manufacturing service to sub-contractors and has seldom required any marketing decisions. The firm has achieved small turnover from manufacturing imitated products on the basis of receiving orders from a number of wholesalers. The slight modifications of popular lines of ladies garments by the brothers has meant the company has restricted its activity to wholesalers markets with little potential to earn decent profit margins.

For retail and wholesale markets, the company manufactures a range of ladies garments for different age groups. There is however, no research or rationale behind the decision to cater for all segments of the market. The company is keen to take its products into High Street multiples and catalogue firms, but lacks an understanding of their buying behaviour and requirements. Although the company has attempted to design and manufacture a range of garments for retail chains, there is no evidence of prior research into the types of customers served by the potential outlets. The company has tried using freelance designers, but there is a lack of investment in the design process. Because of the firm's history and reliance on sub-contract CMT work, it has little experience or knowledge of setting price for own designed range of products. The tendency to base all pricing on cost, plus an average of 40% mark-up is prevalent in the firm. Likewise, there is no investment in promotional activity other than concentration of selling effort in an attempt to sell batches of products already held in stock.

The existing stationery is badly designed with the use of three globes in blue to depict the firm's international aspirations. The company feels that it needs to change its business name to one that is non-Asian or neutral for selling into more lucrative High Street markets. The business cards are equally poorly designed and there is no consistency in the use of any corporate identity or typographic style. The company does not advertise or produce brochures, product information sheets or use any other promotional material.

(iii) Financial and Management Systems

The business has always lacked competence in financial matters and there have been several attempts at putting in recording systems that could provide useful information for planning purposes. When the firm was growing, the financial system was very basic and no formal book-keeping was used. The tendency was to rely on the firm's accountant to 'sort' out the invoices for income and expenditure and to deal with all VAT and other regulatory matters. Since moving to the new rented premises, the firm has introduced book-keeping and employed Di Patel to administer the function. Although books are now kept and some meaningful systems are evolving, there is still no use of financial records for planning, costing or pricing of the firm's activity. The company recently invested in an expensive computer and software systems for financial and production control. This technology has only been used for initial training and there has been no attempt at computerising the financial system. There is a general lack of confidence and skills to use computer software and it is only occasionally used to print out production labels and the rates for piece work for the machine operators.

Cash-flow forecasts are prepared for the bank's purposes, but tend to be based on hypothetical figures and there is an apparent lack of understanding of the financial structuring of the firm. There is also a tendency for the firm to enter into negotiating CMT and other contracts for manufacturing products for various clients without a real understanding of break-even or margins that would be realised from the deals. The overall basis for pricing own designed products tend to centre around the estimated cost of raw materials and production plus about 40% gross mark up. All pricing for CMT and wholesalers markets are negotiated with customers and the final prices tend to be dictated by contractors, leaving very small margins for the firm. All pricing of finished items are calculated without due regard to end-user price, channels of distribution, what the market will bear or any reference to the gross margins required for the whole year's trading.

The financial information of the business for the past three years is as follows (the net profit figures are before tax)

Year	Sales	Gross Profit	% of Sales	Net Profit	% of Gross
31st May 1984	£305,036	£91,169	29.9	£21,453	23.5
31st May 1985	£276,063	£82,361	29.8	£19,571	23.7
31st May 1986	£310,000	£102,692	33.1	£19,652	19.1

The company has an overdraft facility of £15,000 but has no outstanding loans, hire purchase charges or other financial commitments.

There is no formal organisation structure and most decisions and responsibilities are taken by the owner. Since the separation of the brothers, Surinder has involved Di Patel in some of the management decisions and tasks. There is an informal organisation of the machine operators, cutters, trimmers and packers. Although two Asian ladies act as production supervisors, all key routine and long term decisions are made by Mr Bhogal. In Mr Bhogal's absence, the supervisors increasingly rely on Di Patel for decisions. No other management systems or procedures are in place and the business is managed on a day-to-day basis or is driven by the orders that come in from any source.

3. Summary of the Company's Characteristics For Stage Identification and Marketing Practices

A. Stage Identification

1. Customer Base: The company relies heavily on continuity of orders from other Asian clothing manufacturers who sub-contract parts of their contracts with commissioning agents/design houses and wholesalers. The firm has recently developed customers for direct supply of CMT work and has a small customer base amongst independent retail chains.

2. Key Problem: Over reliance on a small number of regular customers. Lack of clearly defined alternative sources of business and lack of managerial competence and ability to develop customers for direct supply of own designed product range. Tendency to take on work from any source that generates small profit margins.

3. Management Style and Organisation: The business was managed jointly by the two brothers with Surinder having the overall authority and power. Since the brothers separated, the business is managed autocratically by the owner and there is little delegation of responsibility or formal organisation of the human resources and activity.

4. Extent of Formal Systems and Planning: Financial recording and control systems have evolved over time and there is a manual book-keeping system that is operated by a qualified administrator. There is no business planning and cash-flow forecasts (when prepared) are based on past performance and hypothetical figures. The management has little understanding of the financial structuring of the business and negotiate contracts on very tentative knowledge of break-even and contributions to fixed overheads of the business.

5. Major Strategy: Existence/survival.

6. Importance of the Owner: The owner is synonymous with the business, takes all decisions and does not delegate tasks to others in the business.

B. Marketing Practices

1. Marketing Activity

Pre Start-up:	Nil.
Start-up:	Restricted to personal contacts and personal selling. No promotional activity other than design and use of printed stationery.
Early Development:	No marketing effort or activity was undertaken as business flowed from personal network in the clothing industry. Some new non-Asian sub-contract business secured through personal selling effort. Smaller wholesalers and retailers also came to the company through word-of-mouth recommendations.
Development:	Developed some new customers for direct supply of CMT work for design houses through personal contacts and word-of- mouth recommendations. Increased customer base by developing greater networks with CMT sub-contractors. Introduced new product development by imitating popular lines for sale to wholesalers and independent retail chains. Hard selling (non-targeted) the only marketing activity. Product development not aimed at any specific segment nor based on prior research.

2. **Sources and Methods of Securing Customers:** Relying on well established customer base of a small number of Asian sub-contractors and wholesalers. Personal contacts, word-of-mouth recommendations and selling effort. New work developed by reacting to enquiries from all sources.

3. **Awareness of Marketing:** Very limited understanding of the marketing function. Confused marketing to mean selling and promotional activity. Emphasis is on selling in order to reduce stock level of own designed and wholesaler range of products and to maintain capacity and cash-flow.

4. **Responsibility for Marketing:** The owner.

5. **Application of Formal Marketing, sources of knowledge and expertise:** No formal marketing applied. The production-oriented approach of supplying a manufacturing service to sub-contractors and of copying designs and producing samples for wholesalers and independent retailers has led to storage problems. The company lacks a planned approach to new product development, pricing, branding and

corporate identity. The owner has not attended any form of business development or marketing training, nor applied for any consultancy schemes.

4. Monitoring of Events and Decisions

The company audit reported in Sections 1 and 2 above was conducted during the first two weeks of January 1987. Towards the end of January, the company decided to focus attention on its range of own designed products and attempted, for the first time to sell them directly to buyers of multiple chain stores. The events and developments that took place from January 1987 to December 1988 were monitored for this study as outlined below. The outcomes of these decisions and events are discussed in grater detail in Chapter five in Volume one of this thesis.

Months 1-3

In January 1987, Mr Bhogal decided that the company was well placed and experienced to deal directly with buyers of High Street multiple stores. The company had had a track record of manufacturing volume outputs of ladies blouses, dresses and skirts for some of the major High Street stores through sub-contract work. As the contractors had been satisfied with the quality of BBL's CMT work, Mr Bhogal felt confident that he could eliminate the middlemen and sell the firm's design and manufacturing services directly to the stores and earn better margins than had ever been possible from taking on sub-contract work. With the assistance of his office administrator, Di Patel, Mr Bhogal assembled a small range of blouses and dresses by imitating and modifying designs that the firm had handled in the recent past. In addition to this, Mr Bhogal commissioned a freelance fashion designer to research the trends for the following autumn season and to recommend designs and fabrics that he could present to a number of buyers. The designer was not given any other briefing or information regarding the end-user profiles or target markets the firm was planning to approach. The designer conducted some basic desk research into fashion trends and fabrics projected to be in demand the following autumn and produced six designs for the firm. Mr Bhogal got the designs made into samples for presentation in the factory. The 'Esteem' label that was designed internally (silver lettering on black fabric) was used on the range of items produced.

Months 4-5

In order to contact buyers, Mr Bhogal compiled a list of High Street multiple stores from trade directories and approached them by telephone in an attempt to arrange interviews and to show them the range of his designs. The cold calling approach coupled with his lack of knowledge of buying behaviour and requirements of the various organisations produced negative responses from most buyers or their secretaries. The buyers requested Mr Bhogal to write to them explaining what he had to offer and to demonstrate his firm's experience of supplying high quality merchandise to multiple chain stores. With the help of a freelance business consultant (appointed through a grant from Birmingham City Council's Business Enterprise scheme), the firm acquired a list of names of buyers of twenty multiple chain stores and organised a personalised mail shot requesting opportunities to present the range of designs. The mail shot campaign was followed by telephone calls and generated positive responses from three organisations. Mr Bhogal met the buyers of Chanell, Principles and Top Notch, but all rejected the designs because they did not meet the stores' requirements. The buyers advised Mr Bhogal on their stores' end-user profiles and provided him useful information on how to approach them in the future. They felt that the designs and fabrics lacked thorough research and originality and that the firm should have an in-house designer who could devote the time and effort necessary on research and designing a range for specific outlets and end-users.

Months 6-9

In June 1987 BBL employed Wendy, a young recent graduate fashion designer on an annual salary of £6,000. Although Wendy only had limited commercial experience, she had creative flair,ideas and was willing to work in a small firm on a low initial salary and without any training or supervision. Within a period of six weeks, the designer researched and assembled a new range of designs that the company felt confident to present to buyers. The designs were made up into samples but no other marketing decisions were taken. The product planning consisted solely of the physical items and the quality of their manufacture. The firm had little prior experience of calculating and setting price for direct supply of merchandise. The product range, although not catering for a specific target segment, had been well designed with certain outlets in mind. Mr Bhogal and Wendy approached the buyers who had previously shown some interest in the company and secured a contract to supply 5000 blouses to Chelsea Girl stores.

On receiving this contract, Mr Bhogal decided to process it through the new company (Esteem Garments Ltd (EGL)) that he had established in 1986 and to sub-contract the work to BBL. EGL started trading with a loan from Mr Bhogal and an overdraft facility of £10,000. As this was the first contract for direct supply to multiple chain store, the company had to purchase all the fabric and accessories necessary to complete and deliver the order. Within first few weeks of trading therefore, EGL ran into major cash-flow difficulties and Mr Bhogal had to negotiate additional overdraft facilities. Although BBL manufactured and EGL delivered the contract within the specified time, Chelsea Girl returned over half the batch because of poor stitching and lack of quality control procedures at the point of manufacture. EGL sustained substantial loss on the contract and Mr Bhogal realised that his businesses were not yet geared up to move too quickly into selling directly to multiple chains. Mr Bhogal decided to repair the returned batch of blouses, remove the Chelsea Girl labels and sell the stock to wholesalers on 'Esteem' label. The relative success of this venture persuaded Mr Bhogal to start a wholesale cash and carry line of merchandise that could either be bought from BBL or other Asian manufacturers.

<u>Months 10-12</u>

During the past four months, Mr Bhogal devoted more of his time and energy into developing work for EGL. Although BBL continued to trade and Mr Bhogal managed the processing of sub-contract and wholesale orders, the company started showing signs of neglect. BBl experienced, for the first time, a number of complaints from the sub-contractors regarding the quality of manufacturing. Mr Bhogal's increased effort in developing EGL resulted in receiving direct contracts for CMT from multiple chains and buying houses. In October 1987, EGL secured work from Principles and H&M stores, which Mr Bhogal processed through sourcing and subcontracting to BBL and Newmax (another Asian Firm). In November, the accountant's statement for the first half year's trading showed that EGL had a sales turnover of £210,911, with a projected net profit of 10.6% and that the firm had assets of £20,210. Although the firm was experiencing cash-flow problems, Mr Bhogal felt confident that his current mode of operating the business (without the firm having its own manufacturing facility) was the way forward. By December 1987, EGL started receiving regular orders from Principles and a steady flow of work from Chelsea Girl and H&M stores. Although he was not selling his own designs, Mr Bhogal was keen on pursuing with the idea of marketing the 'Esteem' label directly to major outlets.

<u>Months 13 to 15</u>

In January 1988, Mr Bhogal applied for the DTI Marketing Initiative with a view to working with a marketing consultant. As part of the application process, EGL was visited by a consultant from the DTI Small Firms Services to assess the company's viability and eligibility for the scheme. The initial brief for the application was to advise EGL on how it might improve and develop its marketing strategy in order to reduce the company's dependency on CMT work and develop direct sales of its own designs. A tour of the premises and detailed discussions with Mr Bhogal and Di Patel revealed that the development of a marketing strategy was not the company's first priority. The consultant advised the company that planning in this field should only be pursued after its other internal systems have been improved or installed to regularise and monitor all financial transaction, orders, material supply and presentation of garments for the cash and carry business.

As was the case in BBL, the financial control system for Esteem Garments Ltd relied on entries in ledgers which the accountant dealt with on quarterly basis. There was therefore, a lack of any financial management or information that Mr Bhogal could use to gain an understanding of the structuring of the business. This invariably led the firm to buy materials and conduct other transactions without understanding the effect they had on cash-flow in the business. The Consultant recommended that it would be meaningless and inappropriate for the firm to implement marketing strategies designed to increase the trading o f the firm in the absence of any financial control mechanisms. It was recommended that the firm hire the services of a business and IT specialist to advise on how it can utilise its investment in an expensive computer to set up a financial control system on an easy to use and appropriate software package.

In analysing EGL's business activity, the consultant grouped the firm's activity into three main categories.

(i) CMT work done directly for multiples. This was the firm's main activity and it processed approximately 3,000 garments per week, averaging £3.00 per item. The manufacturing was farmed out on sub-contract basis to BBL and to two other Asian firms, and EGL specialised in sourcing, processing and administrating the orders mainly for Chelsea Girl, H&M and Principles. The level of returns of completed work or complaints were very low, and the buyers were generally satisfied with the quality of manufacture. The company however, averaged only 25 to 30p per garment for handling the contract. With the increasing work load, the firm was finding it difficult to keep track of orders, raw materials, accessories, and to maintain overall quality control checks on the factories commissioned to manufacture the orders. The consultant felt that once the firm has computerised its financial systems, it should progress to install a project management system that was widely available for this type of business. Although CMT work provided the firm steady flow of income, the consultant agreed with Mr Bhogal that the very low profit margins for the effort involved was not a viable strategy on which to build the business in the medium to long term.

(ii) Manufacturing on sub-contract basis and also for smaller independent retail chains. The biggest single problem in this area was that of cash-flow. Companies such as Littlewoods settled their accounts at the end of 28 days. An order worth £25,000 therefore pushed the firm's overdraft even higher. To alleviate this situation, EGL had recently secured business with independent retail chains such as New Look and What Everyone Wants who offer 7 days accounts. Orders from these firms of 4,000 garments a week at £4 to £4.50 per item became more attractive when the EGL sourced cheaper fabrics and accessories. The margins from this work were therefore much higher than CMT work. The company was looking to increase its activity in this market but felt it did not have adequate personnel and resources to administer the work.

(iii) Cash and carry wholesale trade. This side of the business started recently and there had been no attempts to actively promote it through public channels. Sales had been made to existing customers and their contacts through word-of-mouth recommendations. EGL generated approximately £1,500 per week from this activity and there was a stock of over 5,000 garments costing an average of £5.00 each. The consultant felt that there was potential to market this side of the business and that the firm needed assistance of a consultancy scheme to assist it achieve greater sales turnover and profitability. In the short term, however the consultant felt that the company was not ready to apply for the DTI Marketing Initiative and that it should be addressing the serious problems of managing the other aspects and systems of the business.

In March 1988, the firm hired the services of an IT specialist with a brief to set up an accounting/financial control system on the company's computer that could be operated by the office administrator. After four weeks, the IT consultant had set up the Sage accounting system, transferred all manual records of past eight months of trading and trained Miss Patel to use it on regular basis.

Months 16 to 20

Some major changes and decisions took place in the four months period from April 1988. BBL ceased trading but Mr Bhogal decided to retain the premises and manufacturing facilities. He rented the facilities to Newmax for £650.00 per week (payable to EGL). Newmax kept on most of the employees and started to manufacture their own CMT orders and to provide EGL a complete manufacturing service.

EGL moved to new warehouse premises in a nearby industrial estate. The company continued to operate with just three employees and on the basis of offering CMT, manufacturing for wholesalers and cash and carry services. The larger warehouse premises were refurbished to provide office area and a 1000 square feet space for operating the cash and carry business. But as in the past, the company continued to be very passive in its marketing effort and relied on reacting to enquiries and existing customers and wholesale cash and carry trade. The only area where the firm invested effort and resources continued to be the own designed range of products under the 'Esteem' label. Mr Bhogal persisted on pushing the range and the firm invested £1,500 in exhibiting its services and capabilities at the Harrogate Fashion exhibition. Although this in itself did not generate any leads for the own label products, the firm received several requests for taking on CMT manufacturing from High Street multiples.

Months 21 to 24

In September 1988, EGL had achieved a sales turnover of over £30,000 per month and the first year's trading accounts indicated that it made net profit of 9.8%. The cash-flow problems continued to inhibit the firm's ability to expand, but by the end of September, the firm had increased sales turnover in both CMT and cash and carry business. The more profitable activity of manufacturing for independent retailers was slow and the firm had done little to actively seek new business opportunities. In October, Mr Bhogal applied for the Training Agency's Option Three 'Managing Change Through Consultancy' scheme. After an initial visit by a Training Agency's officer, the firm was granted the consultancy help with marketing and managing change. A local consultancy firm was appointed to assist EGL with the identification of business opportunities for its range of own designed products. The consultants worked with the company for eight weeks and prepared a detailed business audit and a business plan that the firm could implement over the next year. The business plan contained a detailed marketing plan designed to help the company achieve its objective of increasing sales turnover from High Street multiples and by marketing the range of own products. The plan also showed the capital and other resources required in implementing the business plan. The consultants attempted to assist and train Mr Bhogal to begin the process of implementing the plan but there was great reluctance to raise the funds necessary and to make the changes in the management of the business.

In December 1988, the business and marketing plans were not implemented and Mr Bhogal did not have the skills nor the financial resources to begin the process of implementing change in the business. The firm continued to process the increased volume of CMT and cash and carry work. The company had started to over trade and lacked the capital and human resources to manage the three different activities effectively. The cash-flow problems continued and little use was being made of the computerised accounting system. Although the business was generating reasonable sale turnover, it was 'fire fighting' and struggling to exist as a viable business by depending on a small customer base for low margins and labour intensive work.