POSITIONING STRATEGIES IN THE PETROLEUM INDUSTRY: THE CASE OF ZIMBABWE

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ABSTRACT

The study sought to identify the positioning strategies to be adopted in order to push large volumes and survive in the petroleum industry in Zimbabwe.

In this study convenience sampling was used and 19 individual customers, 21 MBA student customers, 10 service station customers and 10 marketing executives were used as the research subjects. Questionnaires and interviews were used as research instruments. The study was delimited to the period 2009-20012to cover the period after the introduction of multiple currencies and also after the liberalization of the fuel industry.

The data was analyzed using excel spreadsheets and presented on tables, graphs and pie charts. The study showed that petroleum companies are positioned on customer value or price, product availability, product/ service quality, brand superiority and location of sites.

The research validated positioning as applicable to the Petroleum industry through empirical study and identified the strategies in use in the industry. The study has revealed that to resolve the product availability challenges, Petroleum companies should enter into forward deals with

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petroleum fuel refineries and some large commodity brokers so that fuel supply covering 6 months to 1 year is guaranteed. The fuel orders should be based on demand forecasting to ensure that the sites do not get dry resulting in customer inconveniences.

There is also need to have storage facilities for storing strategic stocks in case of a sudden rise in demand or a shock on the supply side. These measures should give petroleum companies who put them into practice some competitive advantage that will enable them to beat the competition and survive in the industry.

The issue of fuel margins according to the research findings may be addressed through smart partnerships with parastatals such as NRZ & NOCZIM whereby the fuel companies make use of these facilities and infrastructure. This leads to reduced depot running costs, improved product availability, spread overheads resulting in lower pricing, and increased sales volumes which makes a company the leading fuel supplier. The lower pricing has an effect of increasing customer value and hence increasing the demand for the company's products.

The margins may also be increased by using specialist distribution companies to distribute the product instead of using company own trucks which are expensive to run. Delta beverages in Zimbabwe use such a system to good effect.

Keywords

Deregulation, customer satisfaction, fuel margins, segmentation, targeting, positioning, forward integration

1. Introduction

There have been so many developments in the Petroleum industry in Zimbabwe in the past two decades with the coming in of indigenous/local players in an industry that had been previously dominated by large foreign multinational companies. The multinational companies, BP and Shell, Mobil, Chevron/Caltex and Total shared the market and they did not have serious survival issues. Following deregulation in 2007, the industry now has 75 registered players. The government deregulated the industry to bring in more players so as to alleviate the fuel shortages. In the year 2006 Energy and Power Development Minister Comrade Nyambuya reiterated that the deregulation of the oil sector was introduced as a stop gap measure to sustain the country's economy. The Minister added that the deregulation of the oil sector resulted in improved fuel supplies as significant inflows were recorded in the country. Deregulation has however resulted in stiff competition in the sector. The industry cake is now split among more players than before 2007. The persistent shortages in the sector as a result of foreign currency problems mean that the sector does not have an even flow of product for the nation. A report in the Daily News in January 2011 noted that fuel shortages, once common in Zimbabwe before the introduction of a monetary system of mixed hard currencies in early 2009, had returned in many parts of the country. The Daily News report adds that shortages were related to financial problems at the National Oil Company of Zimbabwe or NOCZIM, often accused of mismanagement or worse. The state entity according to the paper had been unable to import enough fuel from South Africa by road and rail, and from Mozambique, from which fuel flows through a pipeline along the so-called Beira Corridor. The demand for petroleum products although on the rise are below the 1999 levels when industry and other sectors were operating at full capacity. According to the PFC Energy report (2011) the Zimbabwe overall fuels market decreased by 66% from 1207128 kilolitres in 1999 to 412049 kilolitres in 2008. With the stable political situation and recovering economy however, Zimbabwe's fuel consumption is on the recovery path. Based on the CZI 2011 manufacturing survey, overall average capacity utilization in the manufacturing sector stands at 57.2% after dropping to less than 10% in 2008. The manufacturing sector is one of the major consumers of petroleum products especially diesel and oils for the machinery. That means the demand for these products also depended on industry capacity utilization. Zimbabwe is a landlocked country and Beira in Mozambique is the nearest port. Fuel is imported and transported mainly via the pipeline, although road and rail transport are also used.

Service stations and depots are owned mostly by the Multinational oil companies and the indigenous/local companies use leased infrastructure facilities or directly distribute to customer sites.

The cake to be shared by the fuel companies has shrunk as a result of the shrinking of the economy. Most industries are operating below normal capacity and although on the rise are below the 1999 levels when they were at their peak. In addition there are supply constraints as a result of foreign currency shortages. Further, deregulation has brought in more players to share the cake in a shrunk economy. To compound to these problems, the margins set by the government are very thin averaging 5 cents per liter. That calls for the pushing of large volumes to survive in the industry. Already some companies such as Power sales, Wedzera and others are no longer active because they could not stand the challenges in the industry. BP and Shell and Mobil have already disinvested as a result of the difficult environment in which Petroleum Companies are operating. Petroleum companies need to survive in the Petroleum industry. Like a chameleon, they need to adapt to their environment and come up with strategies that will enable them to survive. They need to be the suppliers of choice in the industry in order to push large volumes. There is need to identify positioning strategies that fuel companies should adopt in order to push large volumes and survive in the petroleum industry.

2. Literature review

According to Blankson and Kalafatis (2007) there has been no single universally accepted definition of the concept of positioning. Specifically, the boundaries of the concept are often not clearly defined and what exactly falls under the scope of positioning has not been sufficiently answered in literature and is still subject to heavy debate in the marketing community.

According to Fuchs (2008) positioning is traditionally discussed as part of the segmentation, targeting and positioning (STP) model which according to Kotler (2006) is considered to be the basis for all marketing strategy. The first step in this model is segmentation, which involves dividing a heterogeneous market into a number of homogeneous segments. Research has shown that the most successful companies are those which specialize and concentrate on a well-defined market with a thorough understanding of customer needs since it is this knowledge which drives all subsequent decisions. The route to success in target market selection is to focus the firm's (limited) resources (time, effort, money) onto a relatively small group of customers whose needs the firm can meet most effectively. This view is shared by authors Quinn et al., (2007), Hassan & Craft (2005) and Blankson and Kalafatis (2007)who further argue that the outcomes that stem from a successful market positioning and segmentation strategy are varied and include a reduction in competitive rivalry, pricing stability, protection against substitution and an opportunity to build differentiation. In that regard, Petroleum companies need to come up with segments that have similar needs and wants. Customers in different segments should have significantly different needs. To be served, these segments should also be in a position to be targeted through the marketing mix. The second step in the STP model is the target market selection. According to Kotler (2006) targeting involves assessing the various segments identified in the segmentation process with the aim of determining in which segments the company should compete. This assessment is primarily based upon the segment's overall economic attractiveness as well as the company's resources and objectives. This view is shared by Brooksbank (2010) and Manhas (2010) who further argue that positioning strategy may be broken down into customer targets; competitor targets; and competitive advantage. The idea is to go for a segment of the market where, by virtue of the company's distinctive strengths, it is able to satisfy customer needs better than (or at least as well as) its competitors. In that regard, Petroleum marketers need to exploit some competitive edge in their markets based on areas in which they are stronger than the competition. They should strive as much as possible to tailor their offerings to the requirements of the markets they serve. The objective is to have a differential advantage which is the different ways it will employ in competing with rivals in the chosen segment. For example, in a segment with poor customer service, it may compete on service quality.

The last step in the STP model is positioning, which logically follows after the appropriate target segment has been determined. According to Kotler (2006) positioning involves placing a brand in a way that the target market perceives it as different and superior in relation to competitors.

This view is supported by Keller and Lehmann (2006) who further argue that positioning is important as it sets the direction of marketing activities and programs, what the brand should and should not do with its marketing. Thus, the development of the marketing program should be linked to the positioning to ensure that marketing mix decisions are consistent and supportive.

As noted by Fuchs (2008) most researchers agree that positioning is a management activity that focuses on creating associations in the mind of customers relative to competitors. However, for other scholars such as Solomon, Marshall, and Stuart (2006), all marketing activities that potentially create or change associations in the mind of customers fall under the concept of positioning.

In that regard, petroleum companies need to come up with their customer focused value propositions which are tailored to meet the needs of their target markets. This may be made possible through reduced pricing enabled by sourcing from cheaper markets than competition. This is necessary to convince the customers to buy from them.

At the same time, marketing scholars also refer to positioning as an activity that takes place in the mind of consumers. As noted by Ellson (2004) in agreement with Manhas (2010) this was the view of the pioneers of the positioning concept, authors Ries and Trout (1986) who argued that positioning is a mere communication issue that involves manipulating consumer perceptions about a certain good or service.

Fuchs (2008) notes that, based on this latter perspective, positioning is a consumer concept rather than a management concept. However, it should be noted that although there are several differences between the definitions, they all basically share a perceptual component that positioning is something that should happen(s) in the minds of consumers. .

Kotler and Keller (2006) &Manhas (2010) share the same view that a positioning strategy results in the image desired in the mind of the customer; the picture the marketer desires the customer to visualize the company's offer in relation to the market situation and the competition. That means the company needs to offer products with specified benefits to specified customers or target market. The products should be better than those offered by the competition in specified attributes. There should be evidence why they are better and this message should be communicated to the target market. A clear positioning of the brand or product helps consumers to understand its purpose provided that the positioning is honestly done.

In that regard, petroleum companies should endeavor to have a good image in the marketplace. They should work on customer requirements and give customers value and good service to have a positive image in their mind. By designing their offerings to meet unique customers' needs that solve customer's problems, petroleum companies will be in a position to have a positive image in the market place. Customers will respond by giving value in return through buying from the companies. Petroleum marketers need to be in constant touch with their customers in order to identify their needs. They should then design customer solutions and benefits tailored to meet these needs and then deliver value to these customers.

Authors Blankson and Kalafatis (2007), Manhas (2010), and Zineldin (2001) share the same view that any definition of positioning has to account for the tangible as well as the intangible aspects of a market offering. The domain of the concept of positioning is concerned with the attempt to modify the tangible characteristics and the intangible perceptions of a marketable offering in relation to the competition. Positioning may be based on intangible attributes such as friendliness, reputation, flexibility, helpfulness and confidence.

This implies that for positioning to be complete, petroleum marketers need to look at both the tangible and intangible aspects of their market offerings.

Darling et al (2009) argues that a customer's perception of a market offering is paramount to successful market positioning and, to locate a meaningful offer in the mind of the consumer typically involves two steps. First, it requires the organization to establish an initial offer in the eyes of the consumer and second, there is a need to ensure that this offer is differentiated from the competition. Differentiation is achieved through the formulation of a market offering although the dimensions upon which this is achieved can vary. Darling et al. (2009) further argue that the co-ordination of these elements is of major importance to a successful strategic positioning strategy as the total value of the offering can be greater than the sum of the parts.

Hassan and Craft (2005) and DeBruyn&Freathy (2011) share the same view that positioning decisions are central to the development of a global marketing strategy and that companies with a favorable market position in some way meet the needs of actual and prospective customers. The authors note that, positioning can refer to the place a brand occupies in the marketplace and it can also be seen as how an organization wishes to be seen in a given market place, what its values are, and its overall image.

According to Blankson and Kalafatis (2007) there are conceptually three bases of positioning that can be distinguished. A positioning base comprises of a set of theoretically related associations or dimensions and constitutes a means to convey a differential advantage of a brand in consumer's minds. The three main groups of positioning bases are attribute positioning, benefit positioning and surrogate positioning which in turn consists of multiple alternative bases.

In that regard, marketers should design their offering to meet the image they desire in the market place. This may be done through the use of benefit and attribute positioning which solve problems and provide benefits to customers. Petroleum companies should strive to solve the needs of their niche markets and provide needed customer benefits. That way, they will be able to improve their image in the marketplace.

Kotler (2006) agrees to this theme and argues that effective positioning could use one or more of price positioning, quality positioning and differentiated benefit positioning.

In that regard, Petroleum companies may position themselves based on price; quality or differentiated benefits in line with attribute and benefit positioning. The choice of strategy will depend on competition and the chosen segment requirements.

Fuchs (2008) agrees with Blankson and Kalafatis (2007) that positioning bases are organized and collected in positioning typologies, which can be referred to as classification schemes of positioning bases. Several positioning typologies have been proposed in the literature and in general, positioning typologies are specifically valuable because they can be employed to operationalize the actual or intended positioning.

Fuchs (2008) adds that, a single positioning base or a combination of positioning bases forms the positioning strategy of a brand. In essence, a positioning strategy (intended or actual positioning) is defined as an attempt to move brands to a particular location within a perceptual product space and generally implemented to communicate a brand image and differentiate the brand from competitors.

According to Kotler (2006) since positioning is the art of selecting, out of a number of unique selling propositions, the ones which will get you maximum sales, companies are often advised to emphasize only a limited number of claims when positioning a brand, because using too many dimensions may lead to disbelief, confusion, and/or lowered memory. Confusion in particular has been described as the enemy of positioning, because consumers do not have a clear picture of the brand in their minds. Related to this, the human brain has only limited capacity to remember multiple brand associations and, therefore, the rule for positioning is to play one's own game and resist temptations to try to be all things to all people.

In that regard, petroleum marketers are advised to focus on pure positioning which does not confuse customers. It is necessary to focus on the chosen strategy and to avoid temptations to try to be all things to all people.

In this context, Chernev (2007) provides empirical evidence that consumers perceive brands that are positioned on one dimension (i.e., attribute) as superior on that specific dimension (i.e., perform better on that attribute) relative to a multiple dimension positioning option, even when the dimension is (exactly) the same for both options.

However, according to Boatwright et al (2008), communicating multiple attributes is more effective than communicating single-attribute information when the variation across attributes is relatively low, because people perceive the economic risk of complete information to be lower than of incomplete information. Communicating too little may create only a limited number of consumer associations, hence, the full range of differential advantages of the brand may be underestimated by the consumers. Instead of claiming either attributes or their consequences separately (single positioning strategies), marketers should try to combine these (hybrid positioning strategies), thus, highlighting the associations between attributes and their consequences (benefits) and/or benefits and values.

Petroleum marketers should take note that hybrid positioning brings to customers' attention the full range of differential advantages of the brand which may be underestimated by single positioning.

3. Methodology

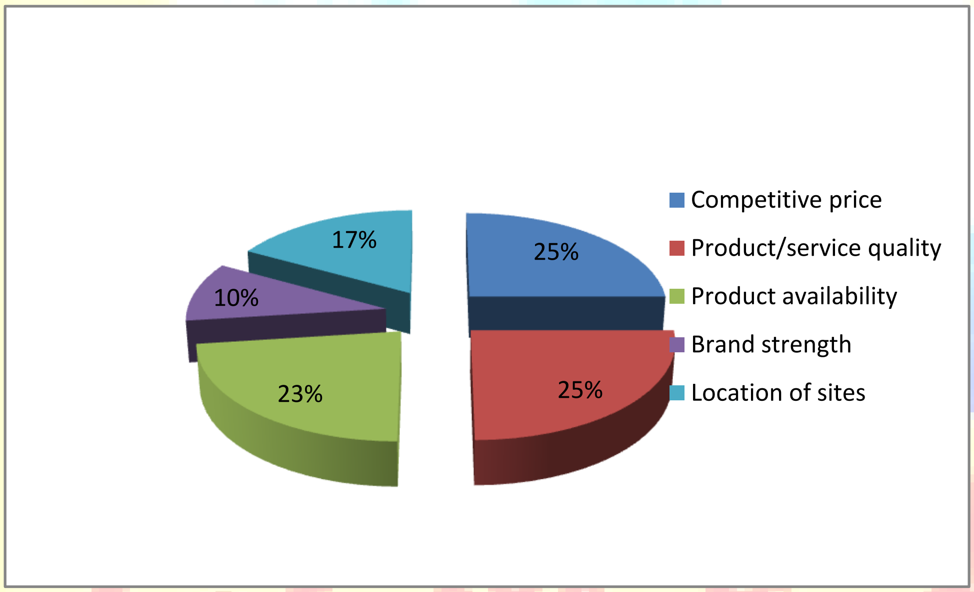
According to the Zimbabwe Ministry of Energy (2011) there are 75 registered petroleum companies in Zimbabwe. The petroleum companies in Harare were the ones chosen purposively. The fact that most companies are headquartered in Harare makes it possible that the findings can be generalised to the whole country. The study used the survey research design and utilised mostly descriptive statistics. The sample which was conveniently selected comprised 19 individual customers, 21 MBA student customers, 10 service station customersand 10 marketing executives. Data was collected through questionnaires, in depth interviews and observation. By visiting and taking time at service staations, the reseachers observed the behaviour of the users of the fuel. Secondary data was obtained from the fuel industry association and from other internal company documents.

4. Results

(a)Factors that inflenced the choice of brand for petroleum consumers

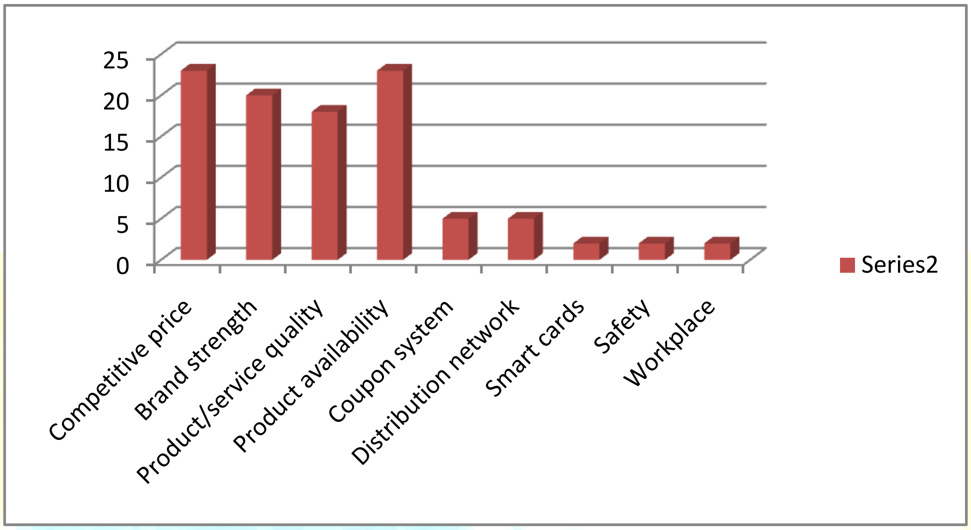
From the survey, price and service were the dominant factors that influenced the choice of a brand for consumers of petroleum products followed by product availability . Brand strength and location followed in that order. See figure 1 below.

Figure 1: Important attributes for consumers of petroleum brands



In that regard, customers desire quality products which should be served to them with good service. In the Petroleum sector today, there are quality issues with respect to green fuel which although cheap is not as durable in the tanks when compared to premium product which is not mixed with ethanol.

(b)Figure 2: Desirable attributes of a supplier of petroleum products

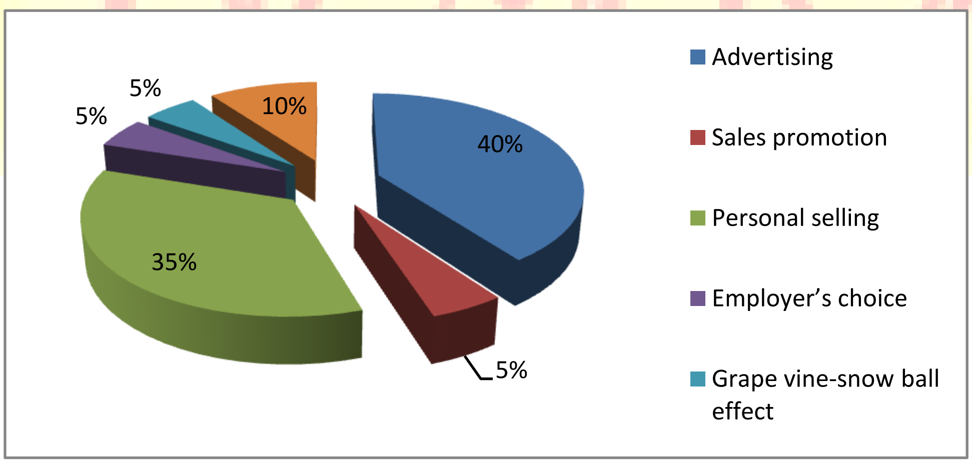


From the customers responses, the desirable mix is a competitive price for quality products and services,brand strength and product availability. These offerings should be communicated to them mainly through advertising and personal selling.

(c) **Modes of communication that influence petroleum consumers the most**

Most petroleum customers were influenced by advertising both print and electronic with personal selling also proving very influential.

Figure 3: desirable communication mixes by petroleum companies



5. **Conclusions of the study**

Positioning on attributes was a very powerful positioning strategy in the petroleum industry. Customers indicated that they wanted quality product at a good price. The product should be made available all the time and power made available in the form of generators in case of power outages. Consumers wanted convenience in the form of accessible service stations which are positioned for easy access. Customers wanted quality service from the players and the players should have strong brands that guarantee quality products. Customers looked at the reputation of a brand when looking for a supplier of petroleum products. They also expected intangible services such as politeness and friendliness at the sites and other services such as tyre pressure and windscreen cleaning. Customers were price sensitive as a result of the liquidity challenges in the Zimbabwean environment.

6. Recommendations

(a) Petroleum marketers need to be positioned based on customer value or price, product availability, product/ service quality, brand superiority and location of sites. Industry players outperform each other based on these attributes that influence perceptions and purchasing decisions.

(b) Industry players must redefine the positioning strategies so as to reflect and align to the situation on the ground. They may do this by sourcing from cheaper markets and passing on the good prices to customers. The situation on the ground is that customers want value. Each company could improve its mechanism of monitoring the competition by carrying out research.

(c) Each company should revise its pricing strategies as pricing strategies showed that they have the greatest influence on perceptions and decision making. A reduction on mark ups could be compensated or surpassed by increase in volumes. Marketers should ensure that products are always available and improve the product range to ensure a one stop shop. To resolve the product availability challenges, Petroleum companies are advised to enter into forward deals with petroleum fuel refineries and some large commodity brokers so that fuel supply covering 6 months to 1 year is guaranteed. The fuel orders should be based on demand forecasting to ensure that the sites do not get dry resulting in customer inconveniences.

(d) There is also need to have storage facilities for storing strategic stocks in case of a sudden rise in demand or a shock on the supply side. These measures should give petroleum companies who put them into practice some competitive advantage that will enable them to beat the competition and survive in the industry.

(e) There need for Marketers to improve their promotional strategies in order to positively influence the perceptions of customers.Communication is very important on carrying out positioning strategies.

(f) The issue of fuel margins according to the research findings may be addressed through smart partnerships with parastals such as NRZ & NOCZIM whereby the fuel companies make use of these facilities and infrastructure. This leads to reduced depot running costs, improved product availability, spread overheads resulting in lower pricing, and increased sales volumes.

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