

**ASHESI UNIVERSITY COLLEGE**

**TRADE LIBERALIZATION AND ITS EFFECT ON LOCALLY MANUFACTURED  
GOODS**

**THE CASE OF PZ CUSSONS GHANA LIMITED**

By

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## DECLARATION

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature:.....

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*I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by Ashesi University College.*

Supervisor's Signature:.....

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Date:.....

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## **ABSTRACT**

The trade liberalization policy was introduced in 1986 as part of Ghana's economic recovery program. Trade liberalization is a policy that seeks to remove all trade practices that impede the free flow of goods and services from one country to another. Practices that deter trade include tariffs, duties and other non-tariff barriers. This thesis discusses the impact that the policy of trade liberalization has had on the marketing of locally manufactures goods in Ghana using PZ Cussons Ghana Limited as a case study. Specifically, a comparative study of the marketing strategies and profits of PZ before and after liberalization was executed. Results of the study suggests that in the pre liberalization era PZ Cussons concentrated solely on sales management where efforts were mainly geared towards increasing sales output with little promotional effort. However, in the post liberalization period, PZ Cussons employed network marketing as its primary strategy to keep ahead of the competition. The introduction of trade liberalization created a competitive environment which positively influenced the marketing activities of PZ Cussons Ghana Limited. However, PZ's performance under the trade liberalization was under-mined by unfair competition from rival companies who evade taxes and engaged in bribery at the ports at the borders of Ghana. The research therefore highlights the importance of versatility in a company's strategy mix in order to thrive in the changing Ghanaian policy environment.

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## **CHAPTER 1**

### **1.0 BACKGROUND OF THE STUDY**

The growth and development of any economy typically depends on the level of development and dynamism of its industries. Governments in their attempt to foster growth initiate policies that will provide the needed support for the growth of these industries. In Ghana, the situation is no different. The government under the Provisional National Defense Council (PNDC) regime introduced the trade liberalization policy in 1986 to revive weak local manufacturing industries to enable them compete in the liberalized trade environment. Trade liberalization as used here refers to the deregulation or opening up of a market to free trade by abolishing restrictive trade practices (Witzel, 1999).

Major changes have been registered in the Ghanaian economy since the trade liberalization policy was introduced. The broad industrial sector (which consists of manufacturing, agriculture, mining, oil and gas extraction and construction) has picked up appreciably growing at an annual rate of 7.4% from 1986 to 1993 (Ghana-vision 2020 the first step 1996 to 2000). Unfortunately, growth in the industrial sector, though positive has not been uniform. Even the manufacturing subsector (beverage, food, textiles, pharmaceuticals, soap and detergents, rubber and plastics) that recorded significant growth rates in the period of liberalization has in recent years, experienced disappointing performance growing at an average rate of 4.68% between 1997 and 2006 (state of the Ghanaian economy review, 2006). Given the recent change in the performance of the industrial sector after strong performance in the post liberalization period, this



paper seeks to investigate how the trade liberalization policy influenced the performance of Ghana's manufacturing sector. In particular, the paper investigates how the profits and marketing activities of PZ Cussons Ltd (which is used as a case study) was, and is still being influenced by the trade liberalization policy.

PZ Cussons was formed on May 24<sup>th</sup> 1958 which was 28 years before trade liberalization policy was introduced. It produces beauty and pharmaceutical products which typically face stiff competition from abroad. This company has survived the challenges of trade liberalization and was even listed on the Ghana stock exchange on November 12<sup>th</sup> 1990. Since PZ continues to thrive fourteen years on after trade liberalization in Ghana, investigating what helped it to succeed before and after trade liberalization is useful information for the Ghanaian business community and for Ghana's development process.

This research makes a contribution to Ghana's development efforts because it seeks to determine and document how PZ has been able to survive and thrive despite the keen competition in the pre and post liberalization periods. The strategies used by PZ can be replicated by other companies in the Ghanaian manufacturing sector and might help stimulate growth in Ghana's mostly moribund manufacturing sector.

## **1.2 COMPANY PROFILE**

The original name of PZ Cussons was Paterson Zochonis Ghana limited before it was shortened to PZ Cussons. It was formed on May 24<sup>th</sup> 1958. Some of PZ Cussons main brands include toiletries (for example, Duck bar soap, Canoe and

Tempo, Imperial leather and Premier, Morning fresh liquid soap), electrical goods, nutrition products, cosmetics, beauty products such as Venus hair care, Cussons baby care products, medicaments (Robb and Camel) and other pharmaceutical products (Drastin, Alagbin, Zubes and Maladrin). Although its industrial base was established in 1969, PZ's trading office in Ghana opened in 1934. PZ started its expansion into healthcare and beauty products in the 1980's and 1990's and later opened its soap factory in 1996. The company was temporarily listed on the Ghana stock exchange on November 12<sup>th</sup> 1990 and had its official listing on August 23<sup>rd</sup>, 1991. Out of its 30 million authorized shares, 28 million have been issued and the company's stated capital is worth GH¢1.16million. PZ Cussons Plc, UK owns 90.24% of PZ Cussons Ghana.<sup>1</sup> Its head office is located in Tema.

### **1.3 STATEMENT OF THE PROBLEM**

Most foreign goods imported into the country are produced on a large scale. The large scale production leads to decreasing production cost per unit because of the benefits of economics of scale. As a result, prices of these imported goods tend to be much cheaper than their local substitutes in Ghana. This means that more of the imported goods are purchased than their locally available substitutes and this presents difficulties to a local manufacturer such as PZ in marketing their goods. Further, the superior technology and lower costs of production enables foreign firms to produce better quality and better packaged products since they usually invest a significant amount of capital in marketing.

With the liberalized environment, firms with improved production methods and efficient marketing programmes are able to increase their sales and for that matter, their profit margin by exporting their goods to other countries. The increased competition created by trade liberalization has compelled most firms to be more efficient by reforming their production methods and their marketing programmes to serve their customers better in order to remain in business. The truth however is that for firms with low capital investment and low capacity utilization, the liberalized environment appears to threaten their survival. Some firms have folded up while others are still battling to remain in business.

Beginning from 1934 as a small trading firm in Ghana, PZ has grown into a giant manufacturing company producing and marketing several pharmaceutical and health care products in spite of the strong competition. This thesis discusses how PZ Cussons Ltd has coped with the challenges emanating from the market liberalization policy.

#### **1.4 OBJECTIVE OF THE STUDY**

The objective of this study is to gain an in-depth knowledge of how the policy of trade liberalization has affected the marketing strategy and sales volumes of the different products of PZ Cussons a local Ghanaian manufacturer and how the company is dealing with the challenges posed by trade liberalization.

## **1.5 RESEARCH METHODS**

Using comparative analysis, this research seeks to find answers to the following:

1. How did PZ Cussons respond to the changing environment (pre and post liberalization eras).
2. What viable marketing strategies have contributed to the apparent success of PZ Cussons in the face of the stiff competition created by trade liberalization?
3. How does PZ Cussons handle its customers?
4. What are the unique problems inherent in trade liberalization?

## **1.6 DESCRIPTION OF THE DATA**

Data will be collected from two major sources. These are primary and secondary sources. The primary source of data collection will be carried out through unstructured interviews at PZ Cussons Ltd. In this case, a prepared questionnaire item will be administered by the researcher. This will enable the researcher explain questions that may confuse the interviewee. Quicker feedback can be retrieved in comparison to the scenario where a general questionnaire is employed. The secondary source of data collection will be information gotten from the British Council library, the Ashesi Library, the Trade Information and Documentation Unit (TIDU) of the ministry of trade, the internet, policy statements from the Ghana statistical services, Association of Ghana Industries, the trade industry, the Registrar General's department and The State of Ghanaian Economy Review

published by the Institute of Social, Statistical and Economic Research (ISSER), Legon.

### **1.7 SIGNIFICANCE OF THE STUDY**

1. This research will provide information that can help the Ghanaian government to map out strategies to salvage collapsing firms and encourage other thriving firms without reverting to trade protectionism.
2. This study will shed light on trade liberalization and its effects on locally manufactured goods.
3. This research will provide empirical evidence on the effect of trade liberalization on the manufacturing sector by serving as a blue print for future research and also as a reference material in the future.
4. This study can potentially assist new local producers to come up with marketing strategies that will give them an edge over foreign competitors.

### **1.8 LIMITATIONS OF THE STUDY**

In order for a more verifiable and robust result to be attained, all the manufacturing companies in operation prior to and after liberalization need to be studied. Using one manufacturing company as a case study could produce results that could be limited in scope. The findings of this study should therefore be interpreted and used within this constraint.

Given the diverse nature of the topic being discussed, other multi varied analysis techniques such as multiple regression analysis could contribute to providing more compelling evidence. This approach however could not be used because of lack of data. These limitations notwithstanding, the study contributes to knowledge in the area of trade liberalization and its effects on the performance of local Ghanaian manufacturing industries.

## **1.9 ORGANIZATION OF THE STUDY**

The report of the research will be organized into five main parts or chapters:

CHAPTER ONE -Introduction to the project

This will cover statement of the problem, objectives of the study, significance of the study as well as the research methods that will be used for the study.

CHAPTER TWO- Literature review

This section summarizes and critically analyzes contributions that have been made by previous researchers on the theme. Pertinent issues concerning trade liberalization are highlighted.

CHAPTER THREE- Research methods

The main concerns of this area will include an explanation of the methods used, assessment of the target population, vis-à-vis the sample research instruments and data collection.

#### CHAPTER FOUR- Discussion of the Results

Results from data collected will be presented with graphs and tables and analyzed.

#### CHAPTER FIVE-Conclusions and Recommendations

Summary, conclusions and recommendations will be drawn at the end of the study.

## **CHAPTER 2**

### **2.0 LITERATURE REVIEW**

#### **2.1 DEFINITION OF TRADE LIBERALIZATION**

Trade liberalization refers to the deregulation or opening up of a market to free trade by abolishing restrictive trade practices. (Witzel, 1999) Available literature on trade liberalization analyses the effects of the liberalization policy on trade, industry and imports; more especially on industry and imports. Merits and demerits of liberalization within the context of productivity and employment are also discussed in detail. This study will use such findings as a background to discuss the marketing of local goods in relation to liberalization. This literature review is organized under different subsections in order to separately highlight the differences in the effects of trade liberalization on the Ghanaian economy from the effects of trade liberalization in general as captured in the literature.

#### **2.2 LITERATURE ON TRADE LIBERALIZATION IN GHANA**

Trade liberalization has not been adopted only in Ghana but in a number of countries across the globe. Major contributions to the literature have been made by several authors including Domberger (1979, 1980, 1981) who focused on England, Kardasz and Stollery (1988) who focused on Canada, EnCouna and Michael (1986) who focused on France and Sahaanan and Feinberg (1995) who limited their study to United States of America. These studies investigated the effects of trade liberalization on exports, imports as well as employment in their respective manufacturing industries.



In contrast, there are only a few empirical studies in the context of developing countries. These limited empirical studies in general look at the effects of trade liberalization on domestic prices in developing countries. These analyses are categorized into three sets of studies.

The first group of studies is largely based on cross sectional data and examines whether or not trade liberalization has led to reduced price-cost margins. This first group consists of four different studies funded by the World Bank. These studies were conducted by Foroutan (1992) and Levisohn (1993) in the case of Turkish manufacturing, Harrison (1990), in the case of Cote D'Ivoire and Grether (1992) in the case of Mexican manufacturing. These studies intended to provide evidence of the competitive effect of trade liberalization on domestic price. They found an affirmative answer and this evidence may be interpreted as indirect evidence supporting the competitive effect of trade liberalization on domestic prices. However, these studies were mainly concerned with determining whether or not trade liberalization led to a reduction in price-cost margins (price dynamics) without paying much attention to the role of marketing strategies and how the policy of trade liberalization has affected or changed the domestic company's marketing strategies or use of its marketing mix elements in order to gain a competitive edge.

Another short-coming of the studies mentioned above is that, they are largely based on various cross sectional data from the early and mid 1980's through the mid 90's so data was limited since few countries had trusty data. Further, when these studies were being conducted, only a limited number of countries were

selected in comparing whether or not trade liberalization has led to a reduction in price–cost margins although the results were typically generalized to be representative of the whole region. For example, Cote d’Ivoire’s results were assumed to be representative of the whole of Africa; Turkey’s results was also assumed to be representative of the European manufacturing sector and Mexico’s results were assumed to be typical of the North American sector. Therefore, the coverage of countries in these studies (Turkey, Cote D’Ivoire and Mexico) is quite limited. One would argue that, it seems farfetched to use one nation to draw conclusions on price-cost levels for their respective continents. Hence, the generality of their conclusion may be subject to question.

The second group of studies uses time series to examine the pricing behavior of manufactured goods during trade liberalization. These include the study by Carbo and McNelis (1989) as well as two studies by Yang and Hwang (1994, 2001a).

The third group of studies includes the second study of Yang and Hwang (2001b). This study uses static panel data for eighteen manufacturing sectors to show that there was a restraining effect from import competition on domestic prices in Korea and that, import competition does not only affect the profit rates in developing countries but price behavior as well.

While interesting, these studies only examine the response of domestic prices to changes in external or import prices during the period of trade liberalization but not what happens to the domestic manufacturing industries. In studies such as that conducted by Yang and Hwang (2010b), one can examine whether the response of domestic prices happens to coincide with the stated episode of trade liberalization.

However, since short of a difference in difference analysis, it is difficult to control the other factors already existing before and after trade liberalization, it is difficult to glean from these studies what the true competitive effect of trade liberalization has been. On the other hand, majority of these studies which come from both developed and developing countries fail to consider how the marketing of locally manufactured goods has been affected by the forces of trade liberalization.

There is an obvious need in the literature for a comprehensive assessment of how marketing activities have been shaped by the effect of import liberalization in developing countries, which pursued trade liberalization from the early 1980's through the mid 1990's, the period during which more serious import liberalization has been implemented. Using PZ Cussons, a Ghanaian company as a case study, the current study makes a contribution to the literature by analyzing how the different marketing strategies and goods produced by PZ has been impacted by trade liberalization in Ghana.

Trade liberalization policies in developing countries are usually the result of a requirement by the World Trade Organization (WTO) and the General Agreement on Trade and Tariff (GATT). The Ghanaian manufacturing sector has been the subject of various shocks and policy related changes before, during and post liberalization.

During the import substitution period (before 1986), the manufacturing sector evolved through a highly regulated environment. These controls had direct effects on how the manufacturing sector used resources. The resulting low degree of competition caused the quality of Ghanaian products which were targeted at the domestic markets to fall below international standards. The trade liberalization

policy was therefore to remove all restrictions on imports and encourage export led growth activities that would lead to Ghana's integration into the global economy.

Some economists have argued that the Liberalization policy helped stimulate growth in most sectors of the economies of developing countries that have implemented this policy including Ghana. Ever since the policy was introduced in Ghana, the annual index of all manufacturing sectors has been rising steadily from 54.2% in 1986 to 78.8% in 1994 (statistical Service Quarterly digest, March, 1995). Unfortunately, growth within the industrial sector (manufacturing, mining, construction, agriculture, etc.) has not been uniform. Some manufacturing firms in the manufacturing sub-sector are still battling hard to remain profitable due to increased competition from the imported products of well established competing firms outside. Even though at the macro level, the annual index of manufacturing on the whole has been rising over the years, the manufacturing sub-sector has experienced the worst performance, shrinking from 4.2% in 2006 to negative 2.3% in 2007 (State of the Ghanaian Economy report 2007). It must be noted that such high growth rates in the manufacturing sector that were recorded soon after the liberalization period is attributable generally to improved capacity utilization arising from improved inputs, raw materials and spare parts (State of the Ghanaian Economy report 2007). Most of these spare parts and raw materials were brought into the country with minimum restrictions following the deregulation of the import licensing and the foreign exchange policy (SSER, 1993). This was reported in the Institute of Statistical, Social and Economic Research (ISSER) book titled policies and options for Ghanaian Economic and Development (1993);

As a further step in liberalizing trade, the government abolished the requirement for importers to obtain import licenses which allowed them access to foreign goods. This policy in conjunction with the decentralized foreign exchange policy spearheaded an expansion in trade especially in imports. (Page 53)

For over two decades, before trade liberalization, the inability of Ghanaian firms to obtain adequate amount of imported raw materials, spare parts and other inputs was identified as the dominant reason for the low capacity utilization and minimal performance. With such promising growth rate immediately after liberalization, one would have expected a continuous but uniform growth for the years ahead. The question then is why the decline in average growth rate in recent times? The reality of the matter is that, even though liberalization has enhanced trade by injecting competition into the business environment, it has also created some problems which are noted in the Ministry of Trade Document titled Review of Ghana's Trade Liberalization Policy

For those firms whose products face direct competition from imports e.g. Textile and Apparel, the adjustment program has been particularly painful; however, this was expected to occur as a result of trade liberalization, prices of their output declined while prices of their imported inputs increased with the devaluation of the cedi. (Page 3b)

Import competition has therefore been a major headache for most local manufacturing firms such as PZ. The problem is further worsened by the fact that many firms in the import competing sub-sector do not have the necessary capital to

improve their technology. The firms are therefore saddled with obsolete machinery, outdated technology and inadequate management skills. This position is highlighted by the State of the Ghanaian Economic Review 1992, page 119. According to the report, industries that have not performed well are those that face foreign competition or depend on imported inputs. The state of the Ghanaian Economy (2006) while acknowledging the challenges of the manufacturing sector, from the 1990's attributed the sluggish performance of the manufacturing sub sector in 2005 and beyond to several factors. These include the energy crisis which began towards the 3<sup>rd</sup> quarter of the year and negatively affected by manufacturers who could not afford to invest in power generators. The rapid increase in oil prices also played a major role in reducing manufacturing output especially for those dependent on petroleum power for production.

These constraints prevented most manufacturing firms from expanding to take advantage of economies of scale. Government intervention, in helping to address the challenges of trade liberalization must be urgently considered as that will help reduce the challenges and create a level playing field for equal competition. Dr. Addison, former president of the Association of Ghana Industries (AGI) shares this view in the daily graphic (1997) as expressed in the following:

Definitely, products of these countries have a competitive edge for quality and durability. It is under these circumstances that the industry is appealing to the government to support it to achieve the same level of technological development so as to catch up with the giants of the West and tigers of the East.

It is quite clear that without well thought out government intervention, further trade liberalization will deepen the woes of firms that are already finding it difficult to keep their heads above water. This is consistent with economic theory because in importing countries domestic producers of the same good lose significant surplus (Mankiw, 2004). The concept of liberalization may be beneficial not only for making firms competitive but may also be beneficial for consumers. This is because through increased competition that results from liberalized markets, consumers enjoy reduced prices and get access to a wide range of substitute goods to choose from thereby improving standards of living.

### **2.3 MARKETING FUNCTIONS AND THEIR IMPORTANCE TO TRADE LIBERALIZATION**

Marketing forms an integral part of most businesses. Marketing involves more than just the buying and selling of a product (American Marketing Association or AMA, 2004). Indeed, good marketing has become an increasingly vital ingredient for business success. Marketing can be defined as an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stake holders (American Marketing Association or AMA, 2004).

It is important to note that many of the marketing definitions are narrow in scope and in content. For instance, the definition given by AMA above, fails to consider the social, psychological as well as the importance of the customer in the exchange of goods and services. For the purpose of this research, a modern definition that looks at marketing in a broader perspective with a customer focus

shall be considered. One of such definition is given by Kotler and Keller (2006) as a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

This definition is preferred because, apart from considering both the social and business aspects, it sees marketing as involving both individuals and groups. Most importantly, it views marketing as a concept that involves the process of value creation rather than an end point function of selling and salesmanship. In a competitive environment, businesses that take marketing to mean selling, risk being thrown out of business. In fact, marketing is not the same as selling because; marketing activities begin even before the product to be sold is produced. Levitt (1960) clarified the distinction between marketing and selling as;

Selling focuses on the need of the seller, marketing focuses on the need of the buyer. Selling is pre occupied with the seller's need to convert his product into cash; marketing is preoccupied with the idea of satisfying the need of the customer by means of the product and the whole cluster of things associated with creating, delivery and finally consuming it.

The current research work endorses Levitt's (1960) position on marketing in view of marketing. Yet the role of marketing in the Ghanaian setting has been quite different. During the period before liberalization the domestic Ghanaian market was essentially comprised of protected home trade where sellers dictated market conditions. Under such conditions, marketing played a less important role as Sorenson (1978) describes;



Subject: The view of marketing

Sorenson (1978) endorses Levitt's position on the view of marketing

He wrote:

How can we have marketing problems! The products we can produce are few and the total supply is given; price, in principle, is a controlled cost plus price, approved by prices and income boards; promotion is not necessary because demand is higher than supply: but the buyer is more than willing to come to the factory door to pick up the good.

The above rightly paints the country's trade scenario and how marketing was handled by local entrepreneurs before trade liberalization. However, in countries where trade was already liberalized and competition was the order of the day, marketing was in full force. It must be pointed out that, even though the selling approach is relevant in some circumstances, it is not appropriate in current times considering the dynamic developments in global trade that have been partly caused by trade liberalization, changing technology, customer environment and heightened competition. This view is shared by Kotler (2006) in the following commentary

Subject: Kotler (2006) recognizes the importance of relationship marketing

The market place is not what it used to be. It is radically different as a result of major, sometimes interlinking societal forces that have created new behaviors, new opportunities and new challenges caused by changing technology, globalization and heightened competition. Successful companies

are therefore those that have adopted the relationship marketing approach to get their goods to their customers.

Gummesson (1999) while endorsing the strong values of relationship marketing, pointed out that, the key goal of relationship marketing is to build a mutually satisfying long-term relationship with key parties like customers, suppliers, distributors and other marketing parties in order to earn and retain their businesses.

This research work therefore fully endorses the views of the scholars who have advocated that, marketing be seen as a broader concept that spans all value creating activities that a firm performs so as to deliver value and customer satisfaction. This is a sure way of gaining survival and competitive edge in a liberalized trade environment which PZ Cussons and for that matter Ghanaian firms should take note of. This research seeks to explore the specific marketing activities that PZ Cussons adopted and continues to adopt in order to beat the challenges that trade liberalization has posed over the years.

## **CHAPTER 3-RESEARCH METHODS**

This chapter describes the methods and procedures that were employed to gather pieces of information (both primary and secondary data) for the study. It discusses research design, the population research instruments and data collection techniques.

### **3.1 RESEARCH DESIGN**

Case study usually deals with the study of social phenomena through the analysis of a particular set of circumstances. The case may involve individuals, groups or departments within the organization. Everything relevant to the case is studied in an attempt to make detailed analysis. PZ Ghana Limited was therefore studied to access the effects of trade liberalization on Ghanaian industries and also identify the marketing strategies that the company has adopted over the period.

### **3.2 POPULATION**

The management and staff of PZ Ghana Limited form the population of the study. In this investigation, studying the entire population was inappropriate as it would be time consuming and quite costly to attend to all the elements forming the population. In view of the limited time given to work within, an appropriate sample was therefore chosen to suit the study.

### **SAMPLING METHOD**

3.3 A purposive sampling method was chosen. Here, the researcher deliberately selects the key elements of the population. This method is preferred because;

gathering data from all the subjects that constitute the entire population is quite difficult. A sample size of twelve was chosen for the study. The twelve respondents formed the representative sample for the study, since their selection was based on their positions as either supervisors or department heads; they stand a greater chance of being selected than others and hence formed a non-random sample. The representatives were;

The marketing manager

The product manager

The production manager

The sales manager

The accounts supervisor

The cashier

The public relations officer

The officers in charge of stores

### **3.4 E-MAIL AND TELEPHONE INTERVIEWS**

E-mail and telephone interviews were also used to assemble data from respondents who were not available for upfront or face- to – face interviews. Data was collected based on the following criteria or conditions;

**Sustainability** - the ability of the data collected to suit the main purpose of the study

**Reliability:** the ability of the data collection method to gather data that is accurate, precise and applicable to the purpose of the study.

**Adequacy:** the ability of the data collection method to gather data that can be quantified for measurements.

### **3.5 RESEARCH INSTRUMENTS**

A prepared questionnaire of thirty items was administered through personal interviews. Such an approach aided in the clear explanation of most of the questions. This helped to generate adequate responses which could not have been captured had "normal style" (this involves the distribution of a set of questionnaires to a certain target group for further analysis.) way of administering questionnaires been used.

Administering the questionnaires through personal interviews avoided a situation where a good number of respondents fail to respond either because they forgot soon after the questionnaire items were administered, or misplaced the questionnaire items altogether. To this end, an exercise have could have taken several weeks to complete, lasted only two weeks.

The approach also gave the researcher the opportunity to ask other relevant questions that were not captured in the questionnaire but the responses which proved quite useful to the study.

The major parts of the questionnaire are:<sup>2</sup>

Marketing prior to trade liberalization

Marketing after trade liberalization

Customer service

Channel of distribution

Conclusion

### **3.6 DATA COLLECTION**

Data gathered for the study were from both primary and secondary sources. The primary sources of data were collected from PZ Ghana limited. The secondary data on the other hand were collected from various sources. These include the Ashesi library, British Council library and the institute of statistical, social and economic research (ISSER) library. Some pieces of information were obtained from the Trade Information and Documentation Unit (TIDU) of the ministry of trade and industry. Other valuable information was gathered from interactive business radio programs and news paper publications.

### **3.7 VALIDITY AND RELIABILITY**

The data collected has a strong foundation and hence reliable. This is premised on the fact that the study did not consider the identities of respondents. More so, the respondents were assured that any information given out would be

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<sup>2</sup> See Appendix II for more details

treated with utmost confidentiality. Respondents therefore felt free and willing to offer fair and honest responses to a number of questions that were put to them.

Also, the researcher's style of collecting information through interaction with the respondents encouraged frank and unbiased responses. In addition, a number of research methods were used before arriving at pieces of information provided in this research.

### **3.8 DATA ANALYSIS**

Data analysis runs through the whole study, and not limited to a single chapter. Of the analysis made, discussion and descriptive methods of analysis were used. Additional use of tables, ratios and bar charts were made. A bar chart was used in analyzing sales and profit levels since the introduction of trade liberalization into the Ghanaian economy before and after trade liberalization Ratios of net profit to sales were used in trend analysis. This is because; the raw sales figures have inflation components which do not give a true picture of performances. Profit to sales ratio was used and this portrayed a more realistic picture for analysis. (see appendix 3).

## **CHAPTER 4**

### **4.1 Marketing Activities Prior to Trade Liberalization**

The responses given by the respondents disclosed that even though PZ faced competition domestically from the Delta group and Nestle Ghana Limited, the market landscape was largely one of a sellers' market in which the volume of the

goods that was supplied was quickly consumed by customers. Major emphasis was then on sales management whose efforts were mainly geared towards increasing sales output with little promotional effort. This was because the domestic market was not competitive due to the era it found itself (trade protectionism).

#### **4.2 POST LIBERALIZATION ERA**

The implementation of the trade liberalization policy injected strong competition into the domestic Ghanaian market landscape. In responding to this development, the marketing activities of PZ have been modified over the years, moving from a sales management approach towards a customer focused one. In the past (i.e. trade protectionism era), sales department played a leading role in the marketing of PZ products.

Even though the sales department continues to play an integral role, the creation of a marketing department with a substantive marketing head who reports directly to the marketing director gives an indication that the marketing functions have been given added impetus.

Currently the promotional element of the marketing mix has also been given a prominent push (unfortunately, request for figures on promotional expenditures was turned down). The marketing manager conceded that the promotional expenditure in real terms has increased over the years giving a reflection of how competitive the domestic market has become in view of the liberalization regime.



### **4.3 MANAGEMENT OF MARKETING MIX**

#### Promotional Function

No marketing program can succeed without effective communication. The communication or promotion component plays three vital roles which are (i) providing the needed information and advice, (ii) persuading the target customers (of the merits of a specified brand or service product) and (iii) encouraging them to take action at specific times. It will provide information that will assist customers in making a decision to purchase a product or service.

Promotion may include specific activities which may include monetary incentives. Promotional activities are often designed to stimulate immediate trial purchase and to encourage consumption when demand is low (Lovelock and Writs, 2007). The promotional function falls under the marketing department. The promotional function which until 1986 was handled loosely by the sales department is now more professionally organized by the marketing department. The revived promotional strategies are aimed at further strengthening PZ's effort at penetrating into new markets to widen its customer base and consequently increase its sales turnover. Such promotional activities include organizing raffle competitions at the national, regional and district levels, sponsoring sporting activities as well as popular radio and television programs. Additionally, the company uses mass and personal selling approaches to promote its products.

Personal selling is a process of helping and persuading one or more prospects to purchase a good or service or to act on any idea through the use of an

oral presentation (Boyd, Walker, Mullins, and Lasrreche, 2002). This is mainly done at PZ Cussons by the sales representatives who periodically contact PZ's major distributors on one-on-one basis (either by door-to-door or home demonstration parties, personal telephone conversations) to either market their new products or explain new developments on the domestic market. Some forms of mass selling that PZ employs includes the following;

Radio and television advertisement

The use of bill boards

Posters

Transport advertisement

Souvenirs like key holders, pocket calendars, etc.

Diaries and stickers are given to free distributors.

#### **4.4 Distribution**

Distribution involves getting products or service to the right people at the right time with exceptional concern for profit and effectiveness. The distribution function involves how the products reach other parts of the country, especially the remote areas. This is jointly handled by the marketing and sales department. In terms of geographic distribution, the company has zoned its total market into eight sectors across the country. These sectors are;

The northern sector

Ashanti sector

Brong Ahafo sector

Eastern sector

Volta sector

Western sector

Central sector

Greater Accra sector

Apart from Ashanti and Greater Accra that have their depots located in Kumasi and Accra respectively, the remaining six sectors do not have depots. The Kumasi depot serves Ashanti, Northern and Brong Ahafo sectors while the Eastern, Volta, Western and Central sectors are served by the Accra depot. The company's channels of distribution are show below;

PZ→ Wholesaler→ Retailer→ Consumer

PZ→ Distribution partner →Wholesaler→ Retailer → Consumer

PZ → large retailer → Consumer

#### **4.5 Mode of delivery**

Except for Accra, where company vans deliver goods to major distributors, distributions to other sectors are done by third transporters contracted by

distributers. Goods are normally delivered upon the receipt of purchase orders from distributers.

#### 4.6 Product

Although a greater premium is now placed on the promotional function of the marketing mix elements as a result of competition, PZ's commitment to serve its customers with very high quality goods is still high on the company's agenda. Through market research and the maintenance of close contact with customers, the company carries out customer survey to ensure that customers' preferences and needs are taken care of in the making of the product. PZ does not go into competitive pricing because the company believes that, the most suitable way of maintaining and winning additional market share is to improve product quality in terms of taste, form, color, size, function and packaging. These products have been modified and made better over the years to appeal more to the Ghanaian market, hence are competing tightly with their rival products. The various lines of the companies with its rival products are shown below (source-student field research);

**Table 4.1 RIVAL PRODUCTS OF PZ CUSSONS GHANA LIMITED**

PZ PRODUCT	RIVAL PRODUCT
Pharmaceutical: Drastin, Alagbin, Zubes	Efpac, Rapinol, Panacin
Medicament: Robb, Camel	Dettol, Savlon, Guardian

Healthcare: Venus, Imperial leather, Premier	Dark and Lovely, soft and beautiful, Geisha, Lux
Baby care: Cussons Baby care	Johnsons Baby Products
Laundry Soap: Duck soap, Canoe, Tempo	Key soap, sunlight bar soap
Liquid dish wash: Morning Fresh	Sunlight liquid soap

#### **4.7 Production Levels, Sales Levels and Marketing Budget**

This researcher obtained information on the above with much difficulty as some officers of the company were not willing to give out such data on the grounds that it is private information that should not get to the public domain for their competitors to study. Apart from the marketing budget which the marketing manager disclosed that management allocates 5-6% of the company's annual budget to marketing, the production and sales were initially turned down by the sales and production departments. These pieces of information were needed to make comparison to identify and establish any significant trend since the introduction of the liberalization policy.

After several visits of pleas and appeals, the marketing department made available published accounts from 1985 to 2008. The published accounts indicate sales figures, cost of sales and profit levels. The sales values had some inflationary

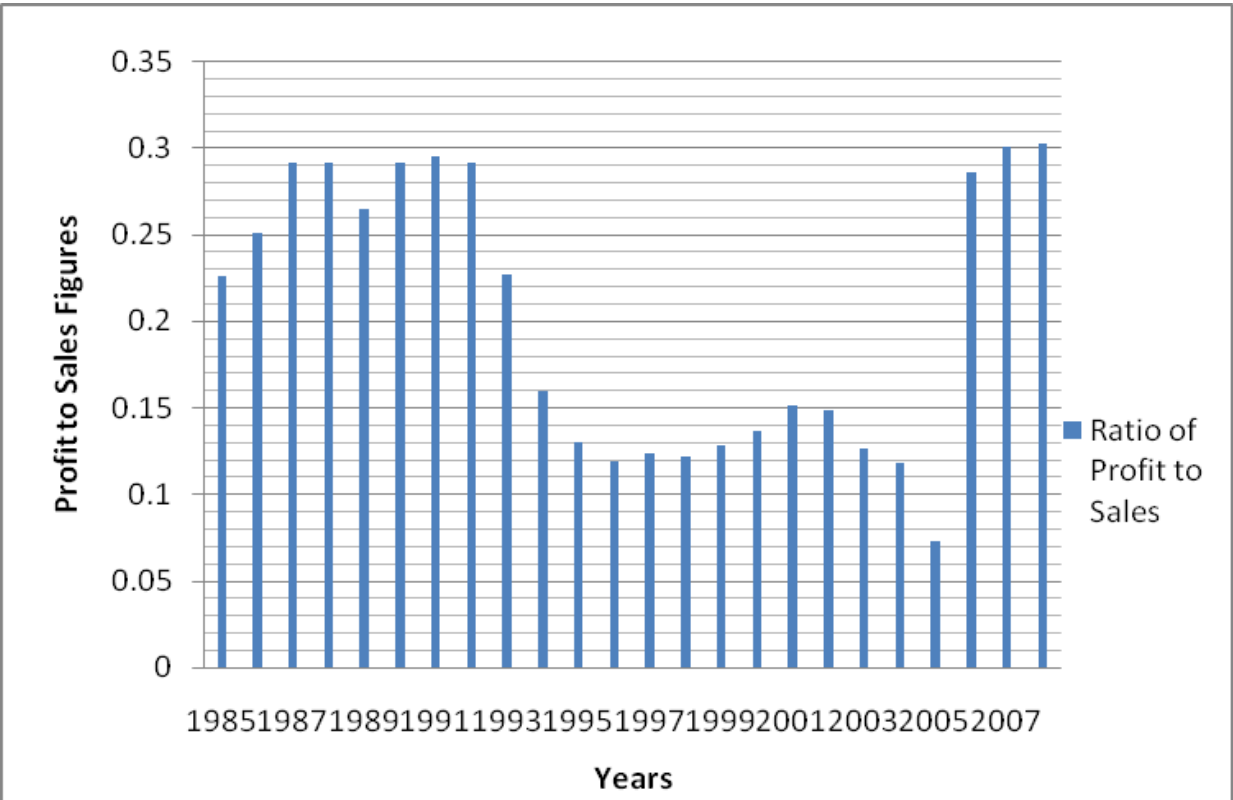
component and so to make for clearer analysis and identification, ratios like profit to sales and cost of sales to sales were extracted. This information is provided in

**4.8 Analysis**

SOURCE: Annual Accounts of PZ Ghana Ltd lodged with the Ghana Stock Exchange

Data could only be retrieved from 1985 as most of the company’s sales records are destroyed prior to the 1980’s.

**Figure4.1 GRAPH OF PROFIT TO SALES LEVELS OF PZ CUSSONS GHANA LIMITED**



It can be observed from the table in appendix 2 that sales values have generally been increasing annually in absolute terms. Thus in 1985, when there was no liberalization, the company registered an annual sales of GH¢62,634. When the

trade policy was implemented in 1986, annual sales increased to GH¢74,564. From GH¢74,564 in 1986, sales increased in absolute terms in the succeeding years registering GH¢42,775,342 in 2008.

**Table 4.2 RATIO OF PROFIT TO SALES LEVELS OF PZ CUSSONS**

year	sales (ghc)	cost of sales ghc	ratio of cost of sales to profit (ghc)	ratio of profit to sales	
1985	62634	48490	0.774180158	14144	0.225819842
1986	74564	55845	0.748953919	18719	0.251046081
1987	88766	62911	0.708728567	25855	0.291271433
1988	105674	74898	0.708764691	30776	0.291235309
1989	122803	90250	0.734916899	32553	0.265083101
1990	149765	106142	0.708723667	43623	0.291276333
1991	178292	125630	0.704630606	52662	0.295369394
1992	212252	150428	0.708723593	61824	0.291276407
1993	272327	210415	0.772655668	61912	0.227344332
1994	409306	344109	0.840713305	65197	0.159286695
1995	803960	699248	0.869754714	104712	0.130245286
1996	1403489	1236445	0.880979473	167044	0.119020527
1997	1989281	1743532	0.876463406	245749	0.123536594
1998	3502505	3074707	0.877859418	427798	0.122140582
1999	3807097	3317009	0.871269894	490088	0.128730106
2000	4095734	3535811	0.863291171	559923	0.136708829
2001	8102779	6872980	0.848225035	1229799	0.151774965
2002	9882564	8414513	0.851450393	1468051	0.148549607
2003	14959658	13072786	0.873869309	1886872	0.126130691
2004	17382392	15323650	0.88156164	2058742	0.11843836
2005	19597980	18158477	0.926548399	1439503	0.073451601
2006	22376151	15972183	0.713803862	6403968	0.286196138
2007	29129720	20372213	0.699361786	8757507	0.300638214
2008	42775342	29810490	0.69690828	12964852	0.30309172

These figures may be deceptive in analyzing the real performance of PZ and it will therefore not be fair to conclude on the basis of these raw sales figures that liberalization has promoted or enhanced the sales fortunes of PZ Ghana Ltd. This is because the figures include inflationary component which has been due to the high cost of imported inputs arising from the deteriorating value of the cedi. To obtain a fairly accurate picture of the company's performance, the cost of sales to sale ratio or profit to sales ratio will be used.

Although there are no industry averages of Ghana's manufacturing sector to compare to the above figures, they at least provide a company sales trend. More so because all the values used in the ratios are subject to inflationary conditions, the ratios provide a fairly realistic picture.

It could be observed from the table that over the years, the ratio of cost of sales to sales has been rising on the average. For instance the ratio of cost of sales rose from 0.75 in 1986 to 0.92 in 2005 and thereafter fell marginally to 0.70 in 2008.

Generally speaking the ratio of profit to sales shows that the company has been having a fluctuating profit performance over the past 25 years. For instance from 23% in 1985, the company enjoyed an average growth rate of about 28% in sales from 1986 through to 1992. The company however suffered a decrease in sales from 1994 making an average growth of 13% through to 2004. From 2005, the near 7% sales growth phenomenally increased to 30% in 2008.

For a clearer assessment, the profit to sales ratio in percentage terms is presented graphically in a bar chart. The ratio of profit to sales is expressed in percentage



terms on the y-axis while the corresponding years are plotted on the x-axis. The bar chart provides a pictorial proof of the real performance of PZ in the table below.

#### **4.9 Procurement of Raw Materials**

PZ obtains its raw materials for production from both local and foreign sources. PZ obtains its raw materials, externally from Europe, Asia and Africa depending on the type of product. The centralized purchasing office in the United Kingdom obtains the raw materials and distributes them to the various factories or branches upon request. Locally, PZ obtains its raw materials from Ghanaian suppliers once the quality of the materials meet the company's specification. Purchasing from various suppliers may be a means of ensuring competitive supplies. In other words, since the suppliers are many, they would be competing amongst themselves by offering PZ Ghana the best deal in terms of low prices.

#### **4.10 Relationship with Distributors**

The marketing manager of PZ Cussons describes the relationship with principal distributors as very good and one built on trust. The company's sales representatives make periodic visits to major distributors and forward any special problems and needs of distributors to management for redress. Besides, the company has instituted a yearly awards night during which it honors distributors who achieve or exceed targets. PZ also provides redistribution vans to distribution partners that excel during the year under review. Additionally, distributors are also given promotional items such as incentive packages (i.e. T-shirts, wall clocks, and other company souvenirs).

#### **4.11 Customer Service**

Customer care discusses how a product of a company meets the tastes, preferences and satisfaction of the customer. Some ways of increasing the customer satisfaction (adopted by PZ Cussons) of a company are by;

- a. Encouraging upfront dealings with customers
- b. By swiftly responding to their messages and complaints
- c. By keeping them informed at all times (especially with issues concerning product modifications)
- d. Being welcoming, friendly and sociable
- e. Foreseeing the needs of clients

PZ Ghana limited makes use of its sales representatives and research houses to ascertain customer satisfaction. Trade visits by the sales representatives and marketing crew to distributors enable the company gather consumer complaints

about the firm's products. Since PZ does not have its own research outfit, it keeps close contact with distributors for customer complaints that are discovered to be the faults of the company; such aggrieved customers are appropriately compensated in a swift manner. From the point of view of the company, all categories of customers are important and therefore are treated equally regardless of the size of purchasing transactions. However, where as it is essential to treat all with a set standard, customers who make very large purchasing transactions on a regular basis with very good payment history should be given a more than standard treatment. PZ Cussons also has a clearly defined customer service policy. PZ has made provisions for certain concerns of customers such as customer dissatisfaction concerning issues like, billing. This is very vital as it avoids clients being passed on and tossed from one person to another in search of solutions. In the words of Philip Kotler, large customers must be "customized" since they are vital to the company's competitive position.

#### **4.12 GENERAL RESPONSE AND ASSESSMENT OF TRADE LIBERALIZATION**

PZ Ghana limited is responding to the changing competition through investment in superior and cost effective technology to produce high quality goods at reasonable costs. The program of strengthening its presence in the sub-region is progressing at a satisfactory rate. Currently, PZ's home care and pharmaceutical products can be found in neighboring Cote D'Ivoire, Liberia, Togo and Burkina Faso. A factory that produces and distributes PZ's health care products has been built in Nigeria.

With respect to trade liberalization, the marketing manager of PZ Cussons holds the view that, even though the trade policy has come to enhance trade, it has in practice, created an uneven playing field for the marketing of locally made goods. This is because the institutions and agencies that are to ensure the successful implementation of the policy have not been efficient and proficient to their responsibilities. She bemoaned the corrupt activities at the country's border posts. Through bribery, most of the foreign-produced goods that get into the country evade taxes. These goods are sold at cheaper prices thereby making it difficult for local producers to compete. The product manager (home care) also attacked the high cost of investable funds which currently attracts interest rates of nearly 28%. Another problem she mentioned is the imposition of high production costs which eventually reflects in high retail prices. With references to policy changes, the marketing manager did not call for any adjustments. She suggested that the market playing field should be leveled to ensure fairness for all. She further called for a restructuring in the operations of the revenue collecting agencies at the ports so that they become efficient enough to correct the unfairness in the system.

## **5.0 CHAPTER 5**

### **5.1 DISCUSSION OF RESULTS, RECOMMENDATION AND CONCLUSION**

The trade liberalization policy was introduced in 1986 as part of a general economic recovery program. This policy was introduced because the trade policies favoring import substitution had major declines in all sectors of the economy. The policy was thus to remove restrictions on imports and encourage export-led growth activities that will lead to Ghana's integration into the global economy.

Ever since the introduction of the liberalization policy, there has been increased foreign competition which has led to stiff competition in the domestic market. Against this background, the performance of the marketing functions of most businesses has been greatly influenced. This is due to the fact that most companies seek to be market leaders and gain leverage in the eyes of their customers. However due to the different industry characteristics the trade liberalization policy has had varying influences on various firms. In the discussion

and analysis of the data, the study identified network marketing approach as a viable competitive strategy for survival in such a liberalized trade environment. Network marketing is a marketing approach that employs individual sales representatives to get in touch with potential customers that a company will not reach using its conventional means. PZ Cussons understands that the concept of network marketing does not only involve the quality of the product or service offered to consumers, but its ability to satisfy as much as possible, the needs and wants of customers. The marketing manager of PZ Cussons Ghana stressed the fact that, network marketing is very critical in every business, especially the sales business. It involves the customers and distributors feeling respected and cared for and not just their interest in selling their product to them.

## **5.2 RECOMMENDATION**

In view of what has been discussed so far in the study, the following recommendations have been made concerning the marketing activities of PZ Cussons Ghana limited, and indeed, other business in the same industry to help manage their marketing activities well in order for them to gain a competitive edge.

PZ does maintain permanent suppliers and this enables the company to get the best deal from suppliers as they compete among themselves to serve PZ. While acknowledging that such a practice may be appropriate for cost control purposes, PZ must learn to integrate closely with permanent suppliers (network marketing) and help ensure that their relationship does not end upon purchase. It should in

fact, go beyond that and advise suppliers on the quality of raw materials the company needs based on what consumers expect from the final product.

Such network marketing if properly pursued can go a great length to reducing the need for keeping large stock. Even though inventory allows PZ Cussons to meet their ever increasing demands, it is expensive to maintain as some of the items may deteriorate. In addition to that, product may become obsolescent and worse yet, expire while they are being stored (especially the pharmaceutical products). It also prevents pilfering by both management staff and employees. At the same time, the forward contract it enters into with suppliers will enable PZ Cussons to hedge against fluctuations in prices. Through network marketing, members of the supply chain (suppliers, distributors and customers) will indicate a specific number of products they need. This will inform PZ Cussons on exactly how much to produce and how much inventory it needs to keep.

PZ maintains a good and healthy relationship with its distributors, which is very commendable. It is further recommended that depots should be set up in the Eastern, Western, Volta and Northern sectors to enable product distribution in the regions and beyond. Also, PZ must establish networks in these other regions by setting up depots there. This will further increase their profits and market share in the industry.

### **5.3 CONCLUSION**

The introduction of trade liberalization has created a competitive environment which has influenced the marketing activities of PZ Cussons Ghana

Limited. This is in view of the fact that, before trade liberalization, the company had no substantive marketing department. It was rather the sales department that doubled in marketing and sales functions. Even though the absolute value of the company's sales increased from ghc 74564 to ghc 42775342, between 1986 and 2008 respectively, it can be said that its real performance under liberalization has not been that impressive. This is due to the inflationary component of the sales value and its high production cost. This was evidenced by the ratio analysis in chapter 4. Due to bribery, some individuals who import goods evade taxes at the borders of Ghana. This has created unhealthy competition for the company. However, due to PZ outstanding marketing efforts, it has in recent years begun to pick up in terms of profit to sales levels as shown in the bar chart.

Unlike the pre liberalization era whose emphasis was put on the product and price elements in the company's marketing mix, emphasis is now placed on promotional activities, the customer and distribution. To a modest degree, PZ is a company that treats its customers very well, especially pertaining to issues concerning customer complaints. Additionally, by keeping close contact with customers through its sales and distribution representatives and distribution (network marketing); they understand customer preferences and tastes. They also outsource research through other research houses. These steps helped to ensure that, the needs of target customers are satisfied.



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## Appendix

### INTERVIEW QUESTIONNAIRE

#### History of the company

1. When was PZ Cussons established in Ghana?

.....

2. What is the full name for PZ?

.....

3. How was the name PZ Cussons derived?

.....

4. How many product lines did the company start with?

.....

5. When did the company list on the Stock exchange?

.....

#### Trade Protectionism Era/Before Trade Liberalization

6. Did the company face any competition (local/foreign) during this period?

Yes [ ]

No [ ]



If yes please name them

.....  
.....  
.....

15. Apart from your main depot serving Accra, do you have enough depots in other regions? Yes [ ] No [ ]

16. Apart from Accra and other nearby areas that your vans deliver to, how do you get your products to your distributors?

.....

17. Do you have your own research staff that research into the needs of consumers? Yes [ ] No [ ]

If no how do you carry out a consumer survey?

.....

18. What are the full ranges of products that PZ delivers on to the local market?

.....

19. What are some of your rival products?

.....

20. Kindly supply the production figures from period that trade liberalization was introduced up to the year 2008 (i.e. 1986-2008)

21. What were the sales levels for the production levels supplied in question '6' for the same period (i.e. 1986-2008)

22. What percentage of annual budget is allocated to marketing?

.....

23. Which of these is used in determining advertising budget?

- a. Percentage of previous year's sales



.....  
.....  
28. How are complaints from customers handled?

.....  
.....  
.....  
.....

.....  
.....  
29. Are all customers treated equally irrespective of the size of purchase? Yes [     ]  
No [     ]

30. If no, how are most loyal customers treated?

.....  
.....  
.....

31. Does your company supply to other countries? Yes [     ]     No [     ]  
b. If yes, name the countries

.....  
.....  
.....  
.....

32. If no, has the company got any plans towards exporting to other neighboring countries?

.....  
.....  
.....

33. What are the benefits your company has enjoyed in the advent of trade liberalization?



.....  
.....  
.....

34. What are the problems your company has encountered in the advent of trade liberalization?

.....  
.....

35. Under the current regime, is there any trade policy that you would like to be changed or revised? Yes [ ] No [ ]

If yes, state the policy and reason why you want it changed.....  
.....