

CASE STUDY

Competing with the Grey Market: Puzey and Payne in Zimbabwe

Simba Amon, Smith David and Dube Tatenda.

Abstract

Synopsis

The case study analysed competition in the automobile industry in Zimbabwe – a developing economy. From that perspective, it discussed Puzey and Payne's business operations. A company with a long-standing history in the country's automobile industry. Since its establishment during the 1987 colonial era, the company endured a prolonged period of rapid car and spare parts sales decline in 2012. Following a management buyout (MBO) deal in 2013 the decline in sales proved to be its real dilemma and it required strategic decisions to diffuse the impact of the "grey markets". Government policies added to the company's problems.

Methodology

The case study followed a qualitative research approach. Information about Puzey and Payne's business operations was gathered from archived materials, through qualitative conversations as well as company artefacts. Published materials in newspapers and magazines were used to provide background information.

Relevant course and levels

The case study is appropriate for both undergraduate and postgraduate students studying International Business Management.

Theoretical basis

Strategic management concepts provided the theoretical basis for this case study. Especially the management approaches that may be useful in transient markets often found in developing or emerging economies. For example, Slatter and Lovett (1999) Corporate Turnaround strategy, and Ansoff's (1957) matrix (market penetration, market development, product development, and diversification).

Key words: strategic management, automotive industry, turnaround strategy, diversification, Car breakers, second-hand cars, downsizing, financial restructuring, organizational change

Corresponding author: Dr Amon Simba; email: amon.simba@ntu.ac.uk, Nottingham Business School

Introduction

The case study focussed on Puzey and Payne Ltd – a car dealership in Zimbabwe which had its headquarters in Bulawayo – the second largest city in the country. The car dealership's other branches were also located in the country's main cities comprising Harare, Masvingo, Gweru and Mutare. For a period of about 60 years, Puzey and Payne managed to maintain its franchise with Peugeot – a French car maker. In the history of Africa, Peugeot was reported as a car company that was first introduced in the Western part of the continent by the French in 1968 (Bach, 1979). Since its introduction in the continent, its cars were used for various purposes. A report in the *Lonely Planet Guide* (Ham *et al.*, 2013) highlighted that Peugeot's rugged cars were used as 'bush taxis' to ferry far more people than the vehicles were designed to hold. In addition to ferrying people, they were also used to carry their assorted luggage which even extended to live goats on the rooftops (Automotive News Europe, 2014). With such luggage, they often travelled over long distances on rural roads that were little more than dirt tracks. While Peugeot cars were generally used as 'bush taxis', in 1980 a Peugeot 504 was used as part of Comrade Robert Mugabe's official colonnade when he was inaugurated as the first black president in independent Zimbabwe (Kwaramba, 2013).

Peugeot as a brand dominated the African continent for several decades. But, its dominance was challenged in the 1990s by the Japanese car manufacturing companies that included Toyota and Mazda. In particular, Mazda posed the greatest threat to Peugeot in Zimbabwe (Yu, 2012). Operating under the brand name Willowvale Mazda Motor Industry (WMMI), which was established in 1967, Mazda became the most preferred brand because of its style and elegance. In 1988, *The Chronicle* uncovered a major scandal which it termed *Willowgate Scandal*. Corrupt government officials were given preference to buy vehicles from WMMI at a discount and they then sold them on to members of the public at inflated prices. The constant focus on WMMI in the media stimulated public interest and this elevated Mazda's brand. Particularly, its twin cab and pick-up models became hugely popular around the 90s (Makwembere, 2013; Zimbabwe Independent, 2015), being especially good at meeting the needs of the farmers and those who lived in the rural areas. To return its market leadership position Puzey and Payne embarked on a new strategy which involved acquiring a Toyota franchise in 2009 (The Herald, 2011). This strategic manoeuvre enabled the car dealership to momentarily boost its sales (ZIMFLOW, 2012).

However, the car dealership's new lease of life was short-lived and new threats started to emerge. These threats did not only come from other established car dealers, as illustrated by the case of Mazda above, but they emanated from imported second-hand cars. Most of these second-hand cars that came into Zimbabwe between 2008 and 2012 originated from Britain and Japan (Pasura, 2014). In 2008 alone, a total of 3,000 cars were imported into the country (Yu, 2012). This figure increased rapidly by more than tenfold in 2012 to an astonishing 50,000 cars (Moyo, 2013). In addition, the impact of the rapid growth of this so-called '*grey market*' for used cars (sometimes described as the informal economy) on Puzey and Payne was dramatic. In 2012, the dealership's car sales revenues fell by 40 percent (ZIMPLOW, 2012).

Puzey and Payne's parent company ZIMPLOW Holdings reacted swiftly to this sudden drop in car sales. Early in 2013, ZIMPLOW announced a major corporate re-structuring exercise which was aimed at focusing on the company's agricultural and mining interests. Puzey and Payne were seen as a peripheral business with a weak strategic fit to the group's overall portfolio. By June 2013, the car dealership was sold. The buyers were Puzey and Payne's management team via a management buyout (MBO) deal.

The company's new owners faced an arduous task from the moment they bought the company. The impact of *grey imports* was felt at Puzey and Payne and across the entire motor industry in Zimbabwe. One report described local car assemblers as being '*buried by a flood of grey imports*' (Moyo, 2013). Only 400 locally assembled cars were sold in 2012 compared to more than 3,000 in 2003. As a result, employment in car assembly which was at one point as high as 20,000 in the late 1990s fell to less than 2,000 (Moyo, 2013). Other established car dealers in Zimbabwe were suffering too. Not only were sales of new cars dramatically down in the face of an influx of much cheaper used cars, the demand for car servicing was also well down. The company's income from its sales of spare parts fell by 23 percent in 2012 (Makwembere, 2013), as owners of used cars opted to use the many illegal car dealerships that had sprung up (Moyo, 2013) in Harare and the country's other major cities as outlined above. At one point, the Harare City Council (HCC) announced it was shutting down more than 200 car dealers when it found that only one dealer had a license, though it later relented.

So, after successfully completing the MBO in mid-2013, one of the first tasks that Puzey and Payne's new owners (i.e. the management team) faced during their first year in charge, was to turn around the business and place it on a firm footing. In particular, they had to find a way of tackling the threat posed by the rapid growth of the "*grey market*" for imported used cars.

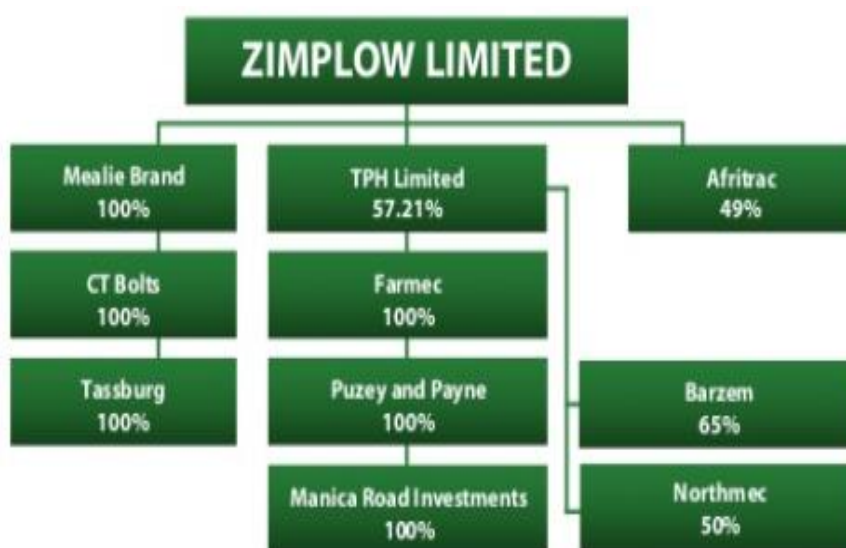
Background

Puzey and Payne was established by Leonard Puzey and Gertrude Payne in 1897. It heralded the advent of the earliest businesses in the motor industry to exist in Zimbabwe. One of the dealership's early market opportunities began in the early years of the twentieth century when it started selling Raleigh bicycles (Raleigh Industries, 1956) alongside the more traditional ox-drawn wagons.

During the colonial era, Puzey and Payne only dealt in a limited number of European brands (Motor Industry Heritage Trust, 1947), that included Morris cars which were imported from Britain and French Peugeots. The latter were especially popular in West Africa where they were assembled in a factory in Nigeria (Balch, 1979). According to its managing director Mr Elton Mtisi, the car dealership extended its business relationships in 2014 to include other well-known Japanese brands like Mazda, Toyota, and Nissan. Elton maintained that the car dealership would ever be known for its close association with the French Peugeot brand.

Puzey and Payne's long-standing history in Zimbabwe earned the car dealership a good reputation which made the brand attractive to investors. In 2001, the dealership was acquired by Tractive Power Holdings (TPH) and it became one of its strategic business units (SBUs) along with Northmec Zimbabwe, Farmec, and Barzem enterprise (Daily News, 2013). A decade later in 2011 Tractive Power Holdings (TPH) Ltd was itself taken over by ZIMFLOW Holdings Ltd (Zimbabwe Independent, 2013).

Figure 1: ZIMFLOW Holding Structure



Source: ZIMFLOW Holdings Pre-Listing Statement, 2012

However, ZIMFLOW lost little time in offloading the car dealership. Its decision was influenced, in large part, by Puzey and Payne's weak market performance as compared to other SBUs. A management buyout (MBO) was completed on 15th June 2013, which saw ownership of the dealership passed to the new management team.

Factors leading to depressed new car sales in Zimbabwe

In part, Puzey and Payne became a victim of its own history. The firm was a Peugeot franchise, but this was a brand that in many respects was a leftover from the colonial era when most of the cars were European imports. Puzey and Payne launched the new Peugeot 508 executive saloon in early 2012, with the expectation that the new passenger model would turn around the company's fortunes (Zimbabwe Independent, 2012), but sales proved very disappointing.

Alongside these legacy issues, Puzey and Payne, like most new car dealers in Zimbabwe were badly affected by serious weaknesses in the Zimbabwean economy. These included factors that were a direct result of the state of the economy, such as highly constrained credit conditions, and those that were indirect (Pasura, 2014). These factors greatly increased competition resulting from the growth of the so-called '*grey markets*'.

Weak sales of well-known brands of new cars were directly attributed to a severe lack of credit facilities nationally. This was followed by the Zimbabwean government's '*dollarization*' policy which was introduced in 2009 (Noko, 2011) with the intention to combat a period of severe hyperinflation in the first decade of the new century. Commodity prices rose sharply in the late 1990s after President Mugabe's chaotic land reforms which paved way for the war veterans to grab farmland meant for agriculture and was privately owned by white farmers (Daily News, 2013). This led to a big drop in food production and Zimbabwe's exports especially tobacco which often generated significant revenue for the country, dropped quite dramatically. The land reform program coincided with sanctions which were imposed by the Western governments.

At the start of the new century, the government's involvement in the Second Congo War led to money supply problems and the government started printing money to pay for the war. As the decade, advanced prices of basic commodities continued to spiral out of control. By the end of 2007, the government stopped reporting the rate of inflation and by November 2008, the month-on-month inflation rate reached 79 billion per cent (see Table 1 below).

Table 1: Hyperinflation in Zimbabwe for 2007/2008

Date	Month-over-month inflation rate (%)	Year-over-year inflation rate (%)
March 2007	50.54	2,200.20
April 2007	100.70	3,713.90
May 2007	55.40	4,530.00
June 2007	86.20	7,251.10
July 2007	31.60	7,634.80
August 2007	11.80	6,592.80
September 2007	38.70	7,982.10
October 2007	135.62	14,840.65
November 2007	131.42	26,470.78
December 2007	240.06	66,212.30
January 2008	120.83	100,580.16
February 2008	125.86	164,900.29
March 2008	281.29	417,823.13
April 2008	212.54	650,599.00
May 2008	433.40	2,233,713.43
June 2008	839.30	11,268,758.90
July 2008	2,600.24	231,150,888.87
August 2008	3,190.00	9,690,000,000.00
September 2008	12,400.00	471,000,000,000.00
October 2008	690,000,000.00	3,840,000,000,000,000.00
14 November 2008	79,600,000,000.00	89,700,000,000,000,000,000.00

Source: Hanke and Kwok (2009) Tables and Figures

During Zimbabwe’s coalition government of national unity (GNU) which was formed on 13th February 2009, the country abandoned the local currency in favour of the US dollar. Termed ‘*dollarization*’, the policy brought inflation under control, but it adversely affected the business sector. The lack of liquidity in the financial system, led to what was described in Noko (2011) as ‘*an especially harsh credit environment*’. During the pre-dollarization era, Puzey and Payne experienced an insignificant rate of sales defections because the car dealership offered strong brands that were often not available elsewhere. However, by 2012 new car sales fell significantly as compared to the previous year. Car dealers felt the impact of the lack of credit facilities which was exacerbated by the government’s ‘*dollarization*’ policy (Daily News, 2013). Like Puzey and Payne, car dealers that were heavily dependent on sales of well-known brands of new cars were particularly hard hit.

However, liquidity problems were by no means the only factors behind Puzey and Payne’s weak sales in 2012. Generally, the economic conditions worsened and this led to several indirect effects. For example, there was a marked expansion of “*grey markets*” in the motor trade in Zimbabwe. Pasura (2014) found that the *informal sector* or “*grey markets*” were a prominent feature of most developing and emerging economies, especially in the African continent. In most African countries, the life span of cars that would normally last 10 or 15 years, in developed nations, was often extended by enterprising individuals (Dube, 2014).

According to Moyo (2013) these entrepreneurial-minded individuals had developed ingenious ways of repairing vehicles when they break down. Moyo also noted that there was a well-developed market for used car parts that these individuals took advantage of. At the heart of such markets *car breakers* were known to be the main agents (Rufasha, 2006) who thrived by cannibalising damaged and worn out cars, that would otherwise be scrapped.

In Zimbabwe, these enterprising individuals with mechanical skills seized the opportunities presented by *car breakers* (Rufasha, 2006). They were often armed with some form of recovery vehicle and minimal tools and were adept at locating suitable wrecked and damaged vehicles. They often exhibited extraordinary ingenuity in finding ways of making the vehicles roadworthy again (Rufasha, 2006). They rarely relied on spare parts from authorised sources such as the main dealers, like Puzey and Payne. Instead, they specialised in cannibalising damaged or abandoned vehicles. Many of these individuals had extensive social capital in the form of well-developed personal networks that enabled them to locate appropriate supplies of spares (Dube, 2014). These networks formed a supply chain for spare parts for those individuals who carried out their own maintenance. Also, small independent garages that operated out of back streets and often the backyards of domestic properties benefited from these networks.

As economic conditions in Zimbabwe, deteriorated *car breakers* turned what was for many often little more than a hobby, into a thriving business activity. Very often, their activities were sporadic and opportunistic, and relied on ingenuity and improvisation as well as often self-taught mechanical skills, to fix car problems. Although the scale of their activities can be described as modest they nonetheless added to the country's stock of vehicles, at a time when the cost of a new car was out of the reach of all those who were neither very affluent nor well-connected. However, very much more significant as a "*grey market*" was the market for used car sales imported from overseas. When in 2008 President Mugabe announced a *Look East* policy (Kwaramba, 2013), many middle-class Zimbabweans took him at his word and started importing cheap used cars from overseas.

The sudden surge of cars that arrived in the country, especially from Japan, was the product of a big rise in 'personal imports', undertaken by Zimbabwean citizens. Many of the estimated three million Zimbabweans in the diaspora used their holidays as an opportunity to import used cars, not for their personal use but in order to sell them upon their arrival back in Zimbabwe (Kwaramba, 2013). For others, the internet was used as a platform for speeding up the process of importing a used car. By 2012, more than 50,000 used cars were imported into Zimbabwe (Moyo, 2013).

At more than 4,000 used vehicles coming into the country every month this dwarfed the mere 250 a month that came in during 2008. Table 2 below illustrates that in 2014 by far the majority of vehicles came into Zimbabwe from Japan with more than 4500 new vehicles imported from this source, compared to 482 from Europe and 1,236 from the US. The large proportion that came from Japan, reflected the presence of stringent vehicle testing in that country (Dube, 2014), making depreciation rapid which contributed to plentiful supply of high quality used vehicles (Clerides, 2008). Given that the Japanese also drive on the left-hand side of the road, this made them well-suited to the Zimbabwean market.

Table 2: Cars imported from abroad in 2014

Foreign country	Number of cars
Japan	4500
Europe	482
USA	1,236

Established car dealers were badly hit. Puzey and Payne’s new car sales fell in early 2012, as the company struggled to compete with *grey imports* that were much cheaper (see Table 3 below). Compared to a new medium-sized saloon like the Peugeot 508 which Puzey and Payne sold for \$40,000 a used (i.e. second hand) small saloon could be acquired for just \$6,000 on the “*grey market*” (Kwambere, 2013). It was the same for Puzey and Payne’s direct competitors among the established indigenous new car dealers in Zimbabwe comprising WMMI and Quest Motors which sold Nissan, Toyota, Ford, Kia, Mazda, UD trucks, Renault and Volvo trucks. As a result of the reduced prices of used cars (see Table 3 below) imported from overseas in general, but, Japan in particular all the established car dealerships were under severe pressure. The majority of these vehicles became a common feature of the burgeoning “*grey market*” in ‘parallel imports’ of used cars. Cash-strapped customers showed a clear preference for cheap used cars as opposed to relatively much more expensive new ones offered by established car dealers like Puzey and Payne.

Table 3: Price differentials for new and used cars in Zimbabwe

Brand/ Model	New car (US\$)	Used car (US\$)	Ratio
<i>Toyota Corolla</i>	19,450	4,000	0.21
<i>Toyota RAV4</i>	19,400	6,500	0.34
<i>Toyota Starlet</i>	18,000	4,500	0.25
<i>Honda Civic</i>	16,000	3,000	0.19
<i>Honda CRV</i>	22,700	5,000	0.22
<i>Nissan Primera</i>	20,800	5,000	0.24

Source: Muzoko, 2014

Some countries, most notably South Africa, banned individuals from making personal imports of cars. They restricted car imports by introducing permits which were only made available in very specific and limited circumstances (Dube, 2014). The regime in Zimbabwe did not follow South Africa's example. Although it introduced several key policy measures to protect the motor industry (The Herald, 2014) they can be best described as haphazard.

The policies that were introduced by Mr Mugabe's administration included increased import duty and a directive which required government departments, quangos and other state-owned enterprises to purchase cars exclusively from the struggling WMMI and Quest Motors Corporation. However, such policy initiatives were largely rendered ineffective by an endemic culture of corruption embedded in government procurement systems.

Not only were problems confined to new car sales. Servicing **cars** was an important part of Puzey and Payne's portfolio. But, this part of its business encountered increased competition from the so-called *lone rangers*. *Lone rangers* were another type of a "grey market" which comprised of individuals who had self-taught mechanical and technical skills and they often started one-man businesses for servicing cars. Sometimes they engaged in 'moonlighting'; that is, they offered their services privately while still undertaking full-time paid employment. They worked outside of normal working hours and without any premises. They had little in the way of overhead costs and they significantly undercut the prices charged by recognised dealers. As the economy in Zimbabwe underperformed, many consumers opted to use *lone rangers* just to keep their cars on the road.

Moyo (2013) conceptualized “grey markets” of one sort or another as a common feature in developing and emerging economies. For Zimbabwe, these “grey markets” offered significant opportunities for enterprising individuals especially as an avenue for employment creation. Nonetheless, for companies such as Puzey and Payne they formed a competitive threat, in the sense that they provided direct competition. Not only that, the distribution networks they were able to access were often very effective as they enabled them to reach customers faster than franchised car dealers.

Government policies

Government policies rarely helped either. For example, the Zimbabwe government’s “*Black Indigenisation*” policy, which was designed to catapult local individuals into business, through a 51 percent stake entitlement in the ownership of any foreign company, kept foreign direct investment (FDI) at bay. The policy was effective across the board and it affected companies like Puzey and Payne who relied on a franchised model.

Their business model involved foreign brands such as: Peugeot, Mazda, Hyundai and Toyota. The chairman of ZIMFLOW, Mr Zed Rusike, outlined how this was happening in the earthmoving equipment sector when he noted,

“the lack of clarity on the indigenisation programme - which requires foreign companies to transfer a majority control to locals – has resulted in customers deferring capital expenditure on earthmoving equipment”.

Source: ZIMFLOW (2012)

Similarly, targeted foreign sanctions on key individuals in Zimbabwe had unintended consequences as their effects were felt in the economic environment as well. The combined effect of these factors appeared to have inflicted serious damage on the automotive industry. Overall, the economic climate in Zimbabwe was at a point where drastic action was required to support car dealers and other industries in general. A key indicator of how badly the economy had deteriorated was the exchange rate. Dube nicely summed-up the economic conditions in Zimbabwe when she used the bandwagon analogy – “*the wheels have come-off the wagon*” to explain the country’s situation (2014. p.17).

Meeting the challenge: The management team's strategic response

Although Puzey and Payne suffered badly between 2011 and 2013 because of both the direct and indirect effects of economic conditions in Zimbabwe, the company's strong brand equity stabilised its market performance. The company retained good relations with the government whose various departments remained its major customers, along with a host of government agencies who continued to purchase vehicles from Puzey and Payne. The company developed a solid base of corporate customers which included several mining and construction companies. In fact, post *dollarization* era Puzey and Payne performed reasonably well in Zimbabwe (Guvamombe, 2014).

Following the management buyout (MBO) deal, the management team took several steps to minimise the losses brought on by falling sales of new cars and a reported decline in car servicing. In 2014, the company acquired two new franchises of Chinese brands Yutong and Forland (Dube, 2014). Not only were their products generally much cheaper they also offered a broad range of utility type vehicles such as trucks.

Another step taken by the new management team at Puzey and Payne was to close one of its branches in Gweru (Dube, 2014). In relation to this, Mr Eliot Mtisi who is the managing director elaborated that the management team started to implement strategies designed to provide alternative sources of revenue in 2015. He explained that the car dealership was branching out from car sales into new business lines to provide Puzey and Payne with opportunities to tap into new market segments.

According to the managing director the new strategy was intended to take several different forms. One such venture was the sale of sports gear. This was anticipated to cover a range of sports popular in Zimbabwe which included golf, hockey, and cricket equipment as well as cycling. Moreover, the strategic manoeuvre was designed at re-positioning the company in Zimbabwe's main cities where the country's more affluent professional and commercial customers resided.

By selling sports gear and apparel the dealership added what one might term 'complementary' products to its product portfolio, designed to complement the lifestyle of those consumers who were able to contemplate the purchase of a well-known brand of cars from an established main dealership. Such products were thought to appeal to those perhaps less affluent but ambitious consumers who aspired to a more affluent lifestyle.

Another field into which Puzey and Payne ventured was the sale of portable electricity generators. The rationale for offering this new product line was quite different. Branching out into generators was intended to take advantage of opportunities that arose from the difficult economic conditions in Zimbabwe. Generally, the state of the economy deteriorated alongside many basic services. As often happens in developing and emerging economies one of the first services to suffer in this way is electricity supply. Consequently, the demand for portable electricity generators rose significantly and Puzey and Payne decided to take advantage of this rising demand. Although generators represented a new and different market segment, this was a very logical move for Puzey and Payne. Indeed, the company's core capabilities were in the automotive industry and generators are petrol powered plus many were manufactured by automotive manufacturers (e.g. Honda and Perkins). In addition, the servicing requirements demanded similar mechanical and technical skills to cars.

Utilizing these same mechanical and technical skills was behind the third field that the company's new owners considered i.e. servicing bicycles. This was also designed to meet the difficult economic conditions as cycling often provided the only means of personal mobility for less affluent consumers, especially as bus services were badly hit by fuel shortages. However, it was clear the company's new owners faced some very significant challenges.

Although the management team acted by taking initial steps to reverse the problem of Puzey and Payne's falling revenue from car sales, the survival of the business in anything like it was, was in doubt. More drastic action was required. It was no longer a matter of remedial action, what was required was strategic action to *turnaround* the business. Its level of debt was reported to be more than a million dollars. Returning the business to profit in the face of the challenge presented by the dramatic growth of the "*grey market*" (Moyo, 2013) for used cars in Zimbabwe was of critical importance for the company's new owners.

Epilogue

Before fully committing to diversifying into other product lines, the new owners at Puzey and Payne embarked on a competitor analysis. Such a structured approach to understanding the nature and scale of competition provided useful knowledge about threats, opportunities, weaknesses and strengths (TOWS). Nevertheless, this was insufficient to rescue their declining sales. Other strategic options to turnaround the company's sales revenue were available. But, the progressively deteriorating economic conditions in Zimbabwe and the burgeoning "*grey markets*" made decisions about strategic management at Puzey and Payne an arduous task for the new owners. Thus, they had to be pragmatic in their strategic thinking.

Recognising the gravity of the situation, the new owners called in management consultants to analyse the business, assess the situation, and advise on appropriate actions.

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Instructor's Manual

Suggested teaching approach and strategy

Developing and emerging markets possess numerous management-related challenges making them unique. As such, operating in these markets demands that managers develop flexible business models that facilitate the realignment of internal operations to withstand pressure from competing forces. Clearly, the case of Puzey and Payne illustrates what happens to an established business when competition intensifies and the general market conditions rapidly deteriorate. The business faced a turnaround situation. This could involve a number of strategic options.

One option which has already been tried is diversification. The decision to adopt the strategy was hastily taken and more time was needed to carefully and dispassionately assess the nature and scale of competition. Before fully committing to diversifying into other product lines, the new owners at Puzey and Payne embarked on a competitor analysis. Such a structured approach to understanding the nature and scale of competition provided useful knowledge about threats, opportunities, weaknesses and strengths (TOWS). Nevertheless, this was insufficient to rescue their declining sales. Other strategic options to turnaround the company's sales revenue were available. But, the progressively deteriorating economic conditions in Zimbabwe and the burgeoning "*grey markets*" made decisions about strategic management at Puzey and Payne an arduous task for the new owners. Thus, they had to be pragmatic in their strategic thinking.

Students' views regarding the most appropriate strategic options/strategies for Puzey and Payne should provide some stimulating and interesting points for discussion in class.

Clearly, this case presents students with an opportunity to analyse the circumstances surrounding Puzey and Payne. Based on their level of analysis students have a chance to propose what they think would be a suitable strategic approach for the car dealer to turnaround its poor sales performance.

In order to explore various strategic management issues raised in the case study we suggest the following approach: -

- Commence with a teacher-lead discussion to highlight the key aspects of conducting business in developing and emerging economies and the nature of the business environment in such economies.

- Students should be given an opportunity to read the case individually before coming to class. Following that they should be put into groups each consisting 4-5 participants in order to analyse the key points highlighted in the case and prepare possible responses to the questions outlined above.
- A question and answer technique can be used to stimulate whole class discussions on the points raised in each group.
- A plenary should be used to summarise the main points drawn from the case study as well as highlight the wider implications of key issues to business management in a developing and emerging economy.

The table below provide an overview of the activities and timings for the session.

Session Information Course Title: Module Title: Session dates and time: Location: Number of students:					
Session Aim(s):					
Session Learning Outcomes: By the end of this session students will have had the opportunity to: LO1: identify many of the features of a business environment of a developing or emerging economy LO2: explore the importance of “ <i>grey markets</i> ” often a common feature of developing and emerging economies LO3: evaluate the sort of challenges faced by legacy businesses in developing and emerging economies LO4: examine the challenges faced by business managers who operate in developing and emerging economies LO5: analyse the development of flexible business models that can be effective in developing and emerging economies often characterised by rapid market changes					
Timings	Activities	LOs	What tutor does	What students do	Resources
5 mins	Teacher-led discussion		Introduce the notion of doing business in developing and emerging markets highlighting the learning objectives of the session	Listening & note taking	PowerPoint, Interactive whiteboard, board markers
5 – 7 mins	Students recapping the main events in the case study ** Students should have been given the chance to read the case before the session without the questions.	LO1	Prompt students by using leading questions for them to identify the main features of a business environment of a developing or an emerging economy	Reading and highlighting the main themes	Hard copies of the case study, highlighters, note books and electronic devices, laptops
3 – 5 mins	Setting-up the room to facilitate group working		Instruct students to form groups of 4s. Intervene where appropriate to ensure that groups consist of students with varying abilities	Moving to sit in allocated groups	Tables and chairs

20 mins	Students watch a video entitled: Zimbabwe's auto industry strangled by new import competition Encourage students to take notes concerning the problems facing the automobile industry in Zimbabwe.	LO3	Explain the macro-economic conditions prevalent in developing and emerging economies. Focusing on the notion of “grey markets” and the informal sector. Also highlight the challenges legacy businesses face in an environment where the informal business sector is thriving. While doing so explain the notion of strategic management in transient markets. In groups of 3s or 4s instruct students to draw a list of factors highlighted in the video which are affecting the car industry in Zimbabwe.	Listening and taking notes. Answering questions. Group work – brainstorming and sharing video observations.	Interactive whiteboard, You-tube video
15 – 20 mins	Students identifying the main protagonists in the case as well as produce a mind map of the key events in the map	LO2; LO3;	Interact with the students. Prompting them to consider appropriate strategic management approaches in developing and emerging economies. Encourage them to consider the economic conditions in these economies – Zimbabwe in this case	Brainstorming, exchanging ideas, and constructing mind maps	A3 paper, pen, laptops
15 – 20 mins	Students answering case-based questions	LO4; LO5	Interact with the students. Use leading questions to help students identify answers in the case	Discussing and writing their responses	Flip chart, board markers
7 mins	Students take a lead to present their group findings	LO4; LO5	Prompting groups to provide feedback to the rest of the class.	Students presenting their answers	Flip chart
5 mins	Plenary		Recap the main points	Students answering questions	PowerPoint, Interactive Board

Case questions

Q1. Despite the obvious challenges, the business still retains several strengths including a reputation for quality of service, significant property in the form of well-equipped workshops and showrooms in major centres of population. Similarly, while it may have suffered significant sales defections from private individuals, it has retained a valuable customer base in the corporate sector among mining and construction companies and government departments and related agencies. However, the new owners at Puzey and Payne face some difficult choices if they are to turnaround the business. In the light of this you are asked to take the role of a management consultant advising the management team and provide the following: -

- (a) An analysis of the causes of the recent slump in Puzey and Payne’s sales revenue
- (b) An evaluation of the recent attempts at seeking alternative sources of revenue and their value for the business going forward
- (c) An analysis of the potential strategic options that the business might adopt as part of a turnaround strategy designed to ensure the long-term viability of the enterprise (in whatever form that might take)

Q2. Explain what is meant by a “grey market” and why they are often a feature of developing and emerging economies. Why might the growth of the “grey market” in used cars in Zimbabwe represent an opportunity for the motor trade in the country?

Q3. Who are the “breakers” and why do they constitute significant competition for Puzey and Payne?

Q4. Puzey and Payne along with other established car dealers are lobbying the Zimbabwean government for action to prevent the closure of many of Zimbabwe’s established car dealerships. What measures would you recommend and why?

Model answers

Q1 *As a management consultant called in to advise the management team, you are asked to provide the following:*

(a) *An analysis of the causes of the recent slump in Puzey & Payne’s sales revenue*

Instructor background

Of the factors listed here the most significant, at least in the short term, is the last one, that is competition from the “grey market” in the form of ‘parallel imports’. Students should appreciate that this market has grown very rapidly in a comparatively short space of time. However, as a phenomenon, it is not that unusual as other countries, especially in developing and emerging economies have experienced similar problems most notably Cyprus, Mexico and Poland. Students should be encouraged to consult Clerides (2008) and Chu and Delgado (2009). However, Zimbabwe is unusual in the speed with which the “grey market” has developed and the apparent inability of the government to do anything about it. Students should demonstrate an awareness of some of the consequences of the development of the “grey market” such as a rise in the number of accidents, severe congestion in cities like Harare and the virtual annihilation of local car assembly resulting in the loss of many thousands of jobs. The government is likely to have lost out since many of these vehicles will be unlicensed. On the other hand, consumers have benefited from access to cheap transport.

There are clearly several factors responsible for the current slump in Puzey and Payne’s sales revenue. These include:

- Intense competition from the rapid and unconstrained growth of the “grey market” for used cars imported from overseas, especially from Japan. However, there are other aspects to the “grey market”. These include: a.) competition from ‘lone rangers’ in car servicing i.e. untrained and often ill-equipped individuals working on their own account (an example of ‘free riders’); and,

b.) competition from “*breakers*” i.e. unlicensed dealers/traders able to offer cheap cars that have been salvaged from damaged cars, but which may well not meet safety standards and where the consumer has little or no recourse if anything goes wrong.

- Also, important has been the severe shortage of credit facilities to support the purchase of new cars resulting from the Government’s dollarization policy
- In addition, there are *legacy* problems associated with reliance on what consumers perceive to be outdated and inappropriate models/types of car

(b) *An evaluation of the recent attempts at seeking alternative sources of revenue and their potential for the business going forward*

Instructor background

Some form of classification of the recent measures taken by the management team should be attempted. Ideally, this should involve some kind of model or framework. Thus, students should be encouraged to analyse the measures in terms of different forms of diversification. For example, one could use the Ansoff (1988) product/market matrix. This clearly identifies diversification as a specific strategy/strategic option that firms can apply. But, is that what is happening here or are these just ad hoc measures dreamed up as short-term stop-gaps? This should form the basis of class discussions

Branching out into the sale of sports goods is an example of a strategy based on *diversification*, which is seeking new and typically unrelated market segments. The concept of diversification should be explained, and an appropriate analytical framework would be the division between related and unrelated diversification or the product/market matrix. In this case the moves appear to be a somewhat ill-conceived strategy since it does not apparently draw on any of the company’s core competences. On the other hand, selling generators is an example of related diversification.

It is a strategy that appears to have some logic behind it, since to operationalise it the company will be drawing on the technical knowledge and skills of its staff.

(c) *An analysis of the potential strategic options the business might adopt as part of a well-defined turnaround strategy, designed to ensure the long-term viability of the enterprise (in whatever form it might take)*

Instructor background

It is important that students recognise that this is a turnaround situation. Without fairly dramatic steps, it is highly likely that this business will not survive. The nature of turnaround situations and *turnaround strategies* should be defined and discussed. Appropriate references should be made to the strategic management literature. This could include most well-known strategy texts or ones that specifically deal with turnarounds such as De Wit (2014); Johnson *et al.* (2006/2014); Thompson and Martin (2010/2014) Slatter and Lovett (1999) strategy texts. Every one of the strategic options outlined below carries risks and answers should demonstrate an awareness of these risks. Credit should be given to those students able to link these strategic options to the management writers/researchers with whom they are typically associated. For example, Prahalad and Hamel (1996) in the case of focus and Ansoff (1988) in the case of diversification.

There are clearly several strategic options that the company's management team could adopt as part of a turnaround strategy. It is impossible to mention them all here and credit should be given to students who come up with novel and original options. Among the more obvious strategic options are:

- *Retrenchment* - involving assets sales and cost reductions probably through staff redundancies. It would basically involve shrinking the company's resource base to a point where it matches its new lower levels of revenue. This would need to include site closures and sales of property.
- *Focus on the core business* – principally the supply of vehicles to the corporate and government sectors and possibly abandoning sales to private individuals. It would aim to make better use of existing resources and would involve the provision of a higher level of service to this client base
- *Re-focus products/markets* – likely to involve ditching legacy brands like Peugeot and focus on newer brands such as Chinese ones that focus on the utility end of the market. Retaining Japanese brands would leave scope for executive sales especially in the 4x4 sector.

- *Diversification* – seeking out new market segments. Ideally this should involve related diversification designed to tap new market segments but using existing skills and knowledge

Q2. Explain what is meant by a “grey market” and why such markets are often a feature of developing and emerging economies?

Instructor background

“Grey markets” are to be found in developed as well as developing and emerging economies. Students might like to identify some examples and perhaps volunteer whether they have used them and what for? Examples of other countries where “grey markets” are significant include Malaysia and India. In Malaysia, it is estimated that 70% of the mobile phones in use were obtained on the grey market. Similarly, in Benin in West Africa the importation of used cars is a major industry, to the point where one recent study estimated that some 9% of the country’s GDP is derived from importing use cars (see Benjamin and Hughes, 2012), although in this case a large proportion are re-exported to other African countries, notably Nigeria. “Grey markets” tend to be on a bigger scale relatively in developing and emerging economies and feature more prominently. They are also quite common in developing and emerging economies because of weak or lack of institutional frameworks. Institutions are simply not sufficiently well-developed or robust to eliminate competition from those operating outside established markets. For example, whereas in the UK there are trading standards officers employed able to effectively police markets at the local level, there is unlikely to be an equivalent in many developing and emerging economies.

Swanson (2000) provides a useful typology of “grey market” goods (e.g. unintended goods, licensed goods and distressed goods) as well as potential strategies that can be used by legitimate traders to combat grey markets. Typologies of this type can be useful in analysing grey markets.

“Grey markets” or parallel imports as they are sometimes termed exhibit the following characteristics:

- informal and often unregulated markets
- trade in a commodity takes place using distribution channels that are legal but outside those intended or prescribed by the manufacturers of original equipment

- often unregulated involving activities or personnel who are untrained and/or unlicensed
- there are substantial price differentials between formal/established markets and “*grey markets*”
- trade barriers in the form of legal restrictions regulations etc. are relatively low
- leads to ‘free rider’ effects where those who purchase goods in grey markets get the same or very similar benefits to those purchasing goods in recognised formal markets
- substitution effects, as consumers desert one class of product and opt for another

Students should be encouraged to consult the literature on “*grey markets*”. In this instance, the literature on “*grey markets*” and the automotive industry (e.g. Chu and Delgado, 2009; Clerides, 2008; Grubel, 1980), provides a number of studies of parallel imports of used cars from developed countries like Japan and Germany into developing and emerging economies, most notably Cyprus, Mexico and Poland. What is immediately apparent is that the problem is not a new one. What is also clear is that the impact of the “*grey market*” for used cars varies enormously according to the scale on which it takes place. In many parts of Africa, the “*grey market*” in imported used cars is very significant (Benjamin and Hughes, 2012).

Q3 *Who are the breakers and why do they constitute significant competition for Puzey and Payne?*

Instructor background

Students need to be clear that *breakers* are another part of the “*grey market*” for cars. Less spectacular than imported used cars, they are nonetheless an important part of the “*grey market*” for cars in Zimbabwe. As a “*grey market*”, *breakers* are diverting business from authorized distribution channels, into unregulated ones. Students should be encouraged to analyse the *economic* impact of these individuals in terms of the operation of “*grey markets*”. For established car dealers, they represent a cost in that they are suffering substitution effects (Porter’s, 1980 Five Forces that Shape Strategy). But, on the other hand, there are important welfare gains, which include additional employment and lower prices for consumers. A key characteristic of the *breakers* is that they cannibalise car spares from accident damaged or old cars usually discarded in scrap yards in order to repair and maintain existing cars. They are self-employed individuals and/or experienced car mechanics who prefer to work independently. They thrive in less regulated markets – a key feature of developing and emerging economies. Students can consult texts such as Ham *et al.* (2013) who show how breakers are an important feature of transport in Africa by keeping vehicles such as ‘bush taxis’ on the road.

For Puzey and Payne, car *breakers* offer direct competition through pricing. The vast majority of Zimbabwe's citizens are experiencing financial hardships and, as such, the tendency is to look for cheaper alternatives which car *breakers* offer. These car *breakers* are able to do so because they get a free ride from expensive advertising and the efforts of car dealers such as Puzey and Payne to increase their car sales. From a customer's point of view, grey markets dominated by *breakers* are beneficial in that, they create competition resulting in lower prices, thus providing more purchase options.

It is worth noting that while "grey markets" have a detrimental impact for established traders, they can also provide opportunities for enterprising individuals. The *breakers* are a good example, in that by salvaging and cannibalising damaged vehicles they are actually reducing waste and making limited resources go further. Researchers (e.g. Cavusgil *et al.*, 2014) have long noted that in developing and emerging economies cars and other consumer durables have a much longer and more productive life than in developed economies. Also, "grey markets" do provide additional employment, though the snag is that at the same time they may also reduce employment in established businesses.

Q4 *What measures would you recommend and why? (i.e. for Government action)*

Instructor background

Students should appreciate that government has played a big part in the development of the grey market for imported used cars. Government in Japan dramatically boosted the *supply* of used vehicles through its vehicle testing regulations. In terms of *demand* the 'Look East' of the government in Zimbabwe encouraged consumers to look for products from Asia. Similarly, the lack of effective controls has contributed to the rapid growth of the market. Comparisons (through personal research by students) with other African countries are likely to be informative. South Africa for example severely restricts imports of new cars and many countries have imposed tariff.

Evidence from other countries, notably Cyprus and Poland (see Clerides, 2008 and Chu and Delgado, 2009) indicates that the government is one of the few institutions that can take decisive action in a case like this. Unfortunately, the government in this case seems to have been anything but decisive.

Among the measures that established car dealers might seek are:

- Import controls designed to physically limit the grey market to a level where the automotive sector is not adversely affected
- Improved regulation and testing of vehicles to ensure they meet significantly higher safety standards
- Improved enforcement of licensing in the automotive sector designed to eliminate unlicensed dealers and ensure that all drivers meet an appropriate standard of driving

These measures will not eliminate the problem as far as existing dealers are concerned, but will remove the worst excesses and reduce the market to manageable proportions. The dealers themselves need to build up intelligence about the harmful long-term effects of an unconstrained grey market and identify individuals and organisations that can effectively represent them. Students should be aware of just how difficult it can be to enact such measures given the weakness of institutions and the extent of corruption.

The rationale for measures such as these is to try and create a 'level playing field' that eliminates the 'free rider' problems associated with grey markets and improves transparency and openness.

Case summary

Puzey and Payne Ltd is Zimbabwe's oldest car dealer. Leonard Grant Puzey and Gertrude Payne established the company in 1897 and it was one of the earliest businesses in the motor industry ever to exist in Zimbabwe. Their first market opportunity was in the bicycles sector and the traditional ox-drawn waggons. Since Leonard and Gertrude established Puzey and Payne the brand has been the most recognisable car dealer in Zimbabwe. Notwithstanding its reputation, the motor industry has deteriorated badly in Zimbabwe as a result of government interference and economic underperformance. People stopped buying new cars in favour of cheaper alternatives. The influx of foreign imports and second-hand cars provided alternatives for cash-strapped indigenous people. This resulted in numerous challenges for Puzey and Payne. Specifically, the car dealer faced intensive competition from the "grey market", comprising imported used cars, *car breakers*, and *lone rangers*. This development in the motor industry severely eroded Puzey and Payne's market share and its sales revenues for new cars continue to dwindle.

Faced with intensive competition from the new entrants and declining sales revenue the new management decided to diversify into both related and unrelated products and services. First, the car dealer entered the sports gear and apparel market. Second, it diversified into the generator market to exploit the rising demand for portable electricity generators exacerbated by Zimbabwe's energy scarcity. This seemed a logical manoeuvre by the management team at Puzey and Payne in that generators were produced by automotive manufacturers which was consistent with their business. Third, the company took advantage of its technical and mechanical competencies to service bicycles and again this strategy had little impact on its declining sales and increasing competition. Puzey and Payne's drive to out-perform its competitors and revive its dwindling sales revenue lost its steam in 2015 and the company started to downsize by closing some of its branches.

The situation facing Puzey and Payne provides some insights into the sort of problems that originate from the unregulated business activities in the "*grey markets*". Instead of addressing, head on, competition emanating from the "*grey markets*" the management at Puzey and Payne moved hastily to adopt an ill-conceived market diversification strategy.

Yet, Zimbabwe was experiencing an unprecedented economic downturn characterised by high unemployment rate at 92% and a severely reduced customer purchasing power. Why the company is dithering to ditch the out of favour Peugeot brand and continuing to import new cars is puzzling.

The case should form an interesting platform for debate for students because it highlights the eroding effect of unregulated markets and external market conditions on a world-recognisable brand. More importantly, it highlights the intractable nature of challenges often common in emerging markets. While the management team at Puzey and Payne adopted diversification as a strategy to deal with competition and gain market share, the case provides students with the opportunity to assess the best alternative strategy from those suggested, in the case, as available to the management team to turnaround its sales revenues.

Audience

The case is suitable for business management courses including: strategic management, international business management, and marketing management. It provides both undergraduate and master's students studying International Business or a Master's in Business Administration (MBA) the opportunity to explore issues associated with conducting business in an emerging market. Equally, the case can be used for class discussions with undergraduate students, in their final year of a business management program. The case is therefore recommended for use at both undergraduate and postgraduate levels.

Topics covered

The topics the case covers include:

1. Strategic management
 - Strategic analysis
 - Strategic options/choices
 - Retrenchment/Downsizing – sale of assets/divestment
 - Cost reduction
 - Re-focus product/markets
 - Diversification (Related/Unrelated)
 - Redefine core business
 - Niche markets
 - Exit
2. Turnaround management
 - Characteristics of a crisis situation
 - Causes of downturn
 - Strategic focus
 - Organizational change
 - Financial re-structuring
3. Grey markets and the informal economy
 - Nature of the informal economy
 - Types of grey market:
 - Unintended goods (products authorised for sale in one market re-directed to another)
 - Licensed goods (branded but sold through unauthorised channels)
 - Distressed good (i.e. dumping)
 - Strategies
 - Self-help (e.g. differentiate, embargo, refuse to treat etc.)
 - Regulation enforcement
 - Government/statute
 - Social benefits/social costs

The authors used the case for class discussions with students in their final year of an international business management programme studying Global Business in a Changing World (GBCW) and at MSc Level for students studying International Business Management. Its relevance was manifest in the way it highlighted the sophisticated nature of emerging markets and decision-making. To enhance student understanding of the complex nature of these markets the case was used in a 90 minutes' session about strategic management in emerging markets.

Pedagogy

For pedagogy purposes this case can be used to achieve the following:

- to help students to know the challenges associated with doing business in emerging markets
- to enable students to comprehend the impact of unregulated informal or 'grey' markets on mainstream businesses
- to help students to understand the eroding effect of rapidly changing market conditions on the market performance of businesses operating in emerging markets
- to enable students to analyse a situation and provide appropriate solutions to elevate struggling businesses especially in emerging markets
- to help students to develop management skills and tactics necessary for managing businesses in a foreign market
- also, to enable students to evaluate strategic turnaround choices necessary to address the challenges of 'grey' markets, lone-rangers and car breakers.

Methodology

One of the co-authors did her internship at Puzey and Payne. As such, the majority of the statements in our case narrative are mainly based on her personal observations during her time at the car dealership and her interactions with permanent members of staff. She also collected secondary data generated for internal circulation. This helped us to develop a clear picture of the internal management process to turnaround rapidly declining car sales at the car dealership.

Furthermore, we utilised the extant literature on Puzey and Payne. This was enhanced by information about the micro-economic conditions influencing the car sales business within the automotive industry. Independent agents comprising Daily News and Auto-trade magazines were the main sources that provided us secondary data about the automotive industry's micro-economic conditions.

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