

BUSINESS AND MANAGEMENT HL

INTERNAL ASSESSMENT

Should Victory Supermarket expand its operations and open a new branch as a way
of growth?

Main Essay: 2000

Executive Summary: 215

Research Proposal: 411

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To whom it may concern,

This letter verifies that _____ has interviewed me concerning our expansion plans of opening a branch that is seen in this report and I have provided him with adequate financial data to carry out his research.

_____ has also given sufficient suggestions regarding our expansion plans and his report will help us with further research in order to arrive at a final decision.

King Regards,

Mr.

Manager

Acknowledgements

I would like to thank Mrs. _____ and Mr. _____ for their support, advice, and motivation towards writing this report.

I would also like to thank Mr. _____, Manager at Victory supermarket, for agreeing to cooperate with me and providing me with valuable information which guided me to complete this report.

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Executive summary

Victory Supermarket has been operating for 4 years now in Kinondoni Dar es Salaam, Tanzania. The supermarket has been increasingly doing well in the market since it was first launched which has gained it a high market share. Victory Supermarket wants to apply growth strategies by opening a new branch at a different location within Dar es Salaam, Tanzania¹. Hence this paper aims to examine the question: **Should Victory Supermarket expand its operations and open a new branch as a way of growth?**

The research proposal classifies the rationale, theoretical framework, and the methodology applied. The introduction offers background knowledge about Victory Supermarket, where it is located, what it wants to achieve and the research question.

The analysis consists of primary and secondary research. Primary research includes of an interview done by the manager. Secondary research includes of a textbook and internet resources that helped in applying financial and non financial techniques.

The financial analysis provides positive feedback with a payback period of 2 years and 6 months which is feasible and that the supermarket should open a branch as a way of growth. The non financial analysis also upholds the supermarket's expansion strategies having more driving forces which outweigh the restraining forces.

Nevertheless, further research needs to be done before making a firm decision.

Word count: 215

¹ Appendix 1- Interview with manager

Research question

Should Victory Supermarket expand its operations and open a new branch as a way of growth?

Theoretical framework

Rationale:

Victory supermarket is located in Kinondoni Dar es salaam, Tanzania. The supermarket was launched in 2012 and since then it has increasingly been doing well in the market. The supermarket wants to apply more different expansion strategies so that it can be well know, attain more customers in different areas, and increase its sales revenue. It wants to open a branch at a different location aiming to gain a higher market share and become a market leader.

Areas of the syllabus to be covered:

The external environment – External factors determine options of growth, therefore I will use decision making tools such as PESTLE analysis.

Growth and Evaluation – Victory Supermarket wants to grow externally and have more ventures, thus this area will help analyze the main decision of expansion

Organizational planning tools – Tools such as SWOT analysis will be used which will improve the analysis by making it more accurate with supported evidence

Investment appraisal – Financial data will need to be applied while making a solid decision about the supermarket's expansion strategies.

Methodology

I will conduct both primary and secondary research. Primary research will be an interview with the manager of victory supermarket to have a look at the financial situation of the business, its future plans and difficulties of expansion. Secondary research will also be done to collect information on the supermarkets accounts such as balance sheet. Online books, and websites will also be used which in overall will improve the analysis.

Possible Problems	Solutions
Poor or biased responses from the manager	Base on the most common answers and evaluate the responses accordingly
Limitations to access financial data	Have a wide range of predictions or ask the manager to at least provide financial data for a few months
Depth limiting interview questions	Ask different kinds of closed and open questions

Action Plan

Date (2015)	Activities
January – February	Selecting a topic and having an idea of your research question
March 20th – May 10th	Creating and submitting research proposal
May 27th – June 5th	Begin research and start formulating research

	questions
June 20th	Interviewing the manager of victory supermarket
June 22nd	Doing secondary research
July 27th	All the research information to be gathered
August 14th	First draft to be completed
August 20th	Supervisor to review first draft
September 1st – October 10th	Final draft to be completed
November 1st	Final draft to be submitted

Word count: 411

Introduction

Dar es Salaam is a rapidly growing city in Tanzania and the more the city grows, the higher the demand of products increase. Dar es Salaam has a wide range of supermarkets since its more desirable and easier for people to buy various products all located in one place. "A supermarket is an urban commercial establishment that sells goods in a self-service system among those who are food, clothing, toiletries, perfumes and cleaning"². Supermarkets have a large competition in the city as its market keeps growing. The ability of a supermarket to excel mostly depends on the location of the supermarket, whereas a populated location will attain the supermarket more customers and thus higher sales revenue than an unpopulated location.

Victory Supermarket is a well established supermarket launched in 2012 and located in Kinondoni, Dar es Salaam. The supermarket sells a wide variety of products such as; dairy products, meat, baked products, packaged products, non food items, clothes, shoes, DVD's, and much more³. However Victory supermarket wants to expand its services and open another branch at a different location. This will gain the supermarket more recognition, attract more customers and also increase its profit making ability by having high sales revenue. Victory supermarket has been highly achieving in the market, thus this brought up the need to expand in order to fulfill all customers' needs and increase its market share. Hence my research question is: **Should Victory Supermarket expand its operations and open a new branch as a way of growth?**

² "What Is the Meaning of Supermarket? Concept, Definition of Supermarket." : Education for Life. Web. 22 Feb. 2016

³ Appendix 1- Interview with Manager

Results and Findings

Market position

Victory supermarket is one of the best selling supermarkets in Kinondoni, Dar es Salaam. It has a wide range of products making it a more reliable place for people to shop all their needs at once.

Victory supermarket has been maintaining its high sales revenue since it was launched in 2012.

This has gained the supermarket a high profit making ability and also an opportunity to think of further growth.

Victory supermarket aims to have about 10 branches spread out in Dar es Salaam itself and later on grows to other regions in Tanzania⁴. Looking at the market position, Victory Supermarket sees itself as one of best and dominating supermarkets in Kinondoni area but it wants to expand and become a market leader.

Victory Supermarket's financial data ⁵

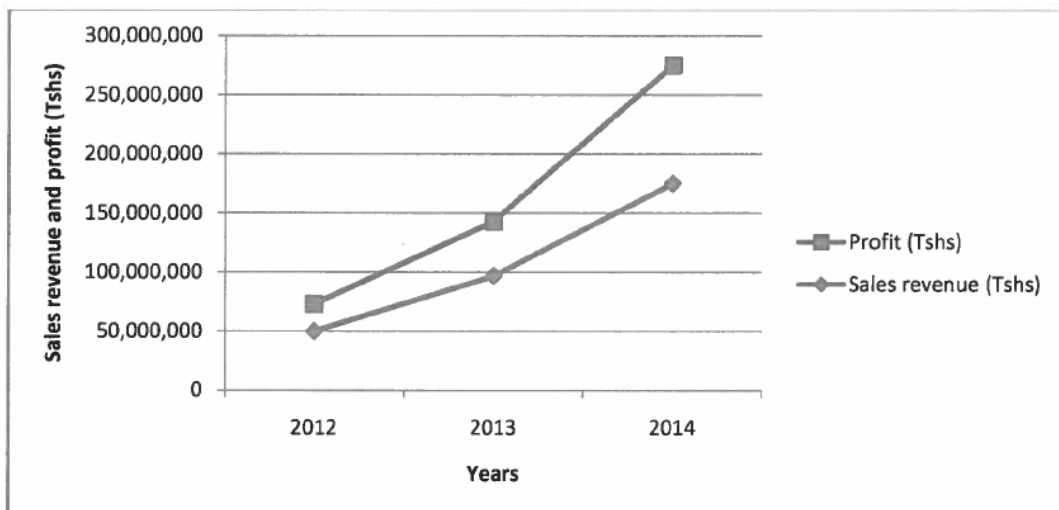
	2012	2013	2014
Sales revenue (Tshs)	50,000,000	97,000,000	175,000,000
Profit (Tshs)	23,000,000	46,000,000	100,000,000

⁴ Appendix 1- Interview with Manager

⁵Victory Supermarket's financial data

Victory supermarket is seen to be highly performing over the years according to its financial data and its sales revenue has been almost doubling and increasing since the supermarket was launched. It had a drastic change in its sales revenue and profits in 2014 compared to its previous years which took the supermarket to a higher level and success in the market. Thus the supermarket hypothesized its financial figures to continue doubling over the coming years and making high profits.

Graph showing Victory Supermarket's financial data

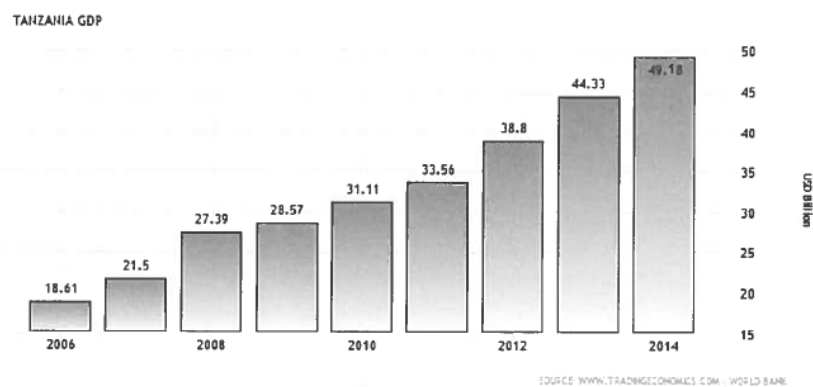


The sales revenue and profit keep increasing over time as seen in the graph. The year 2014 projected to be the supermarket's best year yet only after 2 years since it first launched giving a positive sign of continuous growth.

Economy in Tanzania

Tanzania has been having a significant growth in the economy over the years and also an increase in Gross domestic product (the total expenditures for all final goods and services produced within the country in a stipulated period of time)⁶. GDP in Tanzania averaged 16.16 USD Billion from 1988 until 2014, reaching an all time high of 49.18 USD Billion in 2014.⁷

Tanzania GDP⁸



Dar es Salaam Population Growth⁹

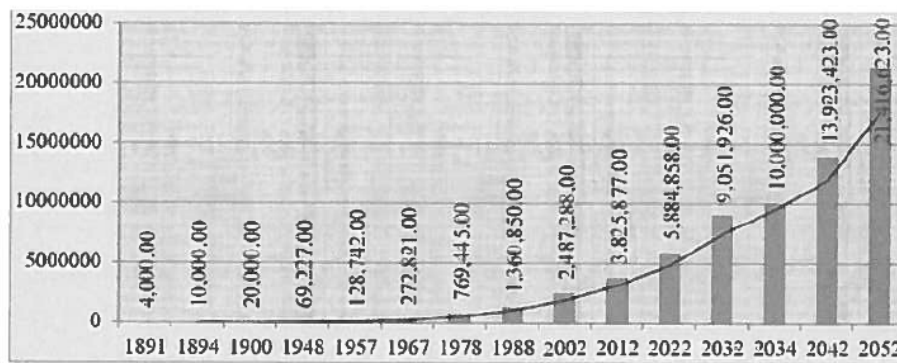


Figure 3. Trends of population growth for the Dar es Salaam city (1891-2052)

⁶ "Tanzania GDP | 1988-2016 | Data | Chart | Calendar | Forecast | News." Tanzania GDP | 1988-2016 | Data | Chart | Calendar | Forecast | News. Web. 22 Feb. 2016.

⁷ "Tanzania GDP | 1988-2016 | Data | Chart | Calendar | Forecast | News." Tanzania GDP | 1988-2016 | Data | Chart | Calendar | Forecast | News. Web. 22 Feb. 2016.

⁸ "Tanzania GDP | 1988-2016 | Data | Chart | Calendar | Forecast | News." Tanzania GDP | 1988-2016 | Data | Chart | Calendar | Forecast | News. Web. 22 Feb. 2016.

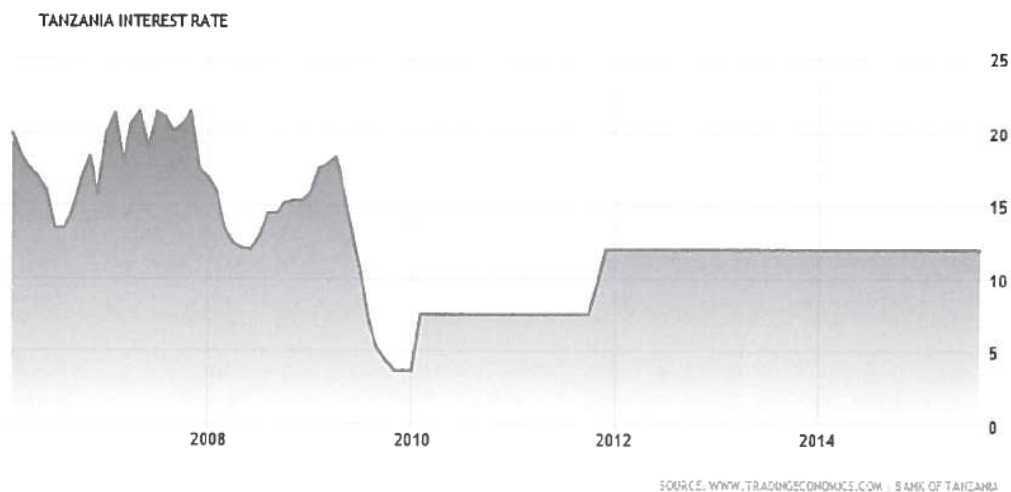
⁹ Sturgis, Sam. "The Bright Future of Dar Es Salaam, an Unlikely African Megacity." CityLab. 25 Feb. 2015. Web. 22 Feb. 2016.

Dar es Salaam is said to be one of Africa's fastest growing cities with a population of 4.1 million people currently. The population currently is expected to double by 2030 and this could reach up to 21.4 million people by 2052 according to the African Development Bank¹⁰. The increase in Tanzania's economic growth is also related to its growing population generally over the past years. It is obvious to state that the more the people the more the demands of different goods and services, thus there will be an ever growing demand of various things and in this case supermarkets will gain more market largely within Dar es Salaam and Tanzania as a whole.

Interest rates

Tanzanian interest rates have previously been fluctuating but have settled in the past year. The current rates are at 12%, but in the past rose up to 21.4% in 2007 and had a drastic fall up to 3.7% in 2009.

Interest rate in Tanzania¹¹



¹⁰ Sturgis, Sam. "The Bright Future of Dar Es Salaam, an Unlikely African Megacity." CityLab. 25 Feb. 2015. Web. 22 Feb. 2016.

¹¹ "Tanzania Interest Rate | 2002-2016 | Data | Chart | Calendar | Forecast." Tanzania Interest Rate | 2002-2016 | Data | Chart | Calendar | Forecast. Web. 22 Feb. 2016

Analysis and Evaluation

According to the results about the economy, it shows that the economy will continuously grow at a higher rate which will give rise to different business opportunities and growth within the market, thus a positive sign that Victory Supermarket will be able to make more profit by expanding.

Financial analysis – Investment appraisal

Payback Period

Payback period is the length of time required for an investment project to pay back its initial cost outlay¹². Victory Supermarket had an estimate of 50 million Tshs for them to be able to expand their operations and open a new branch.

Victory supermarket's predicted payback period¹³

Year	Total returns (Million Tshs)	Cumulative returns (Million Tshs)
2015	(50)	(50)
2016	10	(40)
2017	23	(17)
2018	35	18

¹² Lominé, Loykie, Martin Mwenda Muchena, and Robert A. Pierce. Business Management: Course Companion. Print.

¹³ Appendix 1- Interview with Manager

$$[(\text{Extra cash inflow required}) / (\text{Annual cash flow in 2018})] * 12 \text{ months}^{14}$$

$$[(18,000,000) / (35,000,000)] * 12 \text{ months} = 6 \text{ months}$$

To be more accurate, the payback period of the investment will be 2 years 6 months

Average rate of return

The average rate of return measures the annual net return on an investment as a percentage of its capital cost¹⁵. This assesses if Victory Supermarket expanded by having a branch would be profitable over time.

$$[(\text{Total returns} - \text{capital cost}) / (\text{years of usage})] / (\text{capital cost}) * 100^{16}$$

$$(68 \text{ million} - 50 \text{ million}) / 3 = 6 \text{ million}$$

$$(6 \text{ million} / 50 \text{ million}) * 100 = 12\%$$

Average rates of returns are mostly compared with the interest rates on loans to assess the level of risk¹⁷. Since the ARR is 12% and the current interest rate in Tanzania is also 12% therefore this makes it fair for the business to go with the investment, but at the same time also a disadvantage since the ARR is equal to the base lending rate.

¹⁴ Lominé, Loykie, Martin Mwenda Muchena, and Robert A. Pierce. Business Management: Course Companion. Print.

¹⁵ Lominé, Loykie, Martin Mwenda Muchena, and Robert A. Pierce. Business Management: Course Companion. Print.

¹⁶ Lominé, Loykie, Martin Mwenda Muchena, and Robert A. Pierce. Business Management: Course Companion. Print.

¹⁷ Lominé, Loykie, Martin Mwenda Muchena, and Robert A. Pierce. Business Management: Course Companion. Print.

Non financial analysis

Victory supermarket has to take into account non financial aspects which could influence their expansion decisions. Taking into account Lewin's force field analysis¹⁸, the driving forces for expanding the supermarket's operations by opening a branch outweigh the restraining forces which signify an opportunity for Victory Supermarket to open a branch.

Victory supermarket has a chance to gain a large market share and benefit financially from the branch, however there is always a certain degree of uncertainty and no guaranteed success from the branch planning to be opened¹⁹. Customer base is a huge factor which affects the success of the business. This is mostly based on the location of the new branch planning to be opened, therefore it's advisable for the supermarket to expand on populated areas in which customer base will not be a problem.

Due to the increasing population²⁰ in Tanzania, Dar es Salaam in particular, this will provide increment in the market acting as a positive factor for expansion. Economic growth is increasing in Tanzania²¹ as a whole which causes an increase in investment and consumption. This is advantageous to Victory supermarket to expand due to the increase in economic growth which causes increase in demand of goods and services.

However there is always uncertainty which may be caused by fluctuating interest rates²² that have previously been changing but settled at 12%. If interest rates highly increase or decrease will affect the demand and supply pattern which signifies the success of a business. Higher

¹⁸ Appendix 4- Lewin's force field analysis

¹⁹ Appendix 4- Lewin's force field analysis

²⁰ Appendix 3- PEST Analysis

²¹ Appendix 2- SWOT Analysis

²² Appendix 3-PEST Analysis

interest rates meaning high loan repayments will affect the sales and profits of a business since more money will be used to pay loans. This will also affect the purchasing power in an economy where most of the money is used to pay loans rather than expenditures which will affect businesses such as Victory supermarket having high sales revenues.

Established firms will gain brand loyalty, which will be difficult for Victory supermarket to open a new branch at a different location in which it is not established yet. Thus customers will be used to where they frequently shop, than going to a new one. This is a major drawback for Victory supermarket, but with enticing marketing strategies, it will be able to achieve a larger market share and succeed.

Being able to account for risks is very important, and by opening a branch, Victory supermarket will spread its risk taking factor and increase its sales and profits²³. The existence of competitors in the supermarket industry is also threatening since supermarkets have become very popular in Dar es Salaam and have an increasing competition²⁴. Due to competition, this could affect predictions on the payback period and also causing lower sales revenue leading to lower profits.

Effective market research can lead to the success of a business²⁵. With a good market research Victory supermarket can succeed in opening its branch, gain a larger market share, higher sales revenue, and also higher profits. This will also be an opportunity for the supermarket to build a positive image by always satisfying customer needs and having the best quality²⁶ that acts as a symbol which points out Victory supermarket compared to other supermarkets. This will

²³ Appendix 4- Lewin's force field analysis

²⁴ Appendix 1- Interview with manager

²⁵ Appendix 1- Interview with manager

²⁶ Appendix 2- SWOT Analysis

enhance the supermarket's brand image, gain brand loyalty, and increase brand awareness which will all lead to the increment in profits.

Victory supermarket will need to recruit and train workers which will be costly for the firm²⁷.

Workers will be needed to know how to operate supermarkets which needs training and education mostly on accounting and finance. Skilled employees will be able to operate the supermarket more proficiently, thus increasing sales revenue.

Conclusions

According to the research on whether should Victory supermarket expand its operations and open a new branch as a way of growth, it was clear that the merits outweigh the demerits. There is an opportunity for success of the business while taking into account the financial analysis and non financial data.

Financial analysis supports opening the branch as the payback period and average rate of return are all in favor that the decision should be pursued which is seen profitable for the business.

According to the payback period, it is seen that after 2 years and 6 months, the branch will have fully paid back the money that was invested. This acts as a positive sign and considered a short time as economy continues growing leading to the branch gaining more sales revenues with time and also increasing brand loyalty.

As per Lewin's force field analysis, the driving forces outweighed the restraining forces which suggest that Victory supermarket should open a new branch as a way of growth and increased profits. Due to the growing economy in Tanzania, it is evident that Victory supermarket has an opportunity to open a new branch which will be profitable for the business.

²⁷ Appendix 4- Lewin's force field analysis

Recommendations

My recommendations for Victory supermarket are:

- To carry out further market research especially on the location of the new branch and how it will increase its brand awareness.
- To apply promotional strategies and this will gain the supermarket a wider customer base.
- To figure out how the it will surpass its competitors in the market, thus gaining a larger market share.
- To thoroughly evaluate major threats that might cause failure to opening a new branch.

The existing research data by some means is insufficient and not to be entirely definite about.

Therefore it's only advisable that Victory supermarket should do further research on all possible factors before making a firm decision.

Word count: 2000

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Appendices

Appendix 1: Interview with the manager Mr. Nicco Kimaro

1. Could you give me a short background on Victory Supermarket?

Victory supermarket was launched in 2012 therefore it has been operating for a period of about 4 years now. The supermarket is located in Kinondoni Dar es Salaam, Tanzania, and sells a wide variety of goods such as foods, drinks, clothes, shoes, DVDs, dairy products, baked products, packaged products, non food items, home equipments, utensils, and much more. Since the supermarket was launched, it has gained a high market share which gives the supermarket more recognition and an opportunity for the business to further excel.

2. How is the market for supermarkets in Dar es Salaam?

The market in Dar es Salaam is not that tough because people mostly look at the convenience of getting all their needs in one place. Supermarkets mostly depend on the location; a populated location will gain a supermarket in that location a higher market share since the people living in that certain area will buy most of their products from the supermarket. However the market is competitive since more supermarkets are coming up day by day and hypermarkets are increasingly taking over with high discounts.

3. How is your market performance and position?

Our performance is really good according to me since we have only been operating for 4 years now and have gained a huge market share, market growth and also a high market position. One cannot expand if their performance is poor, therefore for us to arrive to the conclusion of

expansion, this means our performance is impressive and we hope to further increase it. In Kinondoni we are the most dominating supermarket in the area.

4. What are the near future plans or growth strategies for victory supermarket?

We aspire to highly increase our sales revenue by the next year and offering improved customer care. Along with that we also want to expand and open a branch of the supermarket at a different area which I think will increase our market share and growth which will gain the supermarket more recognition. Our long term goal is to be the dominating supermarket in Tanzania as a whole with the best services.

5. What are the predictable costs for opening the new branch, and what revenues do you aim to make?

The cost we anticipated for opening the new branch is 50 million Tshs. This would cover all initial costs for starting up the new branch. For the first year 10 million Tshs is expected, 23 million Tshs for the second year, and 35 million Tshs for the third year. Hence we expect continuous growth throughout the period with increasing sales revenue and a shorter break even period.

6. What possible problems do you think the supermarket will encounter when opening the new branch?

The supermarket will have to take into account the existence of competitors in the certain area which will be a challenge. Most people are used to always shop in specific and trusted places, therefore the supermarket will have a hard time in the beginning since it has to first gain

recognition in the area and attract customers. Effective market research will need to be done which will help in gaining more customers and further recognition.

7. What benefits do you expect from opening the new branch?

We as Victory supermarket hope to obtain a higher market share and market growth, and as I stated before that opening the branch is the first step we take for expansion in which we take it as our mission to achieve our vision which is being the number one dominating supermarket in Tanzania.

8. What factors do you think you need to consider?

I think we as a supermarket need to consider 4 main factors which are; political, economical, social, and technological. These factors affect every business because it should take into account; tax regulations, political stability, exchange rates, interest rates, GDP, infrastructure, rate of technology, literacy levels and much more. The factors stated are mainly general however effective research has to be conducted by a business before making any decision.

Appendix 2: SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Well established supermarket • High market share and growth • Good customer care and satisfaction • Effective market research 	<p>Weaknesses</p> <ul style="list-style-type: none"> • More money is needed to be spent on research and development • Sources of finance are limited • Poor knowledge on the new location planning to open the branch
<p>Opportunities</p> <ul style="list-style-type: none"> • Due to increasing population in Tanzania, the business has more prospects for growth in other regions and not only Dar es Salaam. • Increasing economic growth • Demand for products is ever increasing especially food items. • Building a positive image by always satisfying customer needs and having the best quality 	<p>Threats</p> <ul style="list-style-type: none"> • Lack of infrastructure and development • Increasing number of competitors • Fluctuating exchange rates and interest rates in Tanzania • Increasing number of Malls and hypermarkets which alter customers' decisions of buying at a supermarket since more items are available there.

Appendix 3: PEST Analysis

Political	<ul style="list-style-type: none"> • Good political stability within the country • Minimum regulations when opening a new branch • Highly improving infrastructure in Dar es Salaam and other regions within Tanzania
Economical	<ul style="list-style-type: none"> • Fluctuating interest rates • An increasing GDP growth compared to the past years which gives a positive sign • Increasing population
Social	<ul style="list-style-type: none"> • Increasing literacy levels meaning more people becoming educated, thus a more trained workforce
Technological	<ul style="list-style-type: none"> • An increasing rate of technology within Tanzania • Improved use of E-commerce

Appendix 4: Lewin's Force Field Analysis

Driving forces →	Strength		Strength	← Restraining forces
Economic growth in Tanzania	4	Victory supermarket opening a branch as a way of growth	3	Success is not guaranteed as there is a degree of uncertainty
Increasing population in Tanzania	4		4	The existence of competitors
Financial benefits	5		3	Customers not being aware of the branch
Spreading of risks of the business	4		3	Recruitment and training of workers will be costly

Driving forces = 17

Restraining forces = 13