

**RETAILER BRAND AND CHANNEL CONFLICT:  
THE CASE OF NAKUMATT SUPERMARKETS AND MUMIAS SUGAR**

**BY**

**NDERITU PATRICIA WANGARI  
REG: BIB/3160/22/DF**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENT OF THE BACHELOR OF INTERNATIONAL BUSINESS  
ADMINISTRATION DEGREE (BIBA) FACULTY OF BUSINESS AND  
ADMINISTRATION, KAMPALA INTERNATIONAL UNIVERSITY.**


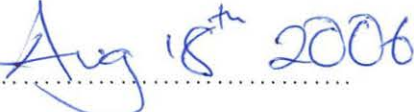
**JULY 2006**

## DECLARATION

This research project is my own original work and has not been presented for a degree award any other university.

Name: Nderitu Patricia Wangari

Reg no: BIB/3160/22/DF

Signed:  Date: 

This project has been submitted with my approval as the university Supervisor.

Name: Mr. Ruteganda Michael

Signed:  Date: 

## **DEDICATION**

I dedicate this research project to my mum, Vincenza Nyambura Macharia and my dad, Ben Nderitu Macharia, for their love for education, advice and commitment to make us aspire for the highest academic achievements.

To my brothers, Khalid, Pascal and Joe, for their love, advice, constant support and encouragement through those most trying moments I have been through.

To the love of my life, Samantha Nyambura, for always showing me love, care and comedy, despite being away from you for months on end and for your patience and understanding over the denied parental care during those busy years.

To my sister Bito and Aunt Meg, I could never thank the two of you enough.

To my supervisor, Michael, for his never ending support, even when I thought it was all over and almost gave up.

Finally, to two special people, Ngunyi and Ngonyo .....what more can I say?

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## **ABSTRACT**

The study was done between the months of July and August 2006, with the objective of establishing the impact of introduction of own brands (retailer brands) by supermarkets in Nairobi on the conflicts with the manufacturers who supply them with competing brands.

Data was collected through two questionnaires, one to the manufacturers and the other to the supermarkets. Nakumatt supermarkets (with its own brands) were surveyed together with one manufacturer, Mumias Sugar, who supplies the supermarket chain with a competing brand.

The data shall be analyzed by use of tables and percentages to reduce the information to an understandable form.

## CHAPTER 1: INTRODUCTION

### 1.1. BACKGROUND

The retail landscape has undergone major evolutionary changes over the last ten decades or so. The evolutionary process has been characterized by sequential changes from small/grocery store to super-markets to departmental stores, to hyper-markets/super stores, and shopping malls in that order.

More and people are now able to buy and consume products that have been processed or manufactured, such as bread, sifted flour, rice and milk etc. This has led to the need of more retailers to meet this demand and the need for more variety products to meet the various customers' needs.

The trend is towards direct marketing and this is threatening the Wholesales business and focusing more on supermarkets and or reaching the consumers directly. Most manufacturers, forced by competition are looking for different ways of reducing costs, and one way of doing this is reducing the long distribution channels by eliminating the middlemen who are not adding value to the products and services on the way to the final consumer.

One of the most dramatic developments in today's world of retailing is the number of *alternative types of stores available to consumers as notes Lewison and Delozier (1989)*. The rise of the shopping malls in Kenya over the last two decades has also changed the shopping behaviors and shopping experiences of Kenyans. Today, courtesy of gigantic, shopping complexes sprouting all over the city, family shopping no longer involves hours of driving around. Everything and every one have kindly gathered under one roof making it all a one-stop shopping experience. And since shopping malls now complement shopping facilities with all manner of other facilities like exhibitions and conferencing services as well as recreation and entertainment, the family-shopping spree can now double as a weekend outing for the kids.

The retail industry has also witnessed significant technological changes, involving increased use of electronic price scanners in place of cash registers; electronic funds transfer systems, among others. This has improved efficiency and speed of service eliminating the long queues that were synonymous with supermarkets to suit the changing lifestyles of the customers. The use of the electronic scanners in the supermarkets has reduced pilferage, which was a key challenge to all the self-select stores.

With the advancement in technology and new ways of doing business, the traditional distribution system is no longer effective. The adoption of the just in time supply chain management system reduces stock outs, cuts down costs and ultimately increases the margins. Products will also reach the store in good condition and in time as well.

Retailing is an intensely competitive industry. To survive and prosper, retailers must compete aggressively, create a differential advantage over competitors, and give consumers a reason to shop at their stores.

In Kenya the retail industry has become innovative to retain their customers. The supermarkets have become outing places for the families, hawkers are doing all sorts of possible ways to reach their customers, kiosks are also basically giving better and doing a bit more to make it easier and give better services to their customers.

In order to continue surviving the retailers must learn to continuously meet the customer's wants and needs. The understanding of the consumer buying behaviors and the decision making process are key to developing retail marketing strategies.

In Kenya, we have seen especially the big supermarkets choose certain locations and target to meet the needs of that group of customers in terms of décor, prices and even the goods assortment. This close understanding of their customers, retailers have been able to influence their relationships with the manufacturers.

“To listen to some manufacturers you would believe that there really was a war on, and that retailers were the enemy. To be more specific, supermarket multiples

are seen by some suppliers as the real competition, rather than other manufacturers” (Randall, 1991).

Until mid 1980s in Kenya, manufacturers held a pre-eminent position in distribution channels. They were the source of almost all product innovations and new-product developments, they controlled physical distribution to wholesalers and retailers, they were responsible for virtually all product advertising, they exerted a powerful influence on retailers’ stocking and display of their products, and they controlled retailers’ margins by setting retailer selling prices.

A major feature of the “Retailing revolution” in the world of the past two decade has been the replacement of manufacturers’ dominance of distribution channels by that of the retail chains. Retailers have increasingly assumed control over a range of functions traditionally performed by manufacturers-these include physical distribution, packaging, product design, and product development. This increase in the span of activities undertaken by the retailers is most clearly indicated by the growth of retailers’ own brands (Johnson). Also the thin and reducing profit margins on producer’s brands have encouraged retailers to establish their own brands (Stanton et al 1989)

Retailer’s own brands are a recent phenomenon, and are hardly a century old. In the last one-decade in Kenya, we have seen the leading supermarkets come up with their own brands. Nakumatt, Ukwala, Uchumi, and other leading supermarkets have own branded water, sugar, grains, flour and milk among many other categories. This trend is likely to continue and expand even to smaller supermarkets and to various other consumer goods in the market.

## **1.2. STATEMENT OF THE PROBLEM**

Liberalization has brought competition. In the retail trade, competition among the retailers themselves have intensified with each one of them wanting to consolidate the customers loyalty to the store by offering innovative products, better service and improving the shopping experience. Retailers compete with one another on the basis of their product, place and promotion strategies. These strategies are directed at securing the

attention of ultimate consumers and serve as the focus for retail competitive actions. Retailers claim that the torch of innovation has passed to them, as they are now closer to the market and more sensitive to customers' needs.

In the past the manufacturers' owned or controlled the wholesalers and retailers through *forward-integration and control of the product*. The retailer has now largely taken over this power from the manufacturers. *Backward-integration* from the retailer is now changing the relationship in the study chain.

Retailers have increased their promotional budgets and moved heavily into private brands but manufacturers claim that they spend all the development time and money to produce a new brand only to find that retailers, having waited long enough to see if it will survive, merely copy it and sell the copy at a lower price. Some go further and claim not only that own label products are parasitic on manufacturers' brands, but also that they depress markets by concentrating on low price, thereby devaluing the product in consumers' eyes. Retailers retaliate by saying that manufacturers are not very good at new brand development anyway: most launches fail and do so because they are no real consumer advantages.

No researcher has looked in to the relationship between retailers own brands and the level of conflicts. *Own brands are expected to compete at the shelve level with the national brands* but this is not the reality. The truth is that, own brands are given preference and are favored by the retailer to the national brands leading to increased levels of conflict. In other cases, the retailer may do away with some of the competition national brands that compete directly with own brands. The purpose of this study is therefore to investigate the level of conflict between supermarkets and manufacturers or suppliers of competing brands after the introduction of retailer brands by supermarkets in Nairobi.

### **1.3. OBJECTIVES OF THE STUDY**

1. To determine levels of channel conflicts between supermarkets in Nairobi selling retailer brands and the manufacturers selling competing brands to them.
2. To determine the impact of retailer brands on the level of conflict.

3. To explore the effects of such conflicts on the trading relationship.
4. To establish how such conflicts are resolved.

#### **1.4. IMPORTANCE OF THE STUDY**

##### **To supermarkets managers/owners**

Supermarkets that want to start retail brands will know what to expect from their key supplier of competing brands.

The supermarkets management will understand the attitude of the competing companies' managers towards retailer brands.

Supermarkets management will learn how to cope with conflicts and minimize conflict while launching other retailer brands.

##### **To companies**

Companies currently selling competing brands to supermarkets will know how to minimize the consequences of conflict emanating from retailer branding.

Other companies that could be considering entering into a market with many own retailer brands can anticipate the reception that they will get from the supermarkets.

##### **To policy makers**

The research will give the policy makers retail guidelines on how to introduce own brands and manage conflicts in the marketing channel.

##### **To researchers**

*Researchers will have the basis to build further researches in retailing and in conflicts management especially in the retail sector.*

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1. THE SCOPE OF MARKETING**

Kotler (2003) defines marketing as a societal process by which individuals and groups obtain what they need and what through creating, offering, and freely exchanging products and services of value with others. Marketing may again be defined as the performance of business activities that direct and facilitate the flow of goods and services from producer to consumer or user. These “business activities” are the functions of marketing, and they must be performed in order for the marketing process to be consummated. Marketing functions are generally grouped into three categories: (1) the functions of exchange (2) the functions of physical supply, and (3) the facilitating functions.

The basic marketing functions can not be avoided or eliminated. The performances by marketing organizations along with their interaction through channels of distribution make up the total network of marketing systems. Marketing task can then be seen as that of creating, promoting and delivering goods and services to consumers and businesses. In order to develop and integrate a successful marketing program, Taylor et al (1977) notes that any firm must consider five major elements. These are: (1) market segment (2) products, (3) price, (4) promotion, and (5) distribution effort. The last four elements make up the decision variables of the marketing mix.

The four elements of the marketing mix are interdependent. The distribution program should be developed to deliver the right product to the right place at the right time and at the lowest cost that will achieve required customer service levels for the various market targets. Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions. These intermediaries constitute a marketing channel.

### 2.1.1. Channel of Distribution

Kotler (2003) defines marketing channel as sets of interdependent organizations involved in the process of making a product or service available for use or consumption. The selection and management of the marketing channel system by the manufacturer is one of the most critical marketing decisions to be made. The selection of the type and number of middlemen on which a firm will rely on and their management is a major step in determining the ability of an enterprise to secure its long-range goals of profit, growth, and survival. The choice is thus strategic. (Taylor 1977).

The producer and the final customer are part of every channel. Kotler (2003) denotes four intermediary levels of designate the length of a channel in the consumer marketing channels. The zero-level channel (also called a direct marketing channel) consists of manufacturers selling directly to the final customer. One level channel contains one selling intermediary, such as a retailer. A two-level channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer. A three-level channel contains three intermediaries and normally, the wholesaler jobber or the sub-wholesaler and the retailer.

Figure 1 below shows these channel alternatives.

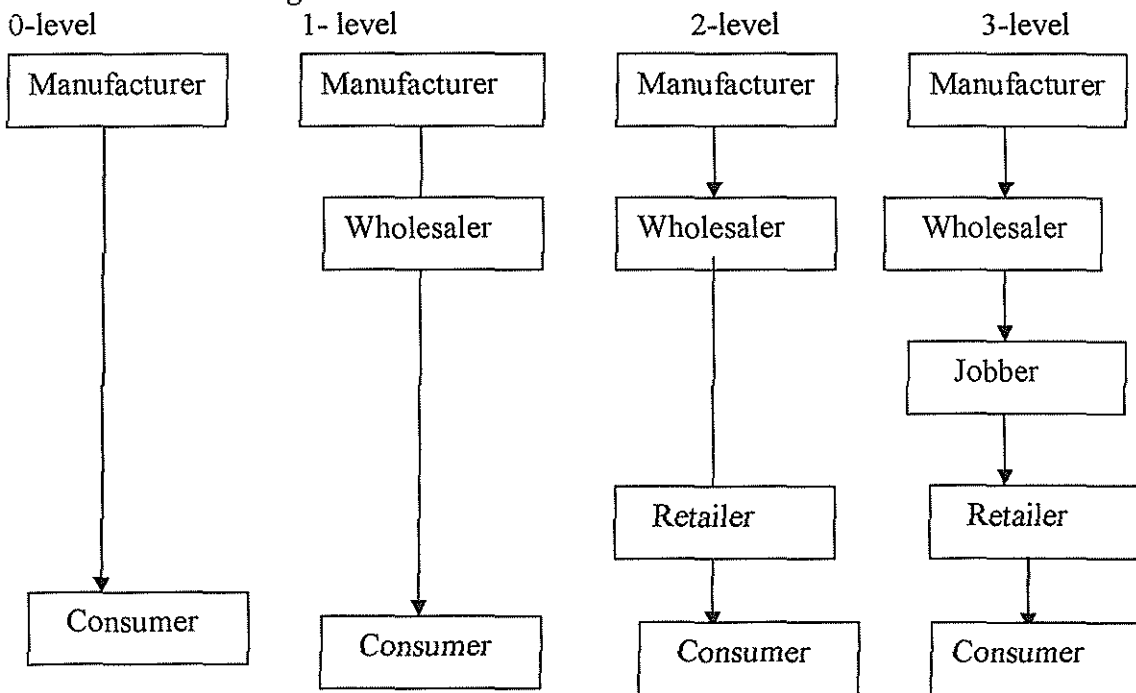


Figure 1: consumer marketing channel. (Source: Adopted from Marketing Management By Kotler 2003 p. 508)

### **2.1.2. Retailing**

A “retailer” is defined as an individual (or organization) who predominantly sells goods and services to final consumers or users. Retailing includes all the activities involved in selling, renting and providing goods and services to ultimate customers for personal, family or household use and Kotler (2003) defines retailing as all activities involved in selling goods and services directly to final consumers for personal, non-business use.

When a Retailer chain becomes big and strong, then they can dictate terms to the manufacturers of some key products to manufacture for them products under their own labels. In most cases a Retailer is not big enough or do not want to get into the complications of manufacturing own products and at the same time sell them. Retailing is very dynamic as it is an industry that deals with the consumers and their needs directly.

Consumers today can shop for goods and services in a wide variety of retail organizations. There are store retailers, non-store retailers, and retail organizations. Perhaps the best known type of retailer is the department store. The retail life cycle theory suggests that retail institutions also have a life cycle which can be divided into four phases: Innovation, growth, maturity and decline.

### **2.1.3. Retail Change and Competition**

The retail sector is constantly changing. Those who do not innovate with change ultimately lose substantially. It is an evolving industry, which must cope with various changes. These days retailing is synonymous with change. As Davidson et al (1983) notes:

“The point is simple: change, sometimes almost revolutionary in pace is now a constant factor in retailing”

Retailer power and influence is growing in the marketing channel and he gives three main reasons for that:

1. The increase in retail size and buying power.
2. The application of advanced technology by the retailers
3. The use of modern marketing concepts and techniques.

The competition in the retail industry is made possible by the ease of entry and adoption. As in any successful business, innovations are rapidly copied if possible. Compared with manufactured goods, new retailing ideas can rarely be protected by patent or copyright; only the continuing flair and skill of the retailer can guarantee future growth (Randall, 1991).

The formal sector and the informal sector of the industry in Kenya have undergone serious transformation. Increase in the competition has required retailers to come up with various strategic options, for example, shifting retail management to a strategic marketing orientation. This is more long-term in nature and farsighted on the part of the management. In order for a retailing outlet to have a competitive edge, it needs to be a learning organization.

#### **2.1.4. Changing Relationship**

Certain issues are central to the manufacturer-Retailer relationship. Although retailers have bargaining power, so do manufacturers; in particular, the traditional strength of the brand is the most valuable tool as it offers retailers the opportunity to draw-in customers not only for the brand but also for all the other goods on offer. Rivalry between retailers is increasing; they do not act in consort, and may see competitive opportunities in difficulties a supplier is having with a rival chain.

## **2.2. MARKETING CHANNEL OF DISTRIBUTION**

The "channel of distribution" can be described as the means whereby products are physically transferred through the system and through which the acquisition transaction takes place. However it is also necessary to recognize the strategic importance of the "supply chain". A vital component of an organization's strategic thinking has to be a clearly defined view on the supply and distribution channel policy it will pursue to achieve its corporate goals.

Many organizations will not control the entire chain through ownership; they may therefore be faced with a situation where they have a reduced influence on the end user. The supply and distribution channel can be characterized as a number of intermediaries

acting independently of each other and often with conflicting objectives and requirements.

### **2.2.1. Conflicts in Marketing Channel**

No matter how well channels are designed and managed, there will be some conflict, if for no other reason than the interests of independence business entities do not always have the same opinion.

Interaction between participants within the marketing channel of distribution can take several forms. As intermediaries, wholesalers and retailers must successfully complete a number of tasks for each other and their clientele to accomplish distribution and transactional functions most efficiently and effectively. It is from these interactions that competition, disputes and disagreements emanate and especially between the manufacturers and the retailers.

Taylor defines conflict among firms in the marketing channel as the adversary-directed actions designed to thwart, injure, destroy, or manipulate the actions of some other channel member. It is the response generated when individuals in one or both organizations perceive that the relationship between the firms is not fairly cooperative or is in fact non cooperative. The conflict response grows out of the tensions created about the inequities perceived in the relationship.

The relationship between firms in the channel is considered to be co-operative if the actions and policies of the firm help the other to accomplish its tasks or goals. Both firms in such a situation are striving toward the accomplishment of a common goal, and the involvement of the firm in the affairs of the other helps in achieving that goal. Conflict might only emerge in a cooperative situation if both firms perceive they receive benefits from doing business with the other, but one feels that he helps the other more than he receives help in return. This one sided relationship might be resented and ultimately lead to a conflict response.

Conflicts may also be a condition of non-cooperation. The relationship between the firms would be described as non-cooperative if the actions of one firm impairs or interferes

with the goal accomplishment of the other. A conflict might be expected to develop because one firm believes it would do better without the interference of the other than it does as a consequence of that outside involvement in its affairs. Channel conflicts arise when one channel member believed another member is engaged in behavior that prevents it from achieving its goals.

### **2.2.2. Types conflicts**

The 3 basic forms of conflicts as noted by Taylor (1977) are:

1) Horizontal competition/conflict between competitors in the same line or type of business; as is among chain supermarkets. (2) Conflict between different methods of distribution; and (3) Vertical conflict between different stages in the marketing channel.

Identifying these stages in the conflict process helps as a preventive measure to neutralize a potentially disturbing situation before it wrecks unity in the marketing channel. If conflict can be anticipated and identified early enough, then channel management may be able to make the necessary adjustments to prevent the development of a irreversible conflict.

### **2.2.3. Causes of channel conflict**

The problem here is that the marketing objectives of the supplier may not coincide with those of the intermediaries. The intermediary may well be acting for other suppliers too and his priorities and loyalties may be divided.

Sometimes conflicts stem from a disagreement between channel members over the *allocation of some valuable resources needed to achieve their respective goals*. Perception refers to the way an individual selects and interprets environmental stimuli. The way such drive is perceived, however, is often quite different from objective reality. In a marketing channel context, the various channel members may perceive the same drive but attach quite different interpretations to them.

Each member of the marketing channel has his or her own goals. When the goals of the two or more of the members are incompatible, conflict may result. Incompatible goals often arise between channel members. Communication is the vehicle for all interactions among the channel members. *Communication is the vehicle for all interactions among the*

channel members, whether such interaction are cooperative or conflicting. A foul-up or breakdown in communications can quickly turn a cooperative relationship into a conflicting one. Manufacturers, for example generally feel that they are entitled to ample advance notice of such changes so that they can make appropriate strategy adjustments if necessary. If adequate communication is not provided and this failing results in negative consequences for a channel member, a serious conflict can result.

#### **2.2.4. Conflict versus Competition**

Conflict in the marketing channel should not be confused with competition, which also occurs in the channel. Competition is behavior, which is object-centered, indirect and impersonal. Conflict, on the other hand, is direct, personal, and opponent centered behavior. Thus in a conflict situation it is not the forces of the impersonal market that firms attempt to overcome, but other firms in the system with whom they are in conflict with.

One form of competition between supermarket and manufacturers is the so-called battle of private versus national brands. To call this a battle, struggle, or conflict is, in a stricter sense, incorrect because what is actually taking place is competition. The attempts by manufacturers and supermarkets retailers to gain wider acceptance of their respective brands is usually impersonal and market centered. In other words, the parties are not engaged in direct blocking activities aimed at impeding each other's goals of increased consumer acceptance of their brands. Rather, for the most part, the parties compete in the consumer market. The level of consumer acceptance for the manufacturers versus retailers brand thus becomes a function of consumer preference.

Although some retailers have drawn back from haphazard expansion into new product sectors and are concentrating on their core business, the overall trend towards more categories, brands, varieties, sizes. As there appears to be a limit to the economies of scale offered by ever-larger stores, the inevitable result is pressure on the available space. The growth of retailers' brands aggravates the situation. It adds to the problem because most retailers are bound to favor their own brands for those of manufactures.

### **2.2.5. Assessing marketing channel of effectiveness**

The manufacturers would tell the difference in commitment on the side of the retailer from the reduced level of channel effectiveness. A number of criteria are suggested for channel performance evaluation of which the most important are:

- Sales performance of channel member
- Inventory maintained by channel members
- Marketing capabilities of channel members.
- Motivation of channel members.

Generally when the retailer starts selling own brands there will be reduced commitment or outright discrimination, where the retailer gives preference to their brands in expense of the manufacturers brands. Discriminations will be in areas such as in merchandising, shelf space and space position, pricing and even stock level. The manufacturer needs to know in advance when channel effectiveness is going down and try to identify the reasons at that point.

In effect, the channel members learn to live with the conflicts so that even the face of hostilities and acrimony, channel efficiency is not affected.

Sometimes conflict can cause an increase in channel efficiency. Here both parties reappraise the reallocation of their inputs between the two channel members coming from the reappraisal could represent a better division of labor resulting in increased channel efficiency for one or possibly both channel members. By combining the three models, a general curve showing the possible effects of conflict, on channel efficiency results.

### **2.3. MANAGING CHANNEL CONFLICT**

Conflict as an inherent behavior in the channel system can only be managed and not entirely avoided or eliminated. The challenge is to manage it better not to eliminate conflict (Kotler, 2003). This is because some channel conflicts can be constructive as shown earlier. However, the importance of securing cooperation among channel members should remain top priority.

Manufactures need some sort of help from the retailers in importing their product, just stocking the product is helping the manufacturers; however, they require a little more

help than that because most retailers have their own problems to worry about and they are not concerned about the manufactures' problems. Retailers are not particularly concerned about which products consumers purchase as long as the products are bought from their own shops.

In trying to sort out the conflict, the manufacture needs to understand that the retailer cannot be expected to help promote his products unless there is something to be gained from doing so. To manage the channel many conflicts Randall (1991) recommends manufactures to study and understand each of his customers as individual firm. This necessary means a general understanding of the structure of that market and the forces, which are driving its development.

There is no one method of resolving channel conflicts. Nevertheless, some approaches for managing conflict have been discussed in literature. These will be discussed in terms of helping the manager to:

1). Detect conflict or potential conflict

This approach to the detection of channel conflict is often unsatisfactory because the potentially negative effects of the conflict may have gotten head start and may already be festering. Therefore it is generally better if the channel manager has some kind of "early warning systems."

2) Appraise the possible effects of conflict

Many researchers have been done regarding the intensity of the channel conflict and the impact on channel performance. The effect can be measured by taking the frequency of disagreements and relate this conflict measure to dealer performance.

3) Resolve channel conflict

When conflicts exist in the channel, the channel manager should take action to resolve the conflict if it appears to be adversely affecting channel efficiency. There is only a limited work to guide the channel manager in attempting to resolve channel conflict but the literature does suggest some approaches and recommendations.

A channel wide committee might be established for periodic evaluations of emerging problems related to conflict.

Joint goal setting by the committee; Even if it is not possible to develop joint goals that are in perfect harmony, the dialog attendant to the attempt would in itself be beneficial in reducing conflict.

The use of an arbitrator and both parties involved submit to this arbitration.

Channel conflict is not likely to go away by simply ignoring it. Rather, channel members must make an effort to resolve it.

### **2.3.1. Power in the marketing channel**

Whether the firms are large or small, some channel members are more powerful than others, and this fact has important consequences on the functioning of the entire channel system.

Power in the marketing channel context can be defined as the capacity of a particular channel member to control or influence the behavior of another channel member(s). It can also be looked at as the ability to control the decisions in the marketing or purchasing strategy of another member in the supply chain.

Power, if used in a manner believed to be unfair by one or more channel members can cause conflicts. But on the other hand power can be used as a base to resolve most of the channel conflicts.

The market position is based on the markets positions held by the channel members. The market position is based ultimately upon consumer loyalty.

Where the manufacturer's brands are strong and consumers like them, then the manufacturer holds more power to influence decisions and command on the retail outlets. On the other hand if the retail brands are preferred more by the consumers, then the retailer can totally dominate the channel and every aspect of its operations.

## **2.4. BRANDING**

In the four P's of marketing, the product is one of the key elements because that is where business starts, and from there you set the price, promotion and the distribution. Kotler (2003) defines a product as anything that can be offered to satisfy a want or need. Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas. In planning how to offer the product, the marketer needs to think how to differentiate the product from those of the competitors.

Companies in similar industries compete on what they are adding to their factory outputs in terms of packaging, advertising, customer advice, delivery arrangements among other things that customers value.

### **2.4.1. Brands**

Brands are different from a product. Arguably, all brands start as undifferentiated products; their success or failure in the market place depends on their functionality. A brand has an existence that is more than an actual product or service. It has a life of its own, but can also carry its values and identity into new product areas (Randall, 2000)

A product is made in the factory whereas a brand is something that is bought by the consumer. A brand is essentially a marketer's promise to the buyers, brands can also be defined as a name, term, sign, symbol, design, or combination that firm uses to identify its products and differentiate them from those of competition. This process of differentiation is what is called branding.

Branding is important to both consumers and the marketer. To consumers point of view branding facilitates buying. They are also guaranteed quality when they are buying a brand. Consumers also get psychological satisfaction when buying brands especially when the products give them the desired status. To a marketer, a brand differentiates firm's products from those of competition

There are however, some disadvantages associated with branding, with the most obvious being the increase in packaging, labeling and promotional costs.

#### **2.4.2. Retailer brands**

Store/private-label, brands are items that are owned, controlled, merchandised and sold through the retailer's own outlets. Historically, consumers considered private labels as somewhat lower quality, low in status, and lower-priced merchandise, and many retailers directly or indirectly promoted this perceptual difference between house and national brands. According to Randall (1991), own label brands, as they are also commonly called, came to prominence in supermarkets at a particular time and reflecting the grocers' particular needs. The supermarket chains were competing mainly on price, and own labels were used as part of this strategy. They were usually a slightly inferior version of the leading brand, sold at a lower price, with packaging reflecting this positioning.

Today, many of the retail brands are being developed that are actually positioned as premium brands with top quality.

Store brands serve to enhance the retailer's image and help cement its relationship with consumers. Retailers know that consumers can buy a national brand anywhere, but they can only buy their store brand at their store. This is the issue of exclusivity in the brand name. Own brand extension strategies are a key feature that needs to be adopted for a couple of years if an organization is to differentiate itself in the market place and retailer brands are one of the major ways in which they can try to make themselves unique.

**Figure 2: below summarizes the different types of retailer's brands.**

**Store name brands:** most grocery fall into this category.

**Retailer-controlled name brands:** the best-known example here is of course the mark and Spenser's St Michael name, which is more or less synonymous with its owner.

**Designer label:** these are not confined to manufacturers, but have been adopted by some retailers as well.

**Licensed names:** a similar tactic is the identification of a range with a famous personality (real or imaginary) but exclusive to one retailer.

Figure 3: types of retailer brands (Adopted from: Marketing to Retailing Trade by Randall 1991 pg. 20)

The advantage of own brands for the retailer is that they can only be purchased from that particular company and the advantage to the customer is that own brands are often cheaper than the well-known brand names and the customer knows where to obtain the product.

Despite the fact that own brand is becoming popular in most supermarkets in Kenya because of the competitive situation they are operating in, this does not mean that growth of these brands will continue infinitely. Randall (1991) observes that penetration of retailers' brands will depend on a variety of factors: Barriers of entry and exit, retail strength of manufacturers and retailers, consumers needs, and so on.

#### **2.4.3. Manufacturers (National) Brands versus Store (Private) Brands**

Manufacturer products are products, owned, controlled, and sometimes distributed by the manufacturer. They are referred to as the national brands because many of them have countrywide recognition created through national advertising programs. The national status of these manufacturer labels created the image of better and more consistent quality; to consumers they represent a "sure thing" with little or no risk. Some manufacturer's brands are in fact regional or local in scope and unknown outside their own area, and their quality may or may not be better than private-labeled merchandise.

### **2.5. LITERATURE REVIEW**

Big retailers are becoming more powerful and will continue to brand the shopping experience as well as the products they sell.

The competition in the retail trade is enormous and will call for retailers to adapt or be wiped out. Increasing competition is a major challenge facing the retail trade today. The increase of Hawkers in the streets of Kenyan urban towns for example should compel retailing managers to come up with various strategies of retaining their customers and increasing store traffic.

To help be competitive and differentiate self in the market many retailers in Kenya have created many own retail brands that offer the retailers a way to differentiate themselves and develop direct relationships with consumers. Many successful store brands have been introduced in the developed and developing worlds and specifically in Kenya. However, there is no report showing the marketing and growth of private brands in Kenya.

In order to be successful, a store chain must examine the needs of its customers very carefully. Customers do not just buy because of low prices and discounts. They too have their own reasons for being loyal and this is a key reason why many supermarkets would like to enhance this loyalty by crafting retail association through own brands.

Retailers in Kenya must then realize that own brands are supposed to add value to the store and really met customer's needs. This will create differentiation to an extent that the consumer will not mind paying a premium price for the own label products.

Retailer brands are here to stay and in future more and more retail outlets will use own brands strategically to differentiate themselves from competition and to gain more independent from the wholesalers. Right now Uchumi is focusing on building the Uchumi brand and leverage on it much more seriously despite its current financial issues. Dealer owned brands like the Uchumi labeled grains and bottled drinking water will become a more common feature.

With the introduction of the retailer brands, conflicts in the marketing channel will emerge. Retailer brands are expected to compete with the other brands in that category in the same retail outlet. But when a retailer undertakes to sell and promote own brands, more often than not there is no fair competition, as the retailer will want to favor their own brands in all the aspects that drive sales. This then is likely to lead to complaints from the other suppliers in that category which could lead to conflicts. When this happens the likelihood is that sales of the competition brands will go down and arguably, this ceases to be competition and conflicts are likely to emerge, as the supermarkets deny the suppliers a chance for sales for their personal gains. It is important therefore, to explore the relationship between the supermarkets with own retailer brands and the suppliers of

the competition brands especially when the former introduces their own brands. That will be the subject matter of this paper.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1. INTRODUCTION**

This section sets out the research methodology that was used to meet the objectives of this research study. It covered the population sample, data collection instruments and data collection techniques.

### **3.2. RESEARCH DESIGN**

The study was exploratory and was aimed at collecting information on the conflicts between retailers and manufacturers due to private brands. It was sample study of Nakumatt supermarkets in Nairobi and the manufacturers/suppliers of Mumias sugar: the competing brand. A survey was therefore deemed a suitable research design.

### **3.3. POPULATION**

The target population in this study included Nakumatt supermarkets that have own retail brands in Nairobi.

The study was a sample study in that, only one supermarket chain that sells their own brands, out of the total number of supermarkets in Nairobi that offer competing brands, was considered for the study.

### **3.4. DATA COLLECTION**

Primary data was collected via a questionnaire. There were two sets of questionnaires, one to the manufacturer and the other to the supermarket. The questionnaire respondents for the supermarket were either senior marketing managers, procurement managers or business owners. The manufacturer/supplier firm respondent was the manager in the distribution department.

In this study, supermarkets that have “own brands” were considered to be those that have products with the supermarkets name and or logo on them or on their packaging.

The researcher also conducted face to face interviews where possible, the advantage of this method being that it enabled the researcher to get first hand information.

### **3.5. DATA ANALYSIS**

The data was analyzed by use of tables, pie charts, graphs and percentages.

## CHAPTER 4

### DATA ANALYSIS AND FINDINGS

#### 4.1. INTRODUCTION

Responses were collected and edited to ensure completeness, before the processing began. Questionnaires were presented to the individual supermarkets, and to their suppliers, that is the manufacturer.

It would be important to note here that the supermarket does their purchases as a group, thus the 100% response rate from the manufacturer as only one questionnaire was issued and collected.

*Table; Number of respondents*

Categories	Target Number	Responses	% achieved rate of responses
Supermarkets	11	8	72.72%
Manufacturers	1	1	100%

In the supermarkets category, 3 store managers, out of the targeted 11, were uncooperative in filling out the questionnaires. However, the researcher feels that the 72.72% response rate was well above average and will help in making her conclusions. All the stores began selling their own brand over 5 year ago. This shows that retailer branding is not a very new concept especially to this well-established supermarket chain in Nairobi.

#### 4.2. SOURCES OF CONFLICTS

##### 4.2.1 according to the retailer

ISSUE	YES	NO	NO IDEA
The space and the shelf allocated to Manufacturer brands		100%	
The retailer starting to sell competing brands	12%	88%	
<i>The manufacturers sales volume expected from the retailer</i>	100%		
The prices charged for manufacturer products	75%	25%	
The promotional support given to manufacturer products		100%	
The stocks 4manufacturer products carried by the retailer		75%	25%
Handling of advertising items issued by the manufacturer		88%	12%
Support given to other accounts by the manufacturer	25%	50%	25%

Key sources of conflict were viewed to be sales volume and prices charged to manufacturer products.

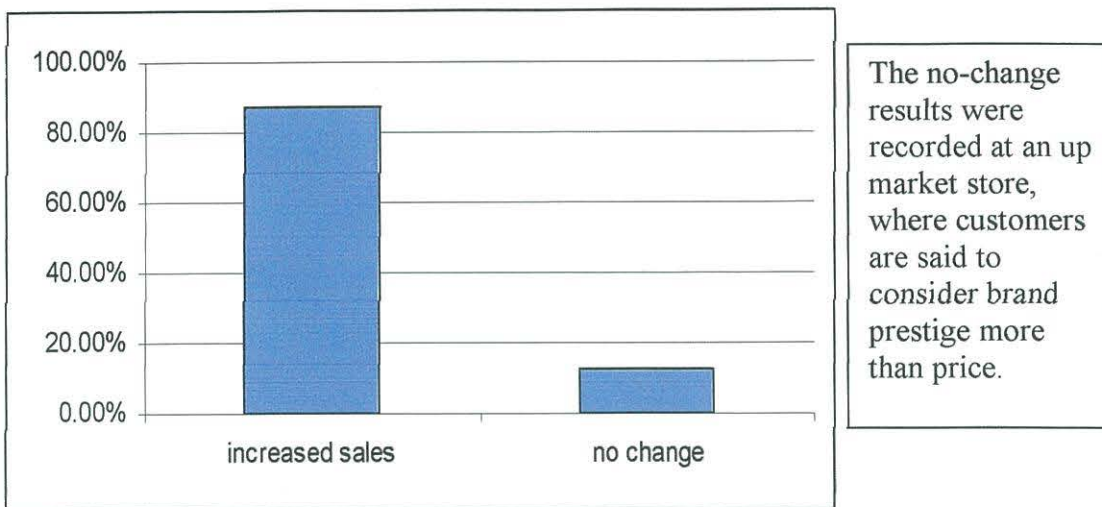
#### 4.2.2 according to the manufacturer

The manufacturer, on the other hand, had several issues they considered as potential causes of conflict, these are;

- space and the shelf allocated to Manufacturer brands
- retailer starting to sell competing brands
- manufacturers sales volume expected from the retailer
- stocks 4manufacturer products carried by the retailer

#### 4.3 CONTRIBUTION OF RETAILER BRANDS TO THE BUSINESS

According to the retailer, the results may be put in the form of a pie-chart:



In the case of the manufacturer, he is in a win-win situation, because, he is the one who provides the bulk product that is re-packaged by the retailer into the retailer brand, while at the same time providing the retailer with his own pre-packaged consumer brand.

#### 4.4 CONFLICTS

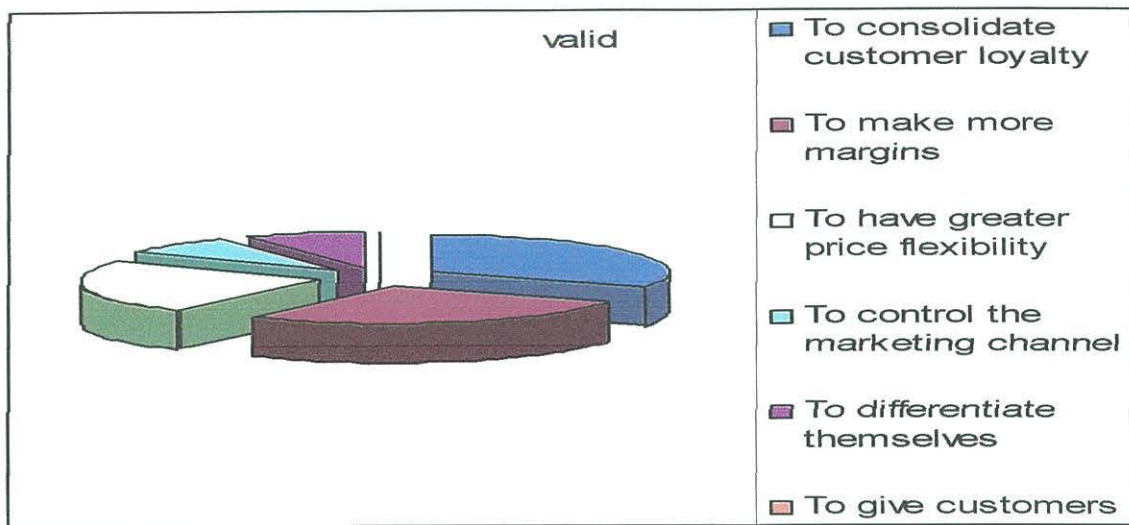
Product shortages and delivery of products were cited as the most significant contributors to conflict because the retailer believes that the manufacturer sometimes, deliberately delayed delivery of the bulk product, which in turn leads to a retailer brand shortage and leaves consumers with no alternative but to buy the manufacturers brand.

The manufacturer only remembers of to major conflicts with the retailer, however, the retailer butts the number of conflicts at over 10 times, since the introduction of own brands.

This was attributed to the fact that many of them had clashed with the manufacturers representatives who visit stores on routine inspection of the shelf space and location given to the manufacturers product.

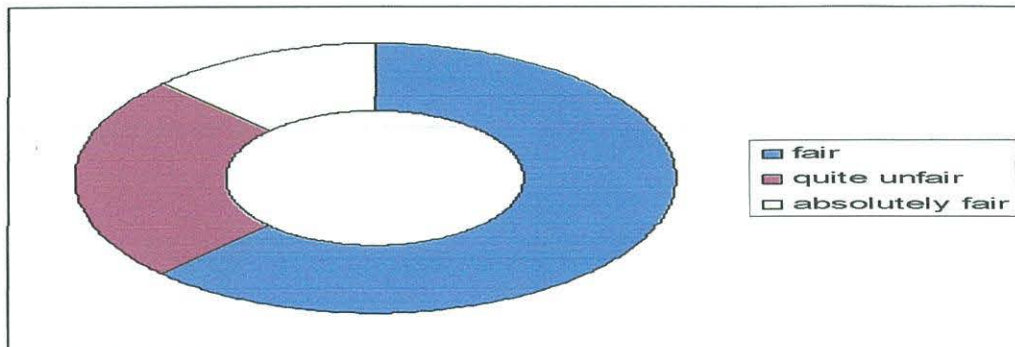
#### 4.5 REASONS FOR COMING UP WITH OWN BRANDS

Consolidating customer loyalty, making more margins, and to have greater price flexibility, were the most satisfying reasons to manufacturers for retailers to have their own brands.



#### 4.6 CLASSIFICATION OF COMPETITION BETWEEN RETAILER BRANDS AND MANUFACTURER BRANDS

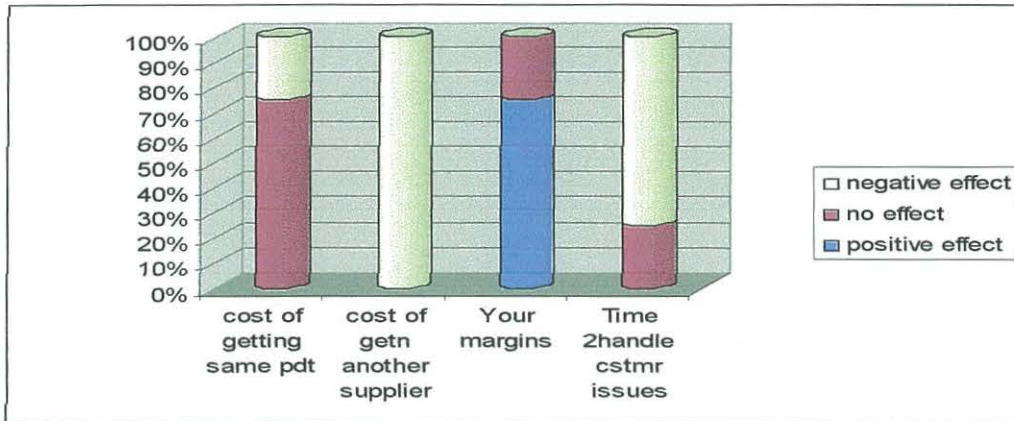
According to the manufacturer, competition between their brand and retailer's brand was classified as being fair. On the other hand the retailers' responses were as follows:



## 4.7 EFFECTS OF CONFLICTS

### a. On supermarkets

Costs of getting another supplier ranked highest as the factor that negatively affects the retailer after conflict has occurred. It garnered a 100% response rate, while the time taken to handle customer issues came a close second with a 75% response rate.



### b. On the manufacturer

Costs of getting the same customers, ranked as the highest factor affecting the manufacturer, after conflicts, margins came a close second. But unlike the supermarkets, the manufacturer loses margins once they lose a customer.

## CHAPTER FIVE

### SUMMARY

#### 5.1. INTRODUCTIONS

This chapter will summarize findings, discuss the major findings, give conclusions and the limitation of the study and give suggestion for further research in this area of study. The objectives of this study were: To determine conflict levels between retailer brands and the manufacturer selling the competing brand to them. To explore the effect of such conflicts on the trading relationship and determine how such conflicts can be resolved.

#### 5.2. SUMMARY AND DISCUSSIONS OF THE MAIN FINDINGS

##### 5.2.1. Conflicts between manufacturer and retailers selling their own brand

According to the manufacturer, the shelf space allocated to their products is a key source of conflict. This is because visibility of products in the retail Outlets is a key sales driver. The supermarkets on the other hand believe that the key source of conflicts in the level of support given by the manufacturer. The supermarkets heavily depend on the promotional support given by the manufacturer to be competitive and successful. According to the supermarkets the promotional support that they give to the manufacturer's product is not a major source of conflict. On the other hand, the manufacturers do not agree that the support they give to the competing supermarkets would be a key source of conflict. The research findings show that the introduction of Retailer brands increases sales of both the own brand and those of the competitors. This could be due to emphasis and focus that the supermarkets give to promote own brands leading to increased sales of that category. The disagreement issue that were considered most significant by the supermarkets were pricing of the manufacturers products and product shortages.

##### 5.2.2. Conflicts after the supermarkets introduce own brand.

The research findings show that there has been no growth in the number of conflicts after the introduction of own brands. The supermarket interviewed described the levels of conflict after the introduction of own brands as "not frequent" and only a few described it as frequent. The manufacturer also described the levels as "not frequent". This could be supported by the fact that the supermarkets and the manufacturers have all to gain from

the increased sales in that category as observed. The need for higher margins is one of the key reasons for the supermarket going into private labeling

Supermarkets also perceive that they give the manufacturer enough support in display and passing on discounts to the customers of their products and if actually they do that and the manufacturers agreed that this an area that create conflicts then there could be minimum conflicts caused by introduction own brands. Generally, the supermarkets do not believe that brands have contributed to any disagreements or tensions between them and the manufacturer. Even if own brands would have caused more disagreement issues it did not cause any flare up to already existing issues between them and the manufacturer.

### **5.2.3. Effects of conflicts**

It is important to know when there are issues with each partner in business that could lead to conflict. From the research findings the supermarkets are made aware of impeding conflict when the manufacturer refuse to supply their products and when the manufacturer refuse to honor the agreed trading terms.

According to the manufacturer the most important factor awareness of conflict is when the supermarkets refuse to buy the manufacturers products and the supermarkets reducing the shelf space allocated to the manufacturer's products. The drastic actions taken by either side to make the other side listen or take action could be avoided if there was better communication between the two parties. When either party takes such actions it could lead to losses in business.

The supermarkets ranked time spent to handle customer's complaints as the most important factor that affects them negatively when there is conflict. while the manufacturer concedes that the costs of getting same customer elsewhere and the delivery time. Supermarkets thrive to satisfy their customer's needs at whatever costs and when certain products are missing on the shelves; customers complain and may conclude that the supermarkets is unable to stock full range. On the other hand, the manufacturers are worst affected by conflicts because they have to incur the cost of getting other customers and lose on margins. This is because when the supermarkets refuses to buy, the

manufacturer is under pressure to create other channels or to build other customers to carry their products.

#### **5.2.4. Conflict resolution**

According to the research findings, the supermarkets have never had full-blown conflict with the manufacturer of the competing brand. Both sides having known the implications of the conflict would do as much as it takes to avoid issues getting out of hand. When there have been conflicts both sides put deliberate effort to resolve all the issues as soon as possible. According to the supermarkets in the study that had conflicts, most of the issues were addressed at the time they were raised.

It is important to detect conflicts early enough to avoid the issues getting out of hand.

#### **5.3. CONCLUSION**

According to the research findings, though there are some issues that could lead to conflict in normal business relationships between the supermarkets and the manufacturers, the issues are usually resolved early enough before they have any impact on business objectives. Both parties are aware of the implications of such conflicts and they put deliberate effort to resolve them.

Even where there are issues, both parties are willing to have them resolved as quickly as possible to avoid loss of business. This is the reason why even when the supermarkets introduce own brands, they continue giving substantial support to the competing manufacturer brands, and also through the deliberate effort they put to popularize their own brands, the sales of the whole category grows. With this mutual gains then there are no conflicts.

#### **5.4. LIMITATION OF THE STUDY**

There was not enough time and money to cover effectively all the Nakumatt stores in the country. Data was collected within a set period of two weeks and under tight budget constraints that did not allow repeat visits to respondents who could not get time to fill the questionnaire or sit for interviewing at the first visit.

Another constraint was lack cooperation from some store managers who were suspicious and could not allow the interviewer see them or even fill the questionnaire. This led to the somewhat low rate of response from the store managers.

Marketing jargon used in the questionnaire could have been a limitation for most of the respondents not really getting the meaning of some of the questions hence, uninformed factor choices. This limitation was however not significant enough to affect the overall findings of the study.

The study was also done in Nairobi only and exclusively for the nakumatt chain of supermarkets that have their own brand. There are other key supermarkets in Nairobi who have own brands and their views were not represented in this study. This was due to time and resources available for this study as earlier mentioned.

## **5.5. RECOMMENDATIONS FOR FURTHER RESEARCH**

Further research can be done on:

1. The supermarket chain that was covered in this research was located in Nairobi. For a more thorough study in this area, the researcher recommends that all supermarkets with own brands be covered nationally.
2. The researcher only looked at one commodity whereas many supermarkets now offer grains, bread, milk and water with their own brand.
3. Further research can be done on how the various supermarkets with own brands market them. It is now common that most own brands are strategic for the supermarkets and it is important to explore what marketing support these supermarkets give them.
4. It would be interesting also to explore the development and performance of own brands in other industries like clothing in Kenya.

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## APPENDICES

### APPENDIX 1

#### Questionnaire (to supermarkets manager)

Name of supermarket: .....

Location: .....

Managers name: .....

1. When was the Business started? (Please tick as appropriate)

- One year ago ( )
- 2 - 5 years ago ( )
- Over 5 years ago ( )

2. When did you start own brand for sugar? .....

3. Do you have other chains of supermarket within Nairobi? (Tick as appropriate)

1. Yes ( )      2. No ( )

4. Do you consider the following issues to be a source of conflict between yourselves and the manufacturer?

ISSUE	YES	NO	NO IDEA
The space and the shelf allocated to Manufacturer brands			
The retailer starting to sell competing brands			
The manufacturers sales volume expected from the retailer			
The prices charged for manufacturer products			
The promotional support given to manufacturer products			
The stocks for manufacturer products carried by the retailer			
Handling of advertising items issued by the manufacturer			
Support given to other accounts by the manufacturer			

5. How has your own brand contributed to your business? (Tick as appropriate)

- Increased sales (      )
- Reduced sales (      )
- No change (      )

5. How significant are the following factors in contribution to conflicts with the manufacturer? Rate each point according by ticking the appropriate space.

- |                                | <b>significant</b>       | <b>do not know</b>       | <b>insignificant</b>     |
|--------------------------------|--------------------------|--------------------------|--------------------------|
| • The delivery of the products | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Product shortages            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| • Disagreement over pricing    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

7. How many times have you had conflicts with the manufacturer since Introducing your own brands?

1. Once (    ). 2. Twice (    ). 3. 5- 10 times(    ). 4. Over ten times (    )

8. How would you describe the occurrence of conflicts after the introduction of own brands? (Please circle as appropriate)

1. Very frequent    2. Frequent    3. Not decided    4. Not frequent    5. Not at all

9. How would you classify the competition between manufacturer brands and own brands? (Please circle one)

1. Absolutely Fair    2. Quite fair    3. Fair    4. Quite unfair    5. Absolutely unfair

10. How did the conflict affect (please tick as appropriate)

	<b>Positively</b>	<b>No effect</b>	<b>Negatively</b>
The cost of getting the same product	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The cost of getting another supplier	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your margins	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Time taken to handle customer issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**APPENDIX 2**

**Manufacturer's questionnaire**

Gender: Male ( ) Female ( )

Age: .....

Number of years in service: .....years

Position in company: .....

1. Are the following situations potential causes of conflict?

	YES	NO	NO IDEA
The space and the shelf allocated to Manufacturer brands			
The retailer starting to sell competing brands			
The manufacturers sales volume expected from the retailer			
The prices charged for manufacturer products			
The promotional support given to manufacturer products			
The stocks for manufacturer products carried by the retailer			
Handling of advertising items issued by the manufacturer			
Support given to other accounts by the manufacturer			

Any other please indicate

.....  
 .....

2. What would you say Retailer brands have contributed to your sales? Please tick as appropriate.

1. Increased sales ( )

2. Reduced sales ( )

3. No change ( )

3. How many times have you had conflicts with the supermarkets?

1. Once ( )      1. Twice ( )

3. 5-10 times ( )      4. Over ten years ( )

4. How would you describe the occurrence of conflicts after the introduction of own brands? (please tick one)

Frequent ( )

Not frequent ( )

No occurrences yet ( )

5. Do you think the following are valid reasons for the supermarkets coming up with own brands?

	<b>VALID</b>	<b>NOT VALID</b>	<b>NO IDEA</b>
To consolidate customer loyalty			
To control the marketing channel			
To make more margins			
To have greater price flexibility			
To give customers better product quality			
To differentiate themselves			

6. How would you classify the competition between your brands and own retail brands?  
(Please circle one)

Very fair      Quite fair      Quite unfair      Not fair at all

7. How does the conflict affect: (please tick as appropriate)

	1	2	3
	Positively	No effect	Negatively
1. The cost of maintaining the same customer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The cost of getting another customer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Your margins	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Time taken to handle customer issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**ALL ANSWERS WILL BE TREATED WITH CONFIDELIALITY**