THE EFFECTS OF INFORMAL COMPETITION ON THE FINANCIAL PERFORMANCE OF FORMAL CLOTHING RETAILERS IN GWERU

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ABSTRACT

This study examined the effects of informal competition on the financial performance of formal clothing retailers in Gweru. Informal competition refers to the presence of unregulated, non-traditional sellers who offer similar products or alternatives to formal clothing through informal channels such as street markets, online platforms, and social media. The aim of this research was to understand how the presence of informal competition impacts the sales, profitability, and overall financial performance of formal clothing retailers. The study adopted a quantitative research approach. Questionnaires were used to collect data. The results of the study proved that there is a negative relationship between informal competition and the financial performance of formal clothing retailers in Gweru. The formal retailers are experiencing a decline in the volume of sales and profits, the market share is decreasing so as the customer base. However, the financial performance of formal retailers is solely not affected by informal competition. The research findings showed that there are other elements that affect the financial success of formal merchants even though informal competition has an impact on that performance. These factors include, financial leverage, size of firm, competition from other formal retailers and changing shopping habits of consumers due to economic factors including unemployment and inflation. Creativity and innovation in marketing strategies will help to catch up with the dynamic Zimbabwean environment. This also includes improving their online marketing strategies and try to learn from the informal retailers how they market their products.

Keywords: Informal Competition, Financial Performance, Formal Clothing Retailers.

1. INTRODUCTION

This study sought to investigate the effects of informal competition on financial performance of formal clothing retailers in Zimbabwe. Zimbabwe has a diverse clothing retail industry comprising both formal and informal sectors. The formal segment includes well-established retailers like Edgars, Jet, Power Sales, Topics, and Enbee, while the informal sector consists of street vendors, flea markets, second-hand clothing sellers, and "ma runner," which are gaining popularity. The formal retailers face tough competition from the various thriving informal businesses, impacting their financial performance. Competition is an inevitable part of any business, and even entrepreneurs must acknowledge that competitors will emerge due to the dynamic nature of the business environment. Changing consumer preferences have led a significant portion of consumers to shift from traditional formal retailers to the informal ones, which are known to offer cheaper and higher quality products. Mthuli (2023) stated that the second-hand clothing sector, known as "mabhero," is vibrant due to its affordability and quality. According to Martin (2023), it was noted that some listed clothing retailers on the Zimbabwe Stock Exchange reported a decline in sales attributed to the popularity of second-hand outlets, with around eight in ten people potentially wearing second-hand or preloved clothes.

The formal clothing retailers however had been thriving despite the high prices through the use of credit sales whilst targeting civil servants and other formally employed consumers, but since some of them are suspending the Zimbabwe dollar credit sales for example Truworths due to the high interest rates, this can have an impact on them since regular credit customers might resort to other cheaper retailers in the informal sector. Kuwaza (2022), reported that Truworths had stopped selling through the Zimbabwe dollar credit in July 2022 because of the increase in interest rates which is expected to have the effect of reducing its volumes of sales. According to Ndebele (2022), the CEO of Truworths Zimbabwe, "the presence of a flourishing informal sector is undermining the competitive edge of formal retailers." Customers are increasingly turning to purchasing goods in the unregulated informal market due to lower prices, posing a challenge for formal businesses which are unable to compete with those prices.

According to Mutashu (2020), the emergence of informal traders has had a detrimental effect on the sales and profitability of registered retail stores. Profit margins in the sector have significantly decreased, with a reduction from a previous range of 10-15% to just 5%. Sales per square footage have also declined, and the average basket size per shop has decreased due to the availability of commodities in the informal sector. Second-hand clothes and other items are being sold in various locations, including in front of formal retail shops, in cars, pavements within the central business district (CBD) and in houses. This situation negatively impacts established businesses that incur expenses such as rent, payroll, operating costs, and taxes paid to the government.

According to Adonis (2023), the global second-hand fashion market is predicted to experience significant growth of 127% by 2026, making preloved fashion a popular global trend. This growth poses a challenge for formal clothing retailers, as they are likely to face a decrease in market share. Dongo cited by Gahadza (2022) explains that formal retailers and wholesalers face significant disadvantages in the current trading environment. The informal retailers, who are anticipated to replace the formal retailers, operates with fewer regulatory restrictions and has a greater ability to generate local and foreign currency. Moyo (2021) further supports this view, stating that formal clothing shops are feeling the impact as their second-hand counterparts dominate in Zimbabwe's struggling economy. Nsingo and Bhebe (2021) also reported that the country's formal retailers are experiencing heavy losses due to the plenty of smuggled cheap substitutes that are sold in front of most shops in urban centers.

1.1 Main research question

The effects of informal competition on financial performance of formal clothing retailers in Gweru

2. EMPIRICAL REVIEW

2.1 The relationship between competition and financial performance

Several researchers have studied if there really exist a relationship between competition and financial performance surprisingly they all came up with different views in their areas of study. Yahaya et al. (2015)'s study concluded that competition has a detrimental effect on the financial performance of the Nigerian banks. They agree that regulators should encourage healthy competition among deposit money banks so as to mitigate the negative impacts of competition on bank financial performance. Similarly, Phiri (2017) found that competition also has a negative effect on the financial performance of SMEs. In line with the previous authors, Khattak et al. (2022) conducted their own research and also observed a negative effect of competition on the financial performance of banks. They found that competition leads to reduced profits for banks and increases their risk levels.

Contrary to the previous studies, Liu et al. (2022) discovered a positive correlation between competition and financial performance. They found that market competition among products leads to improved profitability and healthier performance of enterprises, confirming a significant positive link between the two. Similarly, Kiaritha et al. (2019) suggested that competition among firms creates pressure on business managers to effectively carry out their assigned tasks, thereby enhancing the profitability of the firm. In the context of the banking sector in Kenya, they concluded that there exists a positive relationship between competition and financial performance, as evidenced by an increase in members' deposits, loans disbursed, profit before tax, and the value of total assets in the face of competition from commercial banks in the country. Moreover, Oner et al. (2019) observed that hospitals situated in less competitive markets, as indicated by a high Herfindahl-Hirschman Index (HHI), experience higher profitability, lower costs, and lower revenue.

2.2 The Risks and Challenges Associated with Adapting to Competition

2.2.1Changing customer preferences

Changing customer preferences present a significant challenge for businesses when adapting to the competitive environment. Customer preferences are influenced by various factors such as technological advancements, cultural shifts, demographic changes, and evolving societal trends (Kotler & Armstrong, 2021). Keeping up with these dynamic preferences requires businesses to continually monitor and understand customer needs, expectations, and desires. To adapt to changing customer preferences, organizations need to invest in market research and gather customer feedback to gain insights into evolving trends (Kumar, 2019). This enables businesses to identify shifts in customer preferences and tailor their products, services, and marketing strategies accordingly. Adapting to changing preferences often involves product innovation, customization, or diversification to meet the evolving demands of the target market (Kotler & Keller, 2016).

Moreover, the rise of digital technologies and the internet has empowered customers with access to vast information and increased choices. Customers now expect personalized experiences, convenient shopping options, and seamless interactions across various channels (Mangold & Faulds, 2009). Adapting to these preferences requires businesses to invest in digital transformation, enhance their online presence, and deliver personalized and engaging customer experiences.

2.2.2 Cost implications

Adapting to the competitive environment can come with significant cost implications for businesses. To remain competitive, organizations may need to invest in research and development to innovate and improve their products or services (Porter, 2008). Additionally, marketing campaigns may be necessary to promote the business and differentiate it from competitors (Kotler & Keller, 2016). Operational improvements, such as upgrading technology systems or optimizing supply chains, may also be required to enhance efficiency and reduce costs (Barney, 1991).

These investments can place a financial burden on businesses, particularly smaller or resource-constrained organizations. It is crucial for companies to carefully balance their investments and ensure they generate a return on investment while maintaining profitability (Bromiley & Marcus, 1989). Failure to manage cost implications effectively can result in reduced profit margins, financial strain, or even business failure (Hitt et al., 2018). Furthermore, the competitive environment may force businesses to engage in price wars or aggressive pricing strategies to attract and retain customers (Porter, 1980). This can further strain profitability and erode profit margins. Businesses need to carefully assess the long-term sustainability and viability of their pricing strategies in the face of intense competition (Levy & Weitz, 2012).

2.2.3 Labour turnover

The current era is characterized by rapid change, offering numerous opportunities in the labour market. Consequently, employees face intense competition, posing a challenge for organizations in retaining their workforce (Matika, 2021). Zvada (2022) defines employee turnover as the loss of talent resulting from employee departures, which can be voluntary or involuntary, including resignations, layoffs, terminations, retirements, transfers, or deaths. High employee turnover is detrimental to organizations, as it incurs costs, consumes time, and undermines morale. Retaining employees is crucial, as a motivated and well-coordinated workforce contributes to the achievement of organizational objectives (Magaisa & Musundire, 2022).

The turnover rate is determined by calculating the ratio of employees who leave the organization during a specific period to the total number of employees within that period (Ongori, 2007). Staff turnover is negatively influenced by the costs associated with replacing and training new employees. Organizations should consider orientation and informal training to reduce turnover, recognizing that it takes time for new employees to reach optimal performance levels (Ongori, 2007). Employee turnover disrupts organizational processes and places additional stress on remaining employees as they cope with increased workloads (Magaisa & Musundire, 2022).

2.3 Other Strategies That Could Be Used To Gain A Competitive Advantage

According to Kotler (1997), strategy implementation can be defined as the conversion of plans into action, ensuring that assigned tasks are carried out effectively to achieve the stated objectives. Harrington (2006) shares a similar definition of strategy implementation, describing it as an interactive process that involves the implementation of strategies, policies, programs, and action plans. This process enables a company to utilize its resources and leverage opportunities within the competitive environment (Guruvo and Chiguvi, 2019).

2.3.1 Improve customer service

Customer service is a crucial aspect of business that can enhance a company's competitiveness (Klimuk, 2018). According to Cook (2020), customer service is the communication between customers and the selling business regarding its products or services. Enhancing customer service is vital for the success of apparel businesses and related industries. This includes promptly addressing email inquiries, resolving store complaints, and providing necessary follow-ups. While technology and globalization have facilitated quick production for clothing companies, the one thing that cannot be replicated is excellent customer service (Azhar, 2021). The customer service adopted by a business can be the deciding factor for its success, as business owners have the opportunity of outperforming its competitors (Chapman, 2019). Phiri (2019) also emphasizes the importance of adding value to the overall customer experience in today's business world.

2.4 Other factors that affect financial performance of formal clothing retailers

Financial performance is commonly defined as an evaluative measure of a firm's ability to effectively utilize its assets within its primary business operations and generate revenues, reflecting the overall financial well-being of the company during a specific period (Kenton, 2022; Lee & Poku, 2022). It is an essential undertaking for companies to assess their achievements by analyzing financial statements (Sukawati & Wahidahwati, 2020). Njeri (2021) and Meiryani et al. (2020) identify various metrics, such as Return on Investment (ROI), Return on Capital Employed (ROCE), sales, and profitability, as common indicators for measuring the financial success of a business. Fatihudin, Jusni, and Mochklas (2019) emphasize that financial performance benchmarks encompass liquidity ratios, solvency ratios, profitability ratios, efficiency ratios, and leverage ratios, which can be derived from financial statements including cash flow statements, balance sheets, profit and loss statements, and capital change statements. Achieving excellent financial performance is crucial for companies to fulfil their primary objective of maximizing the wealth of their owners. However, in practice, financial performance is influenced by numerous factors (Herlambang et al., 2020).

2.4.1 Firm size

The influence of firm size on financial performance has been a subject of debate among researchers, with conflicting findings presented in the literature. Meiryani et al. (2020) suggest that firm size can be measured using metrics such as total assets, sales, or company capital, and companies with larger total assets are considered to have better prospects and the ability to generate profits compared to smaller companies. Kim, et al (2021) argue that larger companies have a greater impact on investors, creditors, stakeholders, and consumers. Omondi and Muturi (2019), on the other hand, found that while larger companies have a competitive advantage due to their resources and economies of scale, they can also experience negative effects such as bureaucracy. Similarly, Herlambang et al. (2020) state that larger companies may face higher agency costs and be less flexible in adapting to market changes, leading to a decline in financial performance.

2.4.2 Financial leverage

Leverage refers to the utilization of borrowed capital to finance investment projects (Demiraj et al., 2023). Kalash (2023) found that financial leverage has a negative and significant impact on financial performance, particularly for firms with higher financial distress risk. Additionally, the study suggests that the negative association between leverage and performance is exacerbated during currency crises. Similarly, Kadomi (2021) concluded that financial leverage has a statistically significant negative effect on net profit margin, although it does not significantly impact return on assets and asset turnover.

Msomi (2022) also supports the detrimental impact of leverage on financial performance, aligning with the pecking-order hypothesis, which suggests that companies prioritize internal financing over external borrowing to maximize profits. Rahman et al. (2020) discovered a substantial negative association between leverage and financial performance in Bangladesh. Furthermore, Musah and Kong (2019) identified a significantly negative relationship between leverage and firms' financial performance, measured by return on assets. The increase in interest expense resulting from higher debt leads to reduced company income. However, Yasmin and Hassan (2022) concluded that leverage, represented by the debt and equity ratios, has a significant negative impact on firm financial performance, as measured by return on assets and return on equity. In contrast, Herlambang et al. (2020) found a significant positive effect of the debt ratio on a company's financial performance. This positive effect may stem from companies aggressively using debt funds for growth, leading to increased revenue generation, improved financial performance, increased creditor supervision, and tax protection.

2.4.3 Cost Management

According to the Accounting Dictionary (2021), cost management refers to the strategy of reducing operating or production expenses with the aim of offering more affordable products or services to consumers. Fadare and Adegbie (2020) define cost management as the control of actual or projected costs incurred by an enterprise or organization. They highlight its role in enabling businesses to anticipate upcoming expenditures and prevent excessive budgeting. Similarly, Akindehinde et al. (2022) describe cost management as a process employed by management to analyze and optimize production or operational processes to maintain low costs and effectively manage expenses in the future.

According to Njeri (2021), operating costs encompass the expenses associated with the day-to-day functioning of a business, specifically the costs incurred in converting acquired products into actual sales revenue. These costs involve various expenditures, including payments to employees and storage-related expenses. The author further notes that customers increasingly expect high-quality products and services with superior performance, while also desiring affordable prices. Additionally, shareholders demand a satisfactory rate of return on their investment, making cost a residual factor. Consequently, the challenge lies in manufacturing products or providing services within an acceptable cost framework. Effective cost management practices play a crucial role in enhancing financial performance for businesses. By efficiently managing costs, organizations can improve profitability, increase operational efficiency, and strengthen their competitive position in the market. Njeri (2021) emphasized that aligning cost management practices with strategic goals and using appropriate cost measurement techniques can positively impact financial performance.

According to Njeri (2021), effective management of operating costs positively affects performance, as evidenced by a higher return on investment (ROI). This implies that operating cost management enables businesses to maximize profits and achieve favourable returns on their initial investments. Consequently, the author recommends continuous and ongoing cost management activities within companies to enhance profitability and ensure survival.

2.4.4 Technology

According to Park et al. (2021), even firms with low technological assets can achieve positive financial performance through small competitive advantages. This implies that these firms can leverage other factors, such as unique market positioning, customer service, or cost-effective strategies, to gain a competitive edge and generate favourable financial outcomes. Increasing technological diversity can be an effective strategy for firms with limited technological resources. By diversifying their technological capabilities, such firms can tap into different areas of expertise or incorporate various technologies to improve their operations, products, or services, which can subsequently enhance their financial performance.

Kemboi (2019) asserts that investing in technology is crucial for firms to improve their operational efficiency and effectiveness. Technology helps to deliver services and products more efficiently, automate processes, and improve decision-making. By adopting technology firms can streamline their operations, reduce costs, increase productivity, and ultimately achieve better financial performance. Furthermore, Abdulkadir (2018) concludes that there is a significant positive relationship between technology and financial performance. This therefore means that incorporating fintech solutions can directly contribute to improved financial outcomes for firms. Fintech innovations, such as digital payment systems, online lending platforms, or automated investment advisory services, can enhance revenue generation, profitability, and overall financial performance.

According to Smith et al. (2019), the use of technology has a significant impact on the financial performance of firms. They posit that firms that adopt and effectively utilize technology tend to experience improved financial outcomes. Similarly, Johnson and Brown (2020) suggest that technology integration positively influences financial performance by enhancing productivity and reducing costs.

3. METHODOLOGY

The study adopted a quantitative research approach. Questionnaires were used to collect data. The Table 1 illustrates the target population and the sample size.

Table 1. Representation of population and sample

Description	Target population	Sample size	% Representation
Management	10	4	40
Accounts staff	10	5	50
Sales personnel	10	5	50
Employees	15	7	47
Customers	30	16	53
Informal retailers	15	10	67
Total	90	47	52.2%

Source: primary data

4. DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Responses from formal retailers

Table 2. Are you facing competition from the informal retailers?

Yes	No
94%	6%

Source: primary data

Table 2 illustrates that 94% of the formal retailers concur that there are facing competition from the informal traders whereas 6% deny that they are facing informal competition. The 6% gave reasons that they have the benefits of economies of scale that the informal retailers lack. And since they have existed for long, they have other advantages that the informal small sector businesses do not have and thus their financial performance is affected by other reasons that are other than informal competition. They say that the economy is more to blame for their financial performance and customers are generally having lower purchasing power due to factors like unemployment and inflation, and the competition from other formal retailers.

However, the 94% say that they are facing informal competition and it is resulting in lower sales, a decrease in market share and a shrinkage in the customer base. Customers are being lured by the informal retailers who have strategies in place to attract as many customers as they can to purchase. And these strategies include lowering their prices below the average normal prices. Since it's a market with a variety of sellers thus informal retailers and formal retailers, customers have a wide range of choice. A reduction in price of goods by a seller will lead to an increase in its buyers. So the low prices charged by informal retailers reduces the buyers in formal retailers leading to low sales. This is in line with Martin (2023) who said that some listed clothing retailers on the Zimbabwe Stock Exchange reported a decline in sales attributed to the popularity of second-hand outlets, with around eight in ten people potentially wearing second-hand or preloved clothes.

Informal retailers have various marketing strategies that include, being mobile, they can deliver door to door to customers, and they can even move in vehicles selling everywhere in town. They also advertise using the social platforms such as WhatsApp and Facebook which gives them access to a variety of customers. The low sales that formal retailers are experiencing are leading to high labour turnovers. This is because low sales result in lower profit margins thus there will be a struggle to pay salaries and allowances such that employees will either resign on their own to find greener pastures or they are retrenched because the firms cannot afford to compensate them for the services that they offer.

Informal retailers do not incur overheads such as rentals, electricity and labour and they do not pay taxes. Some of these informal traders illegally import second hand clothing from nearby countries especially Mozambique at very low prices then sell the clothes at very cheap prices. Whereas the formal retailers incur all of these expenses such that they are already at a disadvantage compared to the informal retailers when it comes to profitability of the firm. This then forces the formal retailers to shift the burden to the customers through an increase in the prices of the clothes that they sell. The positive shift in the formal retailer's price tend to have an adverse relationship with its profitability. This is because customers are attracted to lower prices ceteris paribus such that they will shift to purchasing from informal retailers who are cheaper.

4. 2 The strategies that you are using to gain competitive advantage

The information below shows the responses on the strategies that are used by the formal retailers to gain competitive advantage over the informal traders.

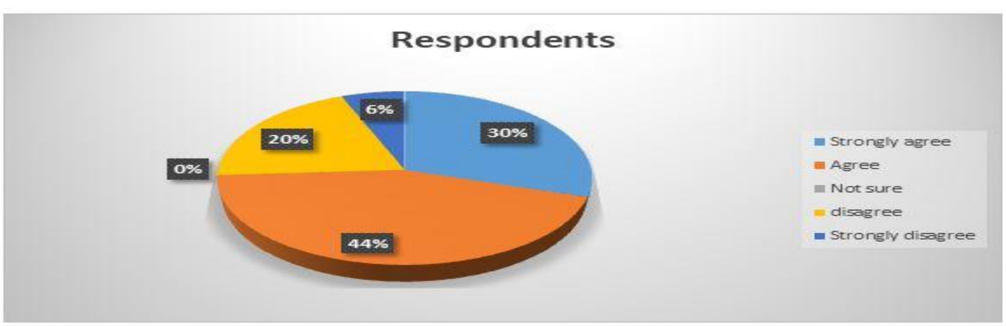

FIGURE 1
DISTRIBUTION OF RESPONSES ON PRODUCT DIFFERENTIATION

Source: primary data

Figure 1 shows that 44% of the respondents agree that differentiation is a strategy that they use to mitigate competition, 30% strongly agrees, 0 % is not sure, 20% disagrees whereas 6% strongly disagree. This indicates that 74% of respondents support the idea that product differentiation improves an organization's capacity to outperform its rivals by offering distinctive goods and services to customers (Phiri, 2018).). To differentiate they offer unique fashionable clothes and use creative advertising through magazines, and the television which the informal traders do not do. Good marketing strategies make it easy to attract customers and them advertising as a way of retaining loyal customers, retrieving lost customers and gaining new customers (Sithole et al, 2018). Despite these aggressive business tactics, they give families the option to buy stylish, high-quality, reasonably priced clothing and footwear with cash or credit. They promote financial and credit services while making sure that supplies are always available.

0% is not sure whether differentiation can be used as a competitive strategy meaning that all the respondents were quite aware what differentiation is and how it's used to be competent enough in a competitive environment. Whereas the 26% that disagrees gave the reasons that differentiation actually adds value to products and in turn will add to the price of the products leading to higher prices which pushes customers away and thus lower profits margins. From the figure above the researcher can therefore conclude that to a greater extend differentiation is a strategy that is used for competitive advantage.

4.3 Cost leadership

According to Porter's competitive theory, cost leadership is another strategy that can be used to gain competitive advantage and the Figure 2 below will show the responses from the respondents on whether it is effective to use.

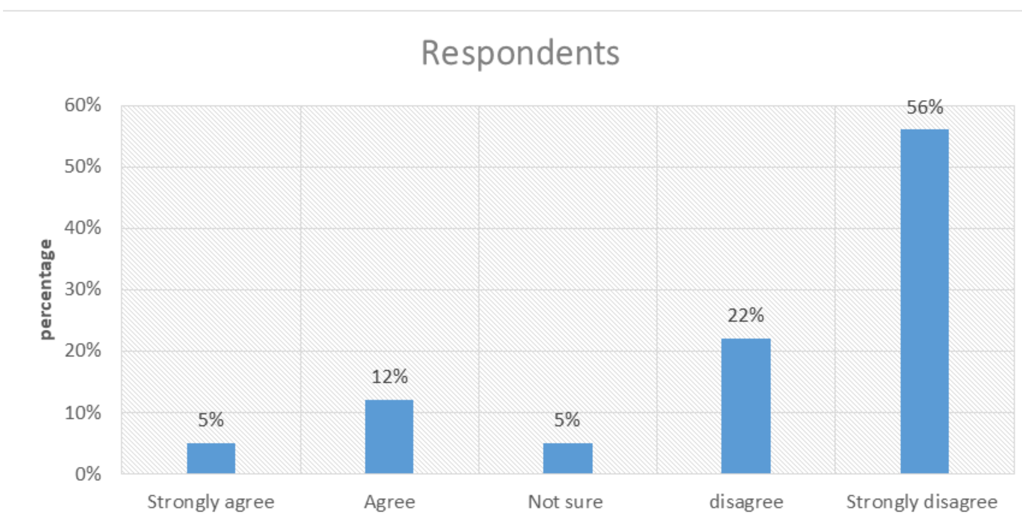

FIGURE 2
DISTRIBUTION OF RESPONSES ON COST LEADERSHIP

Source: primary data

4.2 Understanding of domestic TP requirements

From the graph above, 5% strongly agrees to the use of cost leadership as a strategy for competitive advantage, 12% agrees whereas 5% is also not sure, 22% disagrees and 56% strongly disagrees. This illustrates that a greater percentage of 78 disagree to the use of cost leadership. This is because informal retailers do not incur much costs compared to the formal retailers such that formal retailers will find it hard to practice cost leadership. Formal retailers incur overheads such as electricity, labour and rentals which informal retailers do not incur or incur less compared to the formal retailers. There are also other costs that they incur which include purchasing of clothes from wholesalers both local and importing. This is both expensive as local sellers also charge prices that are high considering the costs that they would have incurred and importing includes duties. This is different from the informal retailers who sometimes illegally smuggle goods form nearby countries for example there has been an influx of second-hand clothes from Mozambique in the past years and it's still happening now. They also import from clothes form china illegally such that they do not pay duties at the boarders. So formal retailers were complaining that cost leadership does not work in their case since they are already at a disadvantage when dealing with informal retailers, but it is possible if the formal retailers are competing against each other.

However, the smaller percentage of 17% say that they use cost leadership as a strategy. They try to minimise their costs and maximise their economies of scale and the other advantages that come along with being big and employing tight cost controls to be more efficient in the provision of products and the offering of services than competitors (Bruin, 2021). However, there is 5% that is not sure with whether cost leadership can be used or not this is because of lack of knowledge on the cost leadership strategy'.

4.4 Focus strategy

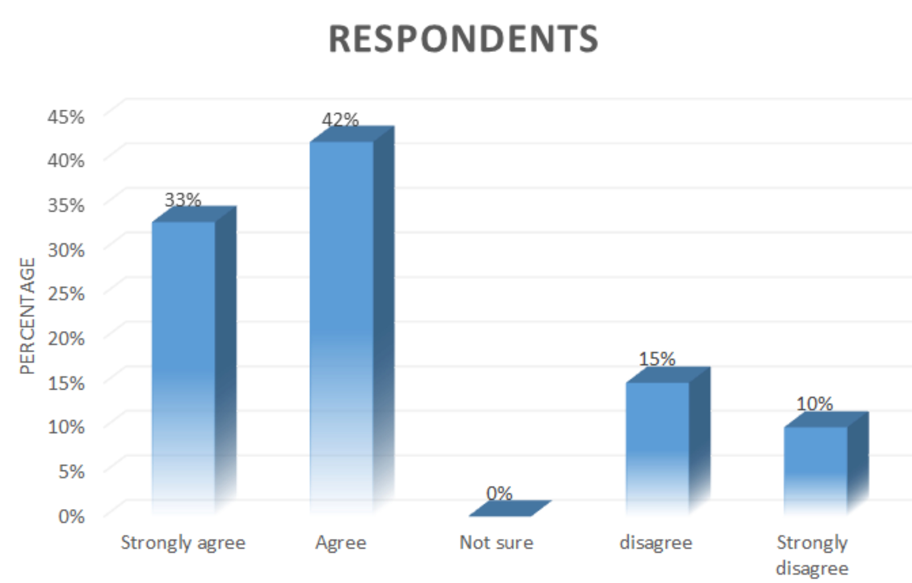

FIGURE 3
RESPONSE ON FOCUS STRATEGY

Source: primary data

The Figure 3 above illustrates that 33% strongly agrees, 42% agrees whilst 0% is not sure, 15% disagrees and 10% strongly disagrees. A greater percentage of 75% agrees that focus strategy is used as a competition strategy whilst only 15%diasgrees. This means that focusing on a certain niche market helps to be competitive in the Zimbabwean economy where there are a lot of informal retailers to compete with. Formal retailers' segment into the formal wear department thus targeting the formally employed customers and those that wear formal wear which includes, suits, formal shirts, blouse, slacks, blazers and formal dresses. The informal sector hasn't been competitive enough in that area and thus proves to be profitable to the formal retailers. However, there is a greater percentage of unemployment in Zimbabwe and citizens of Zimbabwe are becoming more of entrepreneurs in the informal sector such that just a few individuals wear formal wear to work.

The 15% that disagrees is of the view that focusing on a niche market is not proving to be a competitive strategy in the clothing retailing sector because these informal retailers are into very kind of clothing wear for example the mabhero, they sort the children mix, jacket mix, dresses mix, and slacks mix. Such that literally there is nothing that you cannot find at the informal retailers from suits to underwear to footwear. And however in the long run any kind of niche will attract new entrants into the market thus adding on to the competition.

4.5 Customer service

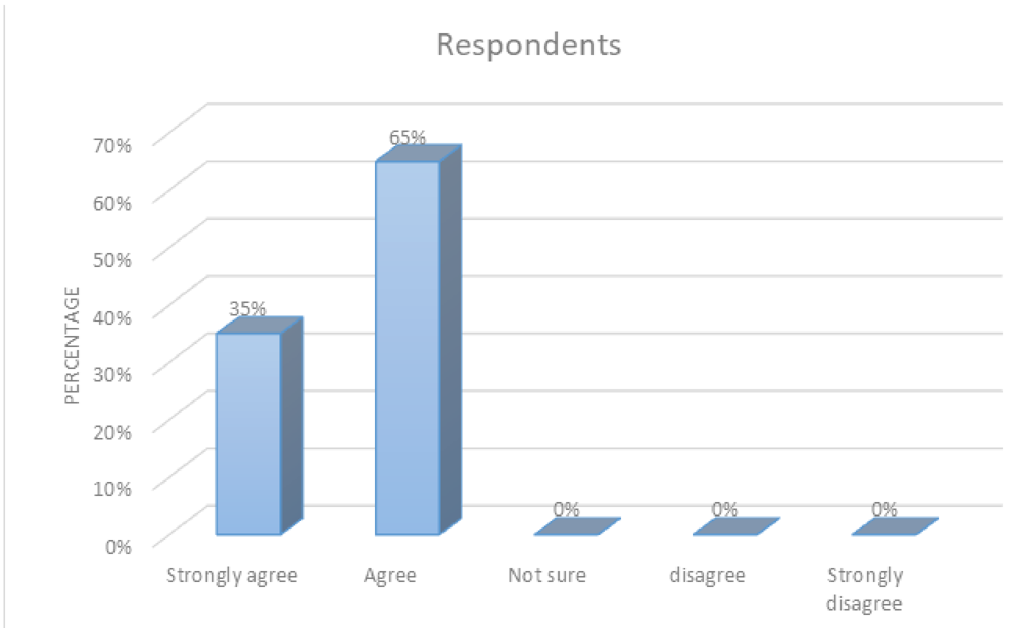

FIGURE 4
RESPONSE ON CUSTOMER SERVICE

Source: primary data

As alluded by the graph above 35% strongly agrees that customer service is used as a competitive strategy, 65% agrees, 0% is not sure, 0% disagrees and 0% strongly disagrees. As postulated by Klimuk (2018), customer service makes a company more competitive. This is proved by the study where 100% of the respondents agree that it surely makes a company more competitive Figure 4. This is when customers are provided with relevant and timely assistance, and this helps to build good relationships with customers. All the respondents concur that a company's ability to provide excellent customer service may make or break it, which is in line with Chapman's (2019) assertion. Formal retailers are giving support to customers before and after sales which improves competitive advantage. From the finding of Chiguvi et al (2020), they found that there is significant and positive relationship between SMS instalment platform service and customer satisfaction which is in line with the findings of the researcher. Edgars also testify that good customer service improves competitiveness as they lost sales in the past due to poor customer services. They are now engaging in proper employee training so that they have proper knowledge on how customers are treated to the benefit of the company. Good customer service attracts customers and retains the existing ones thus improving the market share and consequently increases sales and profitability whilst bad customer services push away customers. Therefore, from the findings of the study customer service is a successful competitive strategy that formal retailers are implementing.

4.6 Other factors that affect the financial performance of formal clothing retailers

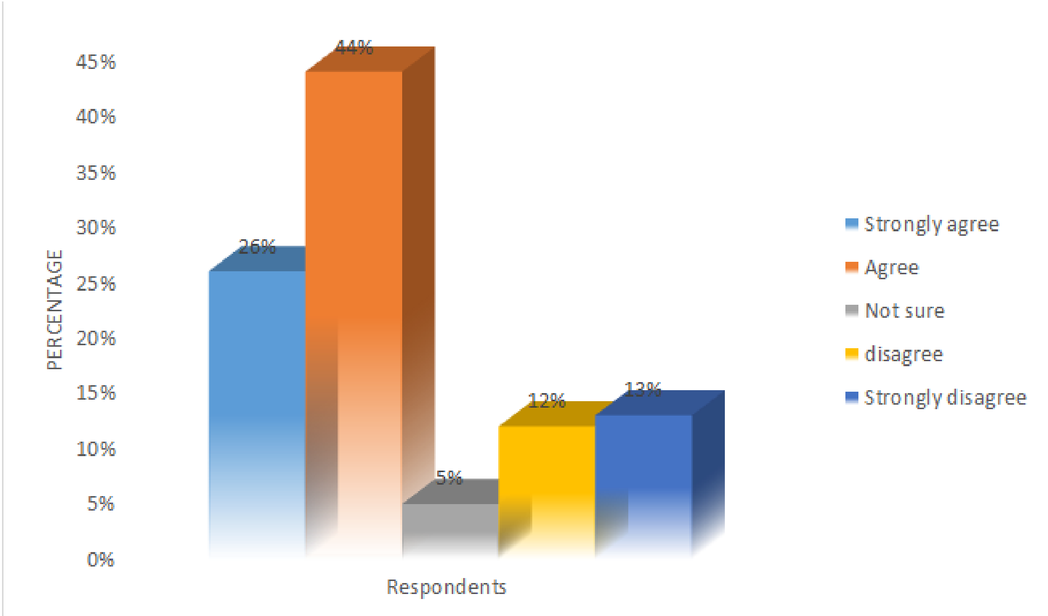

FIGURE 5
RESPONDENTS ON FINANCIAL LEVERAGE

Source: primary data

From Figure 5 the research findings financial leverage is another factor that affect the financial performance of formal retailers other than informal competition. The histogram above (fig 5) shows that 26% of the respondents strongly agree on financial leverage being a factor that affects financial performance other that informal competition, 44% agrees, 5% is not sure, 12% disagrees whereas 13% strongly disagrees.

Thus, 70% of respondents believe that financial leverage has an impact on the financial success of sellers of formal wear. 70% of those surveyed agree that financial leverage has a detrimental effect on financial performance. This is in line with Kalash (2023) and Kadomi (2021) who are also with the opinion that financial leverage has a negative impact on financial performance. This is because debt comes in with a finance cost which is interest, such that as the debt increase which is the liability so as the finance cost which is an expense which has the effect of decreasing the net profits of any firm thus negatively affecting financial performance.

However, there is 5% of respondents that is not sure. They do not have enough knowledge on financial leverage. And 25% of the respondents tend to differ that financial leverage has a negative effect on financial performance. They argue that the debt is used for the growth of any company which is beneficial as assets increase which has a positive effect on the financial performance. This is in line with Herlambang et al, (2020) who posits that there is a positive relationship between financial performance and financial leverage Figure 6.

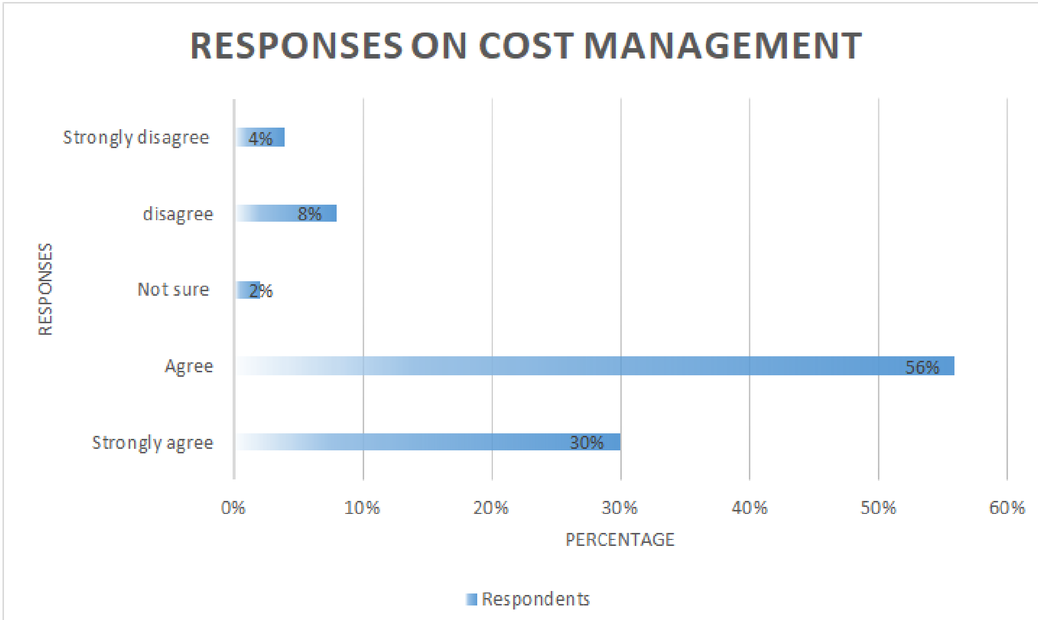

FIGURE 6
RESPONSES ON COST MANAGEMENT

Source: primary data

4.7 Cost management

The graph above illustrates that 30% strongly agrees, 56% agree, 2% is not sure, 8% disagree and 4% strongly disagrees that cost management is another factor that affects the financial performance of formal retailers. When aggregated, 86% of the respondents say that management of costs greatly has an impact on the financial performance. Poor cost management will lead to poor financial performance and good cost management leads to better financial performance. This is also postulated by Njeri (2021) who asserts that there is a positive relationship between financial performance and coat management. However, 2% of the respondents are not sure. They lack the knowledge on cost management. 12% however disagrees that cost management affects the financial performance of formal retailers and other factors affect financial performance but not cost management.

4.8 size of company

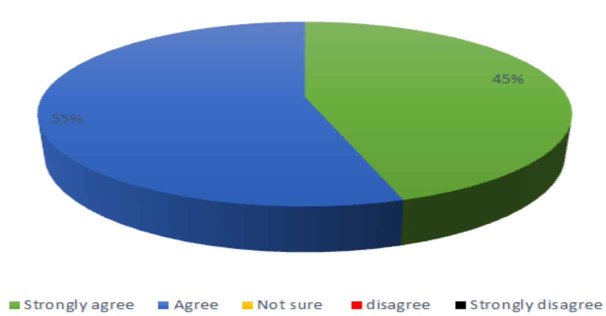

FIGURE 7
RESPONSES ON SIZE OF COMPANY

The above Figure 7 pie chart above displays that 45% of the respondents strongly agree, 55% agrees, 0% is not sure, 0%is also disagreeing and 0% strongly disagree that the size of the company is another factor that affects the financial performance of formal clothing retailers in Gweru. This means that 100% is positive that the size of a firm contributes which is in line with Meiryani et al, (2020) who postulates that there is a positive relationship between the size of the firm and its financial performance as with growth leads to more productivity, more sales and a higher market share. A larger company could more affect its current and potential investors, creditors, its stakeholders and the consumers as well even though costs might actually increase because of size for example taxes and employee costs which will increase but the advantages that come along with growth are higher than the demerits. With growth comes wide array of resources, economies of scale and hence a better position to compete in the market (Omondi and Muturi, 2019).

Therefore, the researchers can conclude that the firm size is another factor that positively affects financial performance.

5. CONCLUSION

Despite the informal competition, formal retailers are also competing against each other. This is competition of business in the same line of industry where they all incur the same overhead costs and cost leadership will prove to be effective in this this kind of competition, they also compete against prices, market share and growth in business. The formal retailers are striving on bringing in new better products and thus adding competition to the other formal retailers. A slight decrease in the price of the goods in formal retailer A will negatively affect the sales of formal retailer B and so as other determinants. Therefore, other than informal competition, competition from other formal retailers affects the financial performance of the reporting entity.

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