

Local basic food producer facing the challenge of working with multinational supermarket chains

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Abstract: *This article wants to outline the challenges faced by a local basic food producer in his battle to stay on the market. We will reveal the challenges he's facing in his own production lines and also the way he has to adapt to the changing world of the multinational companies. We will present a short history of the founding and evolution of the company on the Romanian pastry food market pointing out the relevant events which have marked the company life during the years. We will also make a short review of the competition on the market of the pastry food products and we will present the marketing strategy and policies the company is using to be able to face the new challenges.*

Key words: *basic food, producer, challenge, selling, multinational companies*

1. Introduction

1.1. About the company

The subject of our study is a local basic food producer company acting in the field of pastry food production. This is a family owned company founded in 1990 by the father of the actual owner. They have started with 3 employees all family members. Now days the company has 12 employees and just this year the company is celebrating 25 years of existence on the Romanian pastry food market.

1.2. About the company products

The company is producing mainly pastry food products. They have 3 big categories of products:

- a.) basic pastry from wheat flour
- b.) pastry made from wheat flour and 4 eggs

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c.) pastry made from wheat flour and 8 eggs.

The above mentioned categories are determining also the price categories and the quality of the produced pastry. The quality of the products are rising from a.) category to c.) category, and also the prices are rising accordingly. The owner wants to differentiate very clearly the category of products he is producing. In this purpose has decided to use his family name for the highest quality products of the company marking in this way his special care for the company products. This is the reason why all the 4 eggs and 8 eggs products has the family name Vancsa on it.

Based on the above mentioned ideas and categories the owner has differentiated the products in base, middle and premium categories. This has brought major changes in all production departments and also in the cost calculating and controlling process. The main goal from this point of view is to know very well all the involved production and auxiliary costs and also to see the best combination between production capacity and the type/category of produced goods. The main challenge from this point of view is to find the most convenient product mixture to be produced in each week or month taking of course in consideration the existing production orders and the selling reports.

2. Objectives

2.1. Actual situation-Competition

In the actual market situation the company is facing an accentuated competition especially from the bigger Romanian producers. These producers have huge production capacities and can produce big quantities on a relative low price. Brands like Baneasa or Hutton are competing with the company on the base and middle pastry market. On the other hand also foreign companies are present on the market and are competing with the company on the middle and premium pastry market. Specially Italian and Hungarian companies like Barilla , Panzani or Gyermelyi are coming with middle and premium pastry products and are making more and more pressure on the market.

2.2. Market

From the beginning of his existence the company has been present on the following markets:

- a) Small local stores and shops all over Covasna, Harghita, Brasov, Cluj Mures, Bihor, Arad, and Timis countys.
- b) Bigger local shop chains in the mentioned counties like Bertis, Dioszegi.
Later when the multinational companies have entered the Romanian market, the company has extended his sells also in this kind of super and hyper markets.

- c) Multinational super and hyper markets like Sellgros, Penny, Kaufland, Billa, Auchan, Carrefour.

At the beginning, in the early 1990's, the company has sold nearly all his products in the nearby counties like Brasov, Harghita , Covasna. Slowly the sell was extended in the central and western part of the country. The first milestone in this process was the introduction and developing of the multinational super and hyper markets in Romania. The buying power represented by the end consumers has oriented towards these kinds of shops so also the company had to go and sell in these kinds of super and hyper markets. This has represented a major change in the life of the company because the company had to adapt to the requirements and way of doing business of the multinational companies. Accordingly the company had to face the following question: to which market type should he produce and which quantity to each type of market? Is it wise to sell the majority of the products to the small and middle sized shops and firms or the company has to develop a totally new sell and marketing strategy taking in consideration the bigger and bigger success of the multinational commercial companies. Taking in consideration all the mentioned aspects it was obvious that the owner of the company has to react somehow to all the competing pressure and to elaborate a marketing strategy based on wining policies to be able to face the changing markets.

3. Methods

3.1. Market analysis

The very first idea was to have accurate image about the market and to adapt the sell and marketing policies accordingly. After a large study based on the financial reports of the competition and on the real situation in the market the owner has determined that he has ruff 1% from the Romanian pastry market. His first idea was to keep the 1% market share by all means. To reach this goal the company started to sell products in all the markets where he was present and has extended the sell also to the multinationals. The sell was promoted on all markets and in all product categories from base to middle and premium products. The company has realised own shelves for the Vanca branded products and has developed a personalized packing system including the logo with the promoted brand name Vanca. In the last 5 years the company was listed in multinational companies like: Sellgros, Metro, Carrefour, Auchan, Penny, Billa, Kaufland and Cora. All these actions have brought a major increase in the turnover of the company but the owner was not satisfied because the higher turnover was not followed by an accordingly higher profit.

3.2. Costs analysis

At this moment was obvious that a major cost analysis is required to determine the reasons why the profit is not increasing accordingly with the turnover. This is also the moment when we have been involved also in the life of the company and together with the owner we have made this analysis.

3.3. Sell

In the same time with the cost and market analysis we have made also a sell analysis in order to identify all the clients of the company and to see all details connected to prices, delivery time, delivery conditions and payment terms.

4. Results and Discussions

4.1. Results

Based on the bookkeeping and financial results of the company we have determined the fix and variable costs of the company and we have followed them up in the last 5 years. We have determined the costs on which the company has no influence and also the costs which can be lowered by a better organizing and more production efficiency. We have also discovered that in the case of some multinational companies because of the contractual conditions the value of the returned goods is more than 30% from the realised turnover with that specific company. This of course has a negative influence on the profit of the company but it makes the turnover of the company to look very good (because the goods were invoiced once and later returned). We have identified also that is a big difference between the returned goods compared with the delivered quantities meaning that the base category products are less returned than the middle and premium ones. After all this results we had a meeting with the owner and we have discussed about how the company has to react to all these facts.

4.2. Discussions

The first challenge we faced was that the base products are sold under a common brand name Multi-pasta and not under the premium brand name Vanca. So if we reduce the sold quantities in the most returned goods we will reduce the selling of the products under the brand name Vanca. This fact was in contradiction with the owner intention to promote the Vanca brand name. This was the first issue to solve:

- a) how could we overcome this?

From the financial and costs analysis was also coming out that the base pastry products have a better profit bringing force than the premium ones in the actual situation. And this has brought the second and the third challenge:

- b) how to make more profitable the selling of the premium products of the company?
c) how to benefit from the fact that the base products are bringing the most profit for the company?

Another very important issue coming out from the analysis was the fact that the activity of the company is heavily influenced by the so called seasonality effect. This means that the selling of the products of the company is mainly influenced by the religious anniversaries and the summer winter season changes. We identified that some products are sold in special period of times like before Christmas or Eastern and some are only sold in special periods like Lent periods. It came out that all these facts have also a significant influence on the results and activity of the company.

5. Conclusions

5.1. To do list

After fixing the issues as presented in chapter 4 we turned to elaborate possible solutions to the presented topics.

5.1.1. Branding issue and how to make profitable the premium brand sell

We have fixed that the owner still wants to promote the premium brand under the name of Vanca. The actual problem is that the products produced in this brand are not bringing to much profit for the company. Therefore we have suggested that is needed a new packing = looking more Premium quality= and of course a new price which will cover the expected profit. Basely the major change will be in the packing of the premium products. The new way of packing will be more Italian like with simple but elegant colours pointing out the exclusive part of these kind of products. On the package will be present the Vanca brand name logo and will be pointed out also the fact that the company is acting on the market since 25 years. In the same time the owner will make the production more efficient by reorganizing of the production process in order to reduce the production costs.

After a detailed analysis of the competition and the premium products offered by them we have discovered that there is a place on the market for the so called durum wheat flour products. Practically these kinds of products are offered only by the Italian pastry producers like Barilla or Panzani. The durum products are

representing a new product on the Romanian market and they have success mostly in the bigger cities and in the higher class restaurants. Compared to the normal wheat flour the acquisition cost of the durum wheat flour is double. The durum products are easy to cook and they have a better taste and the pastry is more compact (not sticky after preparing). Also the colour of the product is more yellow when durum wheat flour is used. These kind of pastry products are preferred also by the restaurants and hotels because they are more attractive for the clients. In conclusion we have decided that all premium products should be done with durum wheat flour and in this way also a higher price will be more acceptable for the end consumers. Here we have pointed also that the potential customers for the premium products are the multinational companies like Lidl, Cora, Auchan, Kaufland and also some regional sized companies which cares about the quality of the offered products. We have decided that also the so called HORECA segment of the market should be targeted with the new premium products. We have agreed with the owner that he will offer the premium brand products to all restaurants and hotels in the nearby counties especially those from Covasna, Braşov, Predeal, Sinaia, and Buşteni.

5.1.2. Base products advantage

About the base products of the company we have found out that are the most profitable ones and they are the most cost efficient. Also they have a significant percentage in the total sell of the company. The only so called disadvantage is that mostly they are sold under the Multi Pasta brand and not under the Vancsa brand. In this case the owner has accepted this fact and he sustained the idea that the Vancsa brand logo should follow only the premium quality products. So in order to increase the selling of the base pastry products of the company we suggested the production of a new pastry. This new product should cover the parts of the production hit by the seasonality of the other products. As we have mentioned before the pastry industry is heavily influenced by seasonality. Practically in the winter period and in the periods before religious celebrations the company has to deliver a lot of products. This is possible only with a very good stock management and an efficient production planning. In the summer months starting with June until September the orders are less than in the winter so the company can't make profitable business.

Therefore we came with the idea of a new base pastry product. This product is a base pastry and the demand is not influenced by the season or by religious celebrations. In this way we could increase the profit of the company and increase the turnover also specially in the summer period when the orders for the other products are less. After a detailed and intense analysis of the potential base pastry products and after studying the costs of the introduction of a new product we have suggested that this new product should be the so called nest-pastry. This product can be produced both from normal or durum wheat flour and has a good selling power in

the Romanian market. It can be done in more widths and the production is cost efficient. This product has also the advantage that can be offered also for the multinational companies and also for the local smaller distributors or shops.

The product fits also the expectations of the restaurants and hotels especially when the durum wheat flour is used. We have fixed with the owner that the company has the financial power to buy the needed machinery, and that from technological point of view is possible such an increase of the production. The owner has found also the place where the new machinery can be installed.

5.2. Final conclusions

Summarizing all the facts presented above we come to the following conclusions:

5.2.1. The company will keep selling the premium products under the Vanca Brand.

5.2.2. The company will introduce in the production the durum wheat flour as a base for better premium products and higher profit range.

5.2.3. The packing of the premium products will be changed to more Italian look, and the Vanca brand logo will be promoted on it.

5.2.4. The basic pastry products will be sold under the Multi Pasta brand consolidating the profit of the company.

5.2.5. Fighting the seasonality the company will introduce a new product: the nest pastry. This product will be promoted on all markets and in both durum and normal wheat flour quality.

5.2.6. The nest pastry will help the company in covering the extra season selling and will help consolidating the profit of the company.

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7. References

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