

Chapter defines this
company in the
market.



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Chapter One

Introduction Background Information Al-Marai is the largest dairy processing plant in the Middle East. Al-Marai means green pastures in Arabic.

The company came into existence in 1976 as a business partnership between three entrepreneurs. The partners were Alastair McGuckian, Paddy and HH Prince Sultan bin Mohammed bin Saud Al Kabeer. The chairman (HH Prince Sultan bin Mohammed bin Saudi Al Kabeer) felt the need to improve the traditional farming techniques to match the needs of the domestic market which was growing very fast. The chairman supervised many agricultural activities aimed at achieving the outlined objectives. The processing of milk and laban was started and this gave rise to the modern firms envisaged. The company merged with PepsiCo to produce high quality fruit juice.

Infant formula was introduced to cater for the nursing parents' market. The company felt the need to venture into the infant formula's market and it therefore entered into a joint venture with Mead Johnson Nutrition. This is the world's largest and of course leader in infant formula production. Mead Johnson has over 70 products that are found in over 60 markets worldwide.

It is the universal leader in paediatric nutrition. The mission of the company is to supply nutritional products that can offer infants and children a strong foundation in life. Mead Johnson has led the market for over 100 years. This is a long time by any standards. The mergers between Al-Marai and other companies is perhaps one of the reasons why it has continued to attract more and more customers over the years. This is given the fact that

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customer loyalty is one of the features that defines this company in the market.

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1. Problem Statement

It is noted that Al-Marai is the dominant company in the dairy market with many products from one company. One cannot help but wonder why and how Al-Marai Company commands such customer loyalty as compared to other brands which are similar. It is noted that Al-Marai has a long history in the market with more than 30 years of existence. This probably gives it an edge over the competitors. This is because the products have been passed down from one generation of customers to the other. This means that since their childhood, most of the consumers today have experienced Al-Marai products. This in extension means that customer loyalty has been passed down from one generation to the other.

Al-Marai has expanded its operations beyond the original country making it the only company to export its products from the Gulf Cooperation Council region. The other companies such as Al-Safi, Nadec and others rarely reach outside the borders. Their consumers are concentrated in the local market. Such companies experience unstable market shares given that Al-Marai is dominating the whole region. The Al-Marai uses various strategies to win over its customers.

This study is going to look at some of these strategies. The reasons why the company is still dominating the market after many years will also be analyzed including the importance of competition in the market. The whole study will revolve around customer loyalty as far as Al-Marai is concerned.

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The issues mentioned above will be discussed within the customer loyalty context. The study will take the form of a ranking survey. Al-Marai will be compared to Al-Safi and Nadec Dairy Companies as far as customer loyalty is concerned.

The researcher settled on the two companies given that they offer products that are similar to those of Al-Marai. The two also operate within the region where Al-Marai dominates and as such, can be considered as competitors to this company. Two physical attributes and three perceptual attributes were used to rank the three companies. The physical attributes are packaging and availability while the perceptual attributes are price, taste and texture of the products offered by the three companies.

1.

2. Objectives of the Study

The study comprised of one major aim and several specific objectives. The major aim of the study was to find out why Al-Marai Company has customer loyalty which is dominant than that of other similar brands in the market. The following are the specific objectives of the study: Identify the various strategies used by Al-Marai Company in its production and marketing processes to establish consumer loyalty Identify and analyse the differences between Al-Marai products that make them preferred over those of Nadec and Al-Safi Identify and analyze the differences between Al-Marai company and its competitors as far as establishing customer loyalty is concerned Identify the relationship between Al-Marai and other companies locally and internationally as far as consumer loyalty is concerned Analyse the various

reasons why consumers are loyal to Al-Marai products as opposed to those of competitors such as Nadec and Al-Safi

1. 3. Research Questions

The research is comprised of several questions that the researcher intends to answer. The questions are related to the objectives of the study. By answering the research questions, the researcher will have effectively addressed the objectives of the study.

Here are the research questions: What are the various strategies that Al-Marai is using to dominate the local and international markets? What are the differences between Al-Marai products and those of competitors as far as customer loyalty is concerned? What is the difference between Al-Marai and other companies in the region as far as establishing consumer loyalty is concerned? What is the relationship between Al-Marai and other companies as far as establishing consumer loyalty in the local and international market is concerned? Why are consumers loyal to Al-Marai products and not those of the competitors?

1. 4. Significance of the Study

The findings of this research will play a significant role in the production and marketing of dairy and other related products in the region. As far as commercial and marketing principles are concerned, the findings from this research will help marketers in coming up with strategies to win over consumers.

The following are the possible significant applications of the study: The findings will help marketers in formulating effective strategies to cater for

customers' needs in the market The study will identify various strategies used by Al-Marai Company and their effectiveness in production. This will help other companies in coming up with strategies that suits their production and improves the quality of their goods hence establishing loyalty amongst the customers The findings will enable those involved in marketing to identify factors that interfere with consumer loyalty and how to overcome such challenges The findings of the study will help the management in improving the quality of goods availed to the clients in effect sustaining consumer loyalty Assumptions Made in the Study and Scope and Limitations Reichheld (201) states that it is not possible for the researcher to control all the variables in a study. There are many variables at play in a given field and the researcher is able to deal with only a few of them. The other variables that the researcher is unable to control are assumed to remain constant throughout the study. If at all there is change in the variables presumed to remain constant further assumptions are made to the effect that the changes will not interfere with the findings of the study. This is what is referred to as assumptions of the study (Reichheld 203).

This study was no different. The following are some of the assumptions made in the study together with the scope and limitations: The study addressed itself to customers from Arabic countries only It was assumed that the participants are familiar with Al-Marai, Al-Safi and Nadec products and they have used them in the past The researcher assumed that the other companies in the field were fully aware of the various strategies used in establishing consumer loyalty in the dairy industry It was assumed that the customers are fully aware of the existence of other products in the market

other than those from I-Marai Company It was assumed that factors influencing consumer loyalty in Al-Marai are largely similar to those in other companies in the dairy market

Chapter Two

Literature Review

2. 1.

Al-Marai Company: An Overview

Introduction Before embarking on a critical analysis of literature in this field, it is important to look at various aspects concerning Al-Marai Company. This will help the reader in relating the literature review to the Al-Marai company. The researcher will begin by looking at the various products of Al-Marai Company. Al-Marai Products Al- Marai is involved in the production and supply of over three dozen dairy products. From 2005, the company has increased milk production while at the same time promoting brand awareness among the consumers. For the last six years the number of dairy cows has more than doubled from 55, 500 to 103, 000. This resulted in increased milk production that surpassed the 674 million litres mark.

This represented 60% of the total milk production in Saudi Arabia. The following are some of the products from this company: Fresh Dairy In the Gulf Cooperation Council region, the hot climate is taken into account when manufacturing and supplying this product. Initially, companies involved in dairy farming produced powdered and canned milk. On the contrary, Al-Marai supplies fresh products from raw milk harvested from its herd of dairy cows. The products include laban, fresh milk, cream and yoghurt. The supply of these products is consistent and this satisfies the customers' needs. As a

result of this, Al-Marai has emerged the leader in this market segment in Saudi Arabia recording a 19% over the years.

Long-Life Dairy This dairy product can last for a long time and it is convenient for long distance transportation. This leads to lower production costs. However, it is noted that consumers prefer dairy fresh milk rather than long-life dairy milk.

This challenge has been addressed by launching various brands of long-life dairy milk. This is for example the launch of the only lactose- free milk in Saudi Arabia and the surrounding regions. As a result of this diversification, the company has emerged the leader in the region and has grown by 30% from 2003 to date as far as the long-life dairy market segment is concerned (Morris 78). **Fruit Juices** Al-Marai does not depend mainly on the seasonal fruits harvested in the region. On the contrary, it obtains most of the fruits from other parts of the world. The initiative was launched in 1999 to expand the company's range of products.

With the joint venture Al-Marai has entered into with International Dairy and Juice the company is expected to export its products as far as Asia. **Cheese and Butter** These products account for the second largest share of the company's sales after milk products. The products account for 21% of total revenue in the company. Despite the fact that competitors import the product from Europe and Australia, Al-Marai provides the consumers with fresh cheese and butter. The products include spreadable cheese, slices among others.

A growth of 24% in this market niche has been recorded for the past five years. Bakery Al-Marai has also gained an upper hand in the bakery industry. This is through the establishment of Western Bakeries Limited in the year 2007. Products from this subsidiary include bread, croissants among others.

The new facility which was introduced in the year 2010 has contributed significantly to the growth of bakeries. This has doubled from the initial 85,000 tonnes. Al-Marai and Customer Loyalty Brand loyalty is achieved given the fact that Al-Marai has consistently availed quality products to its consumers around the region and even around the world.

The products have being in existence for over three decades making them famous throughout the generations. This is due to the fact that the customer is aware of the products since childhood. The constant availability of the products cultivates customer loyalty given that the consumers find no need to try other brands in the market. Dairy products are used on a daily basis hence the customer should be familiar with the available products in the market.

Al-Marai has achieved this by providing an elastic brand over the generations. Another factor that has boosted Al-Marai's customer loyalty is price control. This segment is very sensitive given that Al-Marai does not pass increased costs of production over to the customers.

There are chances of losing customers if this is not regulated. Customers will go for those products in the market which have favourable and affordable prices. In the past few years, Al-Marai has dominated the dairy market

especially in Saudi Arabia and other regions around. For example, the company controls about 28% of the GCC market share.

In the fresh milk segment, the company controls about 21% of the market share. Although Al Safi Company (one of the competitors) has managed to dominate in the flavoured UHT segment, Al-Marai has achieved tremendous growth in the segment as compared to the other players.

2.

2. Dairy Products in Saudi Arabia

a. Demand for Dairy Products The production and consumption of dairy products depends greatly on demographic patterns. In Saudi Arabia, the lower age group consumes more dairy products than the older generation. These are the children aged between 0 and 14 years. Saudi Arabia has a population of about 24.

8 million people and about 33% of this falls under the lower age group category. Also important to note is the fact that the population growth in this country is about 2.5% annually. This means that the demand for the dairy products targeted at the lower age group is rising annually. Based on statistics, the consumption of dairy products in Saudi Arabia is much lower than in other countries around the region (Morris 122). b. Price Trend and Dairy Products in Saudi Arabia A 95% growth in this trend has been recorded in the Middle East, India, China and Pakistan.

This is due to the fact that the demand is high as a result of the growing population craving for the dairy products. The change in diet as a result of new lifestyles has also contributed significantly to the increased demand for

the dairy products. The increasing awareness as far as dairy products are concerned has additionally increased demand for the same.

2. 3.

Loyalty as a Business Strategy

The Strategy This is a strategic business model used by the management to win customers' and stakeholders' loyalty in order to achieve the marketing objective (Malony 122). In simple terms, the model specifies that a product or service of high quality attracts a large number of customers while at the same time making them loyal to that product or service. This leads to high profits in the long run. When the customer is first exposed to the product or service, they will either be satisfied or unsatisfied. This means that the probability of the product performing better in the future will depend on a previous experience. Customer's expectations will be high only if recent experiences supersede prior experiences (Malony 123).

A relationship is established between the consumer and the business. The strength of this relationship is determined by previous customer experiences with the service or the product offered by the company. If the level of satisfaction is low the strength of this relationship will then be affected negatively. The bond between the business and the customer as well as level of satisfaction plays an important role in determining the kind of relationship that exists. The quality of the product and the customer's commitment to the business also signifies tolerance. To this end, the customer can tolerate a service or product which is poor so long as they have a stronger perception of the quality (Malony 119). According to Malony (133), there are various types of bonds that exist between the customer and the business.

These include cultural bonds among others. For example, Al-Marai has a culture of promoting dairy products as part of the diet and as a lifestyle. This creates customer loyalty. There are also legal bonds whereby the customer is confined to the business by a legal contract. The business in this case has an obligation to satisfy the customer as per the contract. Technological bonds also play a role in customer loyalty. This arises when technology is shared between the business and the client.

In the case of Al-Marai, technology has been used to satisfy the needs of the clients. The joint ventures with other companies such as Mead Johnson, PepsiCo and many others are as a result of technology. Quality products were supplied as a result of merging with other companies in the same field (Morris 34).

Factors Determining Level of Loyalty Relationship Strength This is a scenario where the customer is in a position to access the services or products without a hindrance. The product or service is available to the customer at the right time and place without compromising on the quality. Relationship may be terminated if the customers shift away from the production area. This makes the company reduce its production. Another possible way of ruining the relationship is where the customer is not in need of the product or the services any more (Malony 45). **Available Alternatives** If a more suitable alternative is available, the customer tends to shift towards that company.

In the case of Al-Marai, it is the only suitable company available to the customer and hence able to dominate the market. **Critical Episodes** In this

case, the company is expected to make some decisions which will affect its production as well as the welfare of the customer. For example, it is noted that Al-Marai does not hike its prices even after the cost of production has increased. This increases customer loyalty (Morris 39).

2. 4. The Effects of Loyalty on Profits

According to Stieb (95), it is more expensive to win over a new customer than it is to maintain an existing one.

He argues that if 5% of the company's profits are used to improve the current situation of the company and to maintain the customers, a profit increase of between 25% and 85% can be realized. Here are some effects of customer loyalty on profits: The cost of acquiring the customer is high but after some time it declines thereby increasing profits. For example, Al-Marai has been in the business for over 30 years hence several generations are familiar with the company Customers who have a long- standing relationship with a particular company are less sensitive to a hike in prices. This will lead to stable profits in the long run Long term customers are effective when it comes to referring new customers to the company If the company retains a high number of customers, the work load for the employees will be reduced. A virtuous circle of satisfaction will be formed thereby increasing profits Customers who visit the business on a regular basis are less expensive to cater for since they are acquainted with the processes of production. As such, they do not need to be inducted and at the same time cannot shift their loyalty to competitors

Chapter Three

Methodology

3. 1.

Research Question and Problem

The research question for this study read, “ Why does Al-Marai Company have higher customer loyalty as compared to other similar brands such as Al-Safi and Nadec?” This has been tackled before but the researcher will shed more light on the question. According to Morris (201) Al-Marai has been into existence for over 30 years ago.

3.

2. Research Population and Sample

Research Population The population for this study are those individuals who consume Al-Marai products. As already noted in chapter one, the study will use the clients found in Saudi Arabia. This is despite the fact that the company has loyal clients in other parts of the world. The researcher will use participants drawn from Riyadh. It is noted that the population of this region stands at around 24 million (Malony 49). Al-Marai supplies products to over 43, 500 customers on a daily basis. This is the population size for this study.

Sample Population and Sample Size The sample population was drawn from the research population identified above. The researcher administered questionnaires on consumers who were found purchasing Al-Marai on local retail outlets. The researcher targeted 100 customers. This number was settled at after the researcher determined that it is easily manageable. It was also assumed that not all the 100 consumers will return the completed questionnaires. It was expected that about 50 consumers will return the completed questionnaire since it was self-administered.

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At the end of the 7 days period, 70 questionnaires were returned. This means that the sample size for this study was 70 (N= 70). Sample Characteristics Out of the 70 respondents, 43 were female while 27 were male. The age distribution of the respondents is as illustrated below: Table 1:

Age of Respondents	Age (Yrs)	Number
Below 24	24	24
25-45	32	25
Above 45	14	21
Total		70