Analysis of kri kri milk company

KRI – KRI S. A. company was created in 1950 from George Tsinavo and is activated in the milk industry. The company initially dealt with ice cream that was first sold by hawkers using ice and salt for cooling and sold in every neighborhood in the city of Serres, Greece. In 1963 when the first electric freezers where introduced KRI – KRI expanded and developed a market opportunity. Few years later, in 1968, the company developed further and transferred the company’s facilities to new privately owned premises. The company established there its first automatic production line for milk and other products based on milk such as yogurt and ice cream. That was the first sign of the beginning of a new era of the company’s lifecycle.

In 1997, the company expanded by participating in a three year investment programme arising about six million Euros and modernized throughout the equipment and the factory facilities. The investing programme increase and improved the production and set the foundation stone for future development.

Nowadays, KRI – KRI has a well expanded network all over Greece and aims to strengthen its activities and development prospects in Greece as well as Balkan.

KRI KRI’s factory located 5km from the center of Serres and occupies about 50 square meters plot. The premises are composed by two different factories, one for ice cream and one for producing dairy products such as milk, which encloses modern mechanical equipment with new ecological technology. The company has been certified according to ISO 9001: 200 for its producing processes on all product range. Furthermore, the company has established and applied the HACCP system according to Hellenic Organization for Standardisation under the supervision of the Minister of Development in Greece for all of the products in order to thoroughly safeguard consumer's health and safety. For this purpose KRI KRI has established a quality control laboratory equipped with technological tool and staffed with scientific personnel properly trained.

The Industry

The milk industry consisted in its major component by large industrial companies which have the largest market share. These companies have developed a distinguished brand names and trade marks, new technological equipment and facilities. The industry does not offer many entrance opportunities to new companies and has high barriers to entry.

The Demand

The demand of the milk products is basic in people's diet and irreplaceable. The milk products is one of the principal source of food and the demand does not affected much from price variations so the demand can be characterised by low volatility in price. Furthermore, the income in consumer's wallet does not affect the quantity that is needed to cover the consumer's basket and is unrelated with the desired quantity, so the demand can be characterised by low volatility in quantity. In addition, the substitute's product of milk has low substitutability to affect the milk industry. The milk industry had established an oligopoly and the milk prices are determined by large companies with low intervention by the Greek government. In the last decade, the only threat that the milk industry has encounter was the unexpected deceases that affect the animals and the raw material, which shocked the consumer's confidence for milk products and have as a result the decrease in the consuming.

The Supply

The main distribution channel of the milk products are the supermarkets and the mini markets. Large companies have established a well synchronised and efficiency distribution channels throughout Greece while the few small companies in the industry have a locally limited target group to provide their products. Both categories of companies even if their activities are locally limited or national ensured that such a susceptible product as milk delivered in very good conditions and on time.

Financial Indicators of the Market

Financial indicators of the companies in milk industry should be taken into consideration in order to analyse and comprehend the financial position of the industry. On the 15 largest companies of the milk industry the average gross margin of the last 5 years was 26, 12%, the net profit margin was 2, 99% and the EBITDA index was 12, 16%. The return on equity index was 6, 26% and the return on capital employed was 2, 50%. The general liquidity index was 1, 71 while the cash flows ratio was 0, 35. The average operation capital of the 15 largest companies the last 5 years was 4. 543. 754 euros.

Competitive analysis: Porter’s five-forces model

Porter’s five forces

In order for a new company to enter, remain and expand a market it would be useful to analyse the industry and especially concentrate on the five basic points that are proposed by the Porter and show the attractiveness of the industry under consideration.

Entrance of new competitors

According to industry analysis, the milk industry seems to offer more opportunities to the already existed companies while it is quite difficult for a new company to enter the industry. The industry analysis indicates that there are high barriers to the market. Specifically, this sector does not offer many entrance opportunities to new companies due to the fact that it requires great investing amount to technology while the existent products are trade in from large well-developed companies that are high competitive. Moreover, the susceptible products of milk demands high coordination treatment throughout the life-cycle of production from the raw material to the final distribution. Additionally, the existing distribution channels that have been established from the companies are the results of investment through a long time period. So, a new company that intent to enter the milk market has to face the already well-established names in order to achieve high market share.

Substitute products

Another factor that should be analysed is the degree of product’s substitutability. The milk products are essentials in peoples diet and irreplaceable. In this industry there are few substitutes such as the soya milk, powdered milk, juices or other beverages but the substitutability is very low to affect the milk industry.

Bargaining Power of Suppliers

The bargaining power of suppliers of raw materials is complex but it is considered as low. The majority of milk companies sign contracts between farmers in order to absorb their milk while the companies control the production process through established production requirements in farming lifecycle such as the raw material required to feeding procedure, the existence conditions of living and the reproduction of the animals. So, the bargaining power of suppliers is limited in the milk industry and the large companies that purchase large quantities of raw material has a competitive advantage in terms of trading commodity prices and offset suppliers.. The bargaining power of the suppliers is unconcernedly and does not affect the milk industry, so can be characterised as low.

Bargaining power of Customers

The main customers of the milk industry are the super markets and the mini retail markets which both have high bargaining power. Both markets have a strong bargaining power especially the super markets through the large turnout that the premises offer, the mass final consumer that covers their needs has as a result to made large volume of sales through them. Mini markets have quite big supplier power due to the fact that are larger in number, almost in every neighborhood, they serve the final consumers in a more extensive market hours and the milk products are their primary trading consumer attraction. Furthermore, in order to attract more final customers through super markets and mini markets, companies have to be competitive and attractive. So, the main objective is to advertise their products in order to gain customers acceptance. This can be confirmed from the large amounts of investment in advertising and promotion campaigns that the majority of the milk companies spend.

The competition

The last but not least factor according to Porter that affects the entrance in the milk industry is the competition. The Greek milk market is highly controlled by few large milk production companies. This has as a result the creation of an oligopoly among the companies while they try to retain or expand their share in the market by enhancing their brands through advertising, various discounts offers and by exploiting the benefits from exclusive distribution in mini retail markets. The created oligopoly is the main characteristic of milk industry and this point out that the competition is considered as low.

SWOT Analysis

KRI-KRI S. A.

S – STRENGTHS

- Very strong financial position
- Strong contracts with suppliers and associates
- Technological industrial and manufacturing facilities
- Organized distribution network channels
- Products with Popular Trademarks and strong preference of Greeks for domestic products
- Tight quality control, awards and certifications, brand name, recognizable firm (ISO, HACCP certifications)

W – WEAKNESSES

- No use of options to outweigh the potential risk of interest rates
- Insufficient money spent for marketing and advertisement.

O- OPPORTUNITIES

- Balkan countries growth
- Living standards growth
- The gradual acceptance of biologic products by consumers.

T- THREATS

- Unexpected deceases that affect the animals and have as a result the decrease in the consuming
- Greek crisis
- Competition from imports

SO STRATEGY

Expansion of the distribution network to Romania, where there are greater growth opportunities (S4+O1).

WO STRATEGY

Increase advertisement to attract more customers in refined products through the growth of living standards (W2+O2, 3).

ST STRATEGY

Restructure of the company to become total quality producer through tight control and cooperation with certificated farms (S6 + T1).

WT STRATEGY

Advertisement to commend on the origin and quality of its products instead of the imported ones (W2+T3). Combined Strategies

Proposed scenarios

Four scenarios were established from the above swot analysis matrix and the situation of the milk industry has been considered.

SCENARIO 1

SCENARIO 2

SCENARIO 3

SCENARIO 4

CURRENT GROWTH

ADVERTISEMENT

EXPANSION

FINANCIAL CRISIS

SALES GROWTH RATE

1, 33%

3, 00%

7, 00%

-2, 00%

FIXED ASSETS (AT COST) GROWTH RATE

13, 79%

4, 50%

7, 00%

-2, 00%

TOTAL DEPRECIATION/FIXED ASSETS AT COST

5, 79%

5, 79%

5, 79%

5, 79%

COST OF GOODS SOLD/SALES

54, 27%

55, 00%

40, 00%

63, 00%

ADMINISTRATIVE & SELLIG EXPENSES/SALES

28, 82%

30, 00%

15, 00%

18, 00%

Table 1: Proposed scenarios

First scenario. Basic Case: Current growth rates

In this scenario would be examined how the company's equity value would be affected if will continued its activities with same sales growth as the average of past 5 years, the fixed assets growth rate, cost of goods sold/sales and administrative and selling expenses.

Second scenario. Increase of advertisement

Advertisement and promotion campaign in milk industry plays a significant role that determines the sales ratio growth. In this scenario we suppose that the company emphasises to increase its advertisement expenses that would lead to increase the sales growth up to 3%. We assume that the administrating and selling expenses rise up to 32% while the cost of goods sold per sales remain in 55%. Also, we decrease the fixed assets at cost growth rate at 4, 50% in order to balance the past years expansion of fixed assets growth rate.

Third scenario. Expansion to Balkan

Balkan countries have been demonstrated high gross domestic product rate such as Bulgaria with 6, 2% in contrast with Greece that the International Monetary Fund forecasted that would slightly increase from negative ratio to 0, 80% gross domestic product. Considering the development in the past and forthcoming years in Balkan the third scenario supposes that the company expands in Balkan markets. Moreover, KRI KRI S. A. has already made the first expansion step in Balkan and has already begun to organise distribution network among Balkan region. Finally, KRI KRI S. A. has access to Balkan because its facilities located no more than 100 kilometres from Balkan borders such as with Bulgaria, Serbia and Yugoslavia. This scenario is realistic and feasible considering that the short distance from Balkan countries satisfied the demanded requirements in order to ensure the initial quality of the products. So we suppose that the sales growth rate would be increase up to 7% and similarly the fixed assets at cost growth rate would be up to 7%. Due to the mass production and the optimum production capacity we suppose that the cost of goods per sales and the administrating/selling expenses per sales would be decreased down to 40% and 20% respectively.

Fourth scenario. Financial Crisis

In the last scenario we consider the current financial crisis in Greece that already had occurred. The milk industry does not affected so much from the income of the consumers but in the current condition we supposed that the sales growth rate would be decreased down to -2%. The fixed assets growth would be decreased as well as the financial crisis would affect negatively the investing expansion to new fixed assets or even worse may forced a necessary liquidation of fixed assets. So, we suppose that the fixed assets at cost growth would be down to -2%. Finally, the decreasing in sales growth and the low volume of production would have as a result an increasing to cost of goods sold and administrative/selling expenses per sales ration up to 62% and 40% respectively.