

# Tetra paks opportunities in italy



This report aims to review the marketing challenges Tetra Pak faces and to recommend solutions to retain a dominant position in the world's packaging industry. It summarizes Tetra Pak's market position using the SWOT framework and then reviews the various challenges the firm faces with emphasis on managing their relationship with Pontero, their largest client in the Italian market. A detailed marketing audit of Pontero is included in the appendix. Even though appropriate recommendations for Pontero are proposed to ensure their largest client doesn't decline, Tetra Pak must also look to strengthen their relationships with Andina and Filo. A summary of recommendations for Tetra Pak is finally presented in the form of a TOWS matrix.

## 2 Introduction

Established in 1952 in Sweden, Tetra Pak is the world's largest producer of aseptic carton packaging for liquid foods with operations in 165 countries generating an income of € 7.7 billion. However, there has been a decline in market share globally due to increasing competition offering similar products at attractive prices and because of development of plastic packaging. Milk Packaging remained the most attractive market for Tetra Pak, but was declining in its biggest market, Western Europe. Though aseptic carton packaging was the core business of Tetra Pak, they have diversified into non aseptic carton packaging, plastic packaging and also food processing equipment.

### **3 SWOT Analysis**

#### **Strengths**

- 80% market share in aseptic carton packaging and 32% market share in non-aseptic carton packaging.
- Global operations in 165 countries and revenue of € 7. 7 billion
- Alfa Laval acquisition, entry into plastics
- Strong corporate culture that receives above-average compensation and high loyalty from employees.
- Superior technology

#### **Weakness**

- Dependence on milk-packaging.
- Dependence on western Europe, competitors have gained large market share in Eastern Europe / Asia.
- Pricing strategy is vulnerable
- Organization structure, inhibits learning

#### **Opportunities**

- Competitors' growth in Eastern Europe / Asia
- Growth in enriched milk segment – premium segment possibly demands better packaging.

## **Threats**

- Aggressive competitive strategy – pricing, innovative sizes, technology
- Threat of substitutes – plastic packaging
- Decline in milk consumption in Western Europe, their main market.

### 4 Marketing Challenges

#### 4. 1 Aggressive competitor strategy

Though Tetra Pak held 80% share of world's aseptic carton packaging and 32% in non-aseptic packaging, it has been subject to significant competition over the past decade. Established as a pioneer in aseptic carton packaging, Tetra Pak's market position has declined as competitors have been able to offer similar products at attractive prices.

#### 4. 2 Substitutes

The emergence of plastic packaging as the favourite choice for packaging of liquid foods is another major concern for Tetra Pak. Tetra Pak have entered this market through the acquisition of Alfa Laval and must continue to expand this market.

#### 4. 3 Decline in key account – Pontero

One of the major problems with Tetra Pak is the decline of the total milk consumption in Western Europe, a key market segment. Additionally, Tetra Pak seemed to be having problems their biggest customer in Italy, Pontero. Though Pontero was the largest milk producer in Italy, their market position

was in decline. This was largely attributed to the growth in the ‘ enriched milk’ segment while the overall milk consumption was reducing. Pontero had very strong principles however that milk must be natural and that artificial ingredients must not be added.

Marketing audit of Pontero (in Appendix) details about the growth in enriched milk and how this can be related to the decline of Pontero’s market share especially in large families with children. It is also noteworthy that Pontero has lost huge amount of shelf space and that its competitors now have access to important hypermarkets. They have been able to focus their distribution network on important shops with large volumes rather than the sheer number of shops.

## Recommendations for Pontero

### Product

Pontero by being largely product centred and not customer centred, have already destroyed the opportunity to launch ‘ enriched milk. However, since there is evident growth in this segment, Pontero must develop alternate products that address the needs of customers in this segment, e. g. Soy milk, Goat’s milk, etc. They could also further promote the health benefits of skimmed milk.

### Price

Pontero has been able to leverage a strong brand and thus charge premium prices for its milk. Based on comparison between prices in hypermarkets and

other channels, there is some evidence that competitors might be offering better margins to retailers, thus resulting in more shelf space for them.

### Place

An important indicator for Pontero's decline is their loss in shelf space.

Pontero must improve its distributor network, work on retailer relationships and offer them better margins. Pontero might also want to focus their effort on retailers with large volume compared to large number of small shops.

### Promotion

Pontero must accept the market demands for enriched milk and stop campaigning against it even if they don't produce enriched milk. It could rather focus on alternate products they develop for this segment and further reinforcing the strong brand they possess.

### Tetra Pak's opportunities in Italy

Tetra Pak with 80% market share in Italy, must not be intertwined in its customers' problems. Though Pontero is Tetra Pak's biggest customer in Italy, they must recognize that if Pontero does not adopt a customer driven strategy, it is likely that they would further decline. Tetra Pak thus must not only attempt to stop this decline, but also plan ahead and bolster its relationship with other major players in Italy like Andina and Filo.

### 5 Summary of Recommendations (TOWS Matrix)

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## **Strength**

- Market share
- Global Operations and decentralized culture
- Financial Muscle
- Wide Product portfolio

## **Weakness**

- Dependence on milk packaging
- Vulnerable pricing strategy
- Organization structure that inhibits learning

## **Opportunities**

- Growth in plastic packaging
- Growth in enriched milk segment
- Globalization and growth in emerging economies

## **SO strategies**

The acquisition of new businesses allows Tetra Pak capitalize on the growing plastics packaging market

Enriched milk, a premium product might require premium packaging and Tetra Pak with its superior quality, might be the best choice

The acquisition of Alfa Laval allows Tetra Pak to capitalize on providing complete solutions to milk producers and further increase switching costs for their existing customers.

## **WO strategies**

Tetra Pak must improve their marketing efforts in plastics and improve their product portfolio for the non-aseptic packaging market.

Tetra Pak must address the issue of competitive pricing in two ways, i. e. continue to innovate and produce premium products with higher pricing, but also match or better pricing in products with higher degree of competition.

While retaining the decentralized structure, Tetra Pak must develop an organization wide shared marketing practice that helps build synergy.

## **Threats**

- Decline in milk consumption in Western Europe
- Aggressive competition
- Threat of substitutes

## **ST strategies**

Tetra Pak has lost large market share in Eastern Europe and Asia to competitors, probably because of lack of focus. With the Western European market declining, Tetra Pak must focus on market penetration in these markets.

Tetra Pak must cross-sell products from its entire portfolio to customers across the globe.



They could leverage their financial capabilities and help alleviate switching costs for customers by offering complete packaging solutions on a lease with little up-front costs.

### **WT strategies**

A wider portfolio (including plastics) enables Tetra Pak to focus on packaging for other products and in other markets.

Tetra Pak might have been able to deploy premium pricing strategies while skimming the market with their superior products. But with aseptic packaging reaching a more mature stage in the product life-cycle, they must adopt appropriate pricing strategies.

### **Appendix – Marketing Audit of Pontero**

Data over the last 18 months show that Pontero though still the largest player in the Italian milk industry, has lost significant market share (down 2 %) while its two major competitors have both increased their market share by 2. 1% and 2. 7 % respectively.

Exhibit : Market Share

### **Attractiveness of milk categories in Italy**

Exhibit 2 shows the attractiveness of the different milk categories in the Italian market. Full-fat milk has the highest market share, but is declining. Enriched milk is currently the smallest segment but shows significant growth. Enriched milk also has the highest margins amongst the different milk categories. Exhibit 3 lists the margins on the different categories.

Exhibit : Attractiveness of milk categories in Italy Exhibit : Margins on different milk categories

Exhibit 2 and 3 show that enriched milk is definitely a segment with future growth potential, however Pontero with their aggressive advertising campaigns against enriched milk have completely botched the possibilities of selling enriched milk. This is one of the main reasons for the decline in Pontero's marketshare.

## **Market Segmentation and Consumer research**

Exhibit : Market share by age

Exhibit : Market share by family size

Exhibit : Market share by children age

Further evidence about this can be drawn from consumer research in exhibits 4, 5, 6 that shows that Pontero is most popular amongst the older people and in small families with no children. The popularity of enriched milk might further grow as the younger generations grow older. One can also argue that children and young adults are one of the most important segments of the milk industry and it is hence very important for Pontero to have appropriate products for this segment.

## **Distribution**

Another important observation made is that Filo and Andina have been improving their access to the various distribution channels. Exhibit 7 shows that even though Pontero has access to the largest amount of retailers, Filo

and Andina have been expanding its distribution channel more frugally, focusing on retailers with large volume.

Exhibit : Access to retailers

Filo and Andina have thus been able to improve the average sales per shop by nearly 50% and 100% respectively over the last 18 months. It is fair to assume that since Filo and Andina have focused on a fewer more profitable retailers, they might have been able to manage these relationships better and also transfer some of the profits to the retailers themselves giving them better margins.