

Kinh do bakery

[Business](#), [Industries](#)



This report was aimed at analyzing current issues in the organizational environment of KDC and providing recommendation for the company to improve its performance regarding environment. The analysis focuses on the external environment of KDC. Overall, KDC has a quite favorable external environment to a certain extent to make out the most of it. However, each of the factors in its external environment have good and bad effects on its outcome, realizing and understanding all of which can help the corporation to exploit the most from the environment and avoid mistakes reducing its achievements.

External environment is divided into general and specific factors. In the general environment, economics is enduring massive fluctuations, making customers cut down expenditure and turn to economically efficient products. The political condition in Vietnam is stable, appropriating for applying in a long time. Whereas, the life styles of people are under a considerable change, they adopt time- saving meals, which is an opportunity for instant foods of KDC. Nevertheless, the instant foods are also proved not to be so good for health.

Finally, beside a potential domestic market, which possesses an ideal population structure, as Vietnam joined in WTO, it comes a chance of extending KDC's market into the world. In the specific environment, because of the significant drop in people's income comparing to real value of commodity, the purchasing power of customers decreases. The widespread of fake and low quality goods turns out to be an opportunity for KDC as people trust in established organizations.

Regard the potentiality of confectionery industry development in Vietnam, it is easy to understand the vast number of KDC's rivalries in the market, and despite the leading role of KDC, the others have their own considerably outstanding strengths. KDC has a wide variety of suppliers both from domestic and abroad, which bring not only benefits but also disadvantages due to the differences in price and the distance to deliver. Finally, pressure groups always react in case of wrongdoings.

With a view to solve the problems and exploit the market, KDC should cut down the price, diversify the products, build development and extend plans. They also should consider more about the responsiveness to the consumers and society. Introduction KD is a big corporation which is the combination of many subsidiaries and each of which has the specialized production. However, when it comes to the brand name of KDC, people often associate it with the confectionery production, which is under implement of Kinh Do Bakery.

Established in 1993, after 19 years of development, this company has become the leading one in the food industry. KDC is considered to be one of the well-known joint-stock company which is not only dominating in the market of Vietnam but also expanding to the international scope. In the recent years, though the economic recession has put a lot of pressure on the well-being of many companies, KDC still has the good performance and even make the incredibly high profit in the stock market of Vietnam.

The annual report of KDC reveals that in 2011, the revenue increased by 32% and on average every SBU achieved the growth level of 2 digits. As food processing is the main production activities and also the base for the

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development of the whole group, the annual turnover from this section strikingly accounts for nearly 90% of the total revenue for the corporation. The customer that KDC targets at is the Vietnamese one especially children because normally, the confectionary good is more preferred by this group than the adults.

Therefore, what the company is producing and providing to the market is of various kinds including candies, cakes, soft drinks, ice cream and other product made from milk. In addition, they have the desire for bringing their products to the world market to consolidate their position and get more profit. No matter what strategic goal that KDC aims at, they always consistently follow the mission of the company which providing customers with the safe, delicious and nutritious products and trying to meet the changing their needs to fulfill the dream of making life better day by day.

By that way, KDC can maintain its long-established reputation in the food industry as well as sustainable and non-stop development in the future.

External Environment Analysis of KDC

General environment like any other organizations KDC is affected by its general environment which includes economic, political , sociocultural, demographic, technological and global conditions.

Economic conditions Recently, Vietnam's economy has been undergoing massive fluctuations which have affected almost companies including KDC.

First of all, the years ranging from 2008 up until now, the issues of escalating inflation and high interest rate have posed numerous threats to businesses (Tu 2011). It is undoubted that those components of the economy have

changed spending behaviors of customers, who may cut down their expenditures on luxuries as well as become more critical about what to buy and how much to buy. This may be a real challenge for KDC since the corporation is well known for high quality and costly products.

Political/ Legal Conditions

There is no doubt that political and legal situation of each nation always exerts profound effects on its business performance. In terms of politics, it is widely accepted that political environment in Vietnam is relatively stable, which gives KDC an opportunity to apply its development policies in a longer time frame without having to follow various political institutions. Concerning legal aspect, Vietnam Government provides and enforces Business Law by which an organization operates. For instance, in May 1st, 2012 the Tuotre. vn reported that Vietnam Government passed through the Law which required higher minimum salary.

Consequently, KDC had to spend more on salary for its employees. Hence, legal environment in Vietnam not only brings about advantages to a confectionary producing firm like KD but also creates barriers to the expansion and development of the corporation.

Sociocultural Conditions

In recent years, Vietnam's society and cultures have been experiencing considerable changes, which brings about the change in consumers' life styles. One of which is adopting time saving meals instead of traditional ones, which is beneficial for instant foods industry- the major of KDC.

This can be regarded as a big opportunity for all the businesses which manufacture instant food like KDC. Meanwhile, there is also another dominant trend in today's society which to some extent may affect KDC. That is the shift in the Vietnamese perception in the importance of health in their lives. Thus, it is trendy now that more and more people put much emphasis on food hygiene and safety when making choices of food. It means that they are tending to consume the products which are rooted in long-established and well-known brands.

This is undeniably an obvious advantage to KDC which is by far top-of-mind company in Vietnam food industry. However, it is also posing challenges for KDC considering the confectionary sector. It is universally known that the products such as candies, cream cakes and so on are among the major causes of obesity, which may lead to cardiovascular diseases and other serious problems (Bang 2011). As a result, people in modern culture with educational improvements have been gradually changing their tastes to adjust to products which contain low fat and cholesterol intake.

This would be a big issue for KDC which operates in the field of manufacturing products with high volume of sugar, milk and butter. This is a big challenge for KDC to innovate the ingredients in its products to meet these new requirements from its customers.

Demographic Conditions

As reported in the CIA World Factbook in 2011, Vietnam has an ideal population structure, consisting of more than 90% of youth and mature

people within working age. This has contributed to creating a vibrant and potential market for KDC in private and food industry in general.

Moreover, this striking pattern in age structure of the country also brings about a significant benefit for KDC, which does business in food manufacturing sector with high demand for labors.

Technological Conditions

It is obvious that technology is a very active element filled with numerous opportunities and threats to enterprises. First of all, as widely accepted, the introduction of modern technology helps simplify a variety of complicated and time-consuming manufacturing processes, contributing to optimizing efficiency and improving profits for many firms.

However, in Vietnam, it seems to be an immense challenge since there is a shortage of qualified staffs to meet the new requirements of knowledge economy such in-depth understanding of advancements in science and technology. In addition, our country also ranks behind many other countries in the world in the field of technological applications as well as transferring. According to the Report of the World Economic Forum (WEF) published in recent years concerning technology indicators, the order of our country is 92 out of 117 while that of Thailand is 43. Hence, it can be concluded that this would be an immense challenge for KDC to cope with technological issues today given the explosion of newly emerging technologies, which has and has been making existing ones become quickly obsolete and need innovating much more frequently than ever.

2. 6 Global conditions As reported in the VTC news, Vietnam has officially become a member of the World Trade

Organization-WTO. This has marked an important turning point in the country's development in all aspects.

In terms of economy, joining the WTO has given domestic enterprises an opportunity to integrate into the global economy, expanding their scope of market. Nevertheless, it may also pose threats to many firms as it would attract more and more foreign investment into the country, creating harsh competition in domestic economy. KDC may also be put under this threat unless it could reinforce its outstanding position in customers' mind. In addition, the opening of the country's economy to the global one also means that our economy will be influenced by fluctuations in other economies.

In recent years, the whole world has been suffering a long period of economic downturn, which has resulted in a dramatic decrease in purchasing power even in developed countries. Thus, not only KDC but also numerous enterprises all over the world would have to address this problem to gain an outstanding position in the gloomy picture of global economy.

Specific Environment

Customer According to Stephen P. Robbins and Mary Coulter, the specific environment is the external factors directly affecting managers' decisions and actions and is of the most relevant components to the achievement of the organization's goals (Robbins 2009, p. 8). As specific environment is unique to each organization, it is worth analyzing the specific environment of KDC to find out its opportunities and threats. Customers seem to be first mentioned as an organization's existence is for their demands. Consequently, this is the objective that organizations have to satisfy initially.

Naturally, customers always want to buy goods at the lowest price and highest quality, which pushes organizations to race in the field of price and product's quality pressure.

It is quite challenging in the case of price pressure as the price of inputs is increasing faster over time whereas the income and purchasing power of consumers are limited. According to the Vietnam economic forum, in 2009, GDP of Vietnam decreased by 51 years in comparison with Indonesia, 95 years with Thailand and 158 years in comparison with Singapore (Le Khac 2012). In the article titled “ Moi lo lon: gia ca tang cao thu nhap tang cham” (2007), the author also mentioned about the alarmingly increasing trend of necessary goods including food, which had strong negative impacts on the living standard of people with low income.

Despite the increase of production cost, organizations still have to maintain their quality of goods because without it, consumers will reduce their purchase. Especially in the context of fake goods and low quality goods widely spread in the market, the challenge that KDC has to face is not easy. The article “ sua kem chat luong, banh keo qua ‘ dat’ tran lan” (2005) reveals that market control forces discovering successively increasingly cases of producing and delivering fake and low quality goods, included products faking KDC's, which absolutely negatively affects the prestige of the company.

However, the number of consumers trusting in KDC and buying its products always ranks first in comparison with other domestic confectionery companies, showing the advantage of it over the rivals, the total revenue of 4 other largest companies in term of confectionery which are Hai Ha, Huu

Nghi, Biscafun and QNS is only equal to 73% of KDC's (2012). One more problem that the company itself realized is that the bird flu, which affects the quality and price of eggs_ the major ingredients in making KDC's products, raised the cost of production and reduced the sale of the products (2012). .

Competitors Although KDC is the largest confectionery company in Vietnam, it does not mean that it can eternally maintain the current position without caring about other less successful companies and other kinds of competitors. The main current rivalries of KDC are Hai Ha, Huu Nghi, Biscafun and QNS. While KDC focused on the high and medium grade products, others tend to pursue producing the common grade products. And whereas KDC is the leader in the market share of moon cake, AFC and sweet biscuit, those 4 companies also ave their strong positions in other products: BBC lead in candy market, HHC lead in chew and Jelly market, Huu Nghi well-known for Tet jam and industrial salty bread, which also bring them great profit and still tremendously potential to exploit (2012), from the research, we realize that although the way KDC is following is highly profitable and still grow fast, it may be rather risky when the income of consumers is low and they cannot afford its products in the future, in that case, they can turn to other brands.

It also exists the case of consumers changing their tastes, and demand more the products that KDC does not focus to, which can reduce sharply its sale revenue. Additionally, the confectionery industry is one of the most potential industries in Vietnam (from 2008 to 2012 the production of confectionery increases by 114. 7% per year despite the depression(2007), so the chance of new entrants coming to it and take parts of KDC market share is of high likelihood

3. 9 Suppliers

Regardless of however potential the market is, without suppliers, a company cannot perform anything. Suppliers, defined as who provide not only materials and equipment but also financial and labor resource, play a crucial role on the well-being of companies. In the case of KDC, the suppliers of raw materials are determined by its vision and mission. As the quality of products is what factory puts the most emphasis on, KDC has a tendency to coordinating with the partners of high prestige supplying high quality and clearly-rooted materials.

The main inputs such as sugar, eggs, flour, admixtures are taken from the domestic market while milk powder and chocolate are from the global one, particularly, France, Thailand, Australia, and New Zealand. It can be acknowledged as an opportunity of KDC because the materials in the internal market are always available and it just has to deal with negligible carrying cost. Whereas, the wider spread of supplier network over the world market enables KDC to be flexible in ensuring the inputs for production.

Along with the opportunities, suppliers also pose a lot of threats to the company in different ways, the first of which is through prices. As announced in the annual report of KDC in 2011, due to the inflation, the firm suffers from dramatically increasing and unstable prices of material together with the rises in salary and utilities expense, which leads to a significant drop in total revenue of KDC. Moreover, as KDC imports some materials from the external market, they are the price takers. Therefore, they will encounter some problems because of the fluctuations in the world prices.

Back to the domestic market, the changing prices of inputs, especially sugar is really a pending issue. Not only KDC but also many confectionery

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producing corporations also get exhausted with the discrepancy between the sugar price at the beginning and the end of the harvest. While the price of confectionery does not change by 10 % per year, the sugar price fluctuates by nearly 30% (Hung, cited in thesaigontimes. vn, 2012) What is more, company effectiveness of performance is reduced significantly by supply chain disruption especially in global sourcing.

Rob Handfield (2011, p3) points out that the delay in supplying can cut down shareholder value by as much as 10% or even worse in ‘ time-sensitive” environments where early market introduction is critical to success. KDC also gets part of its inputs from the external market through shipping so it is impossible to avoid the risk of supply chain disruption, which means a great deal of time and money wasted.

Pressure Groups

One more factor that a firm often has to bear in mind derives from pressure groups, which are the ones attempting to influence the actions of organization.

Every organization has its own pressure groups and as for KDC, the 2 groups that have the role in regulating KDC’s performances are Environmental Protection Group and Customer Right Protection Group. The EPG takes investigation of the treatment to wastes from production activities of KDC to determine whether it does harm to environment or not. If there is any problem, they will reflect it through the medium to force the company to correct it or make some compensation. The CRPG monitors the action of KDC

from the step of taking inputs to processing and packaging to ensure it is safe to the health of customers.

As the social attitudes change so does the power of pressure groups. In 2008, KDC had been blamed for using milk powder that contains melamine- one toxic substance- to produce cakes. Under the pressure of media, KDC had to carry out a careful test to make sure that the production was absolutely reliable. (Thao, cited in baomoi. com, 2008) |

Recommendations

In term of specific environment, as confectionery demand is rather elastic due to its enormous number of close substitutes, the lower the price is, the higher the demand is, especially in these dark days of the economy.

Hence, it is obvious that KDC should take a set of actions in terms of price to motivate consumers to purchase more such as reducing the price of products, or giving promotions when they buy a certain large amount. Such programs will not only raise the company's revenue but also make its reputation much more well-known. The marketing work also should be taken into consideration since the current advertising campaign of KDC is not of high effectiveness. Thus to make the quality of its products known and then highly regarded by people, it should promote advertising and marketing strategy.

As regard competition, to be more competitive to best exploit the market, it is thought that KDC should research and build development plans, diversifying its products and expanding to other markets, this will both helps KDC to avoid the case of lower revenue due to the change of consumers'

taste and bring about enormously larger revenue if successful. For the suppliers, the careful analysis over opportunities and threats that supplier chains bring about gives the implications for the company to direct its actions. As for KDC, to minimize the negative impacts of suppliers, it has to face 2 ill-minded questions.

The first one is how to reduce the purchasing prices of inputs. To enjoy the low-cost sourcing, it is advised that KDC should make a periodical purchase with extreme amount of materials. By that way, KDC is benefit from the great negotiation power over its partners about the prices. Another question is how to manage the risks from tardy delivery progress. According to Handfield, the most critical action is to develop the supplies chain strategies to detect the problems, assess the negative impacts and also mitigate them.

In the case of KDC, they should sign the strict contracts with its partners, forcing them to adhere to the contracts to ensure about the delivery progress. Moreover, it is better for KDC to make plans of frequently checking the materials left to be active in ensuring the inputs for manufacturing. Besides suppliers, KDC should pay attention to the pressure groups. The only way to get out of the impacts of them is doing things right. In particular, KDC is encouraged to give priority to the customer rights by providing the safe goods to consumers with appropriate prices.

Moreover, it is necessary to develop a business plan of manufacturing parallel with protecting environment. It is the way KDC performs its socialresponsibility. Turning to external forces in the general environment, there is no denying that KDC should take these components into thorough consideration. Concerning opportunities, the firm should understand and

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take advantage of them to reinforce its competitive advantage over other competitors. For instance, in terms of demography, Vietnam seems to be a dynamic and potential market for confectionary products.

Therefore, KDC should seek the ways to expand their scope of production as well as diversifying their items to meet new requirements from different customers. Turning to the issues that are generated by the general environment, the firm should stay alert and pay more attention to them if it does not want to be put under serious losses. Specifically, it is obvious that KDC should take into account the fluctuations in the open market as well as changes in the Government rules and regulations to respond quickly and make appropriate adjustments for its strategic management.

Conclusion

To sum up, it is concluded with no doubt that KDC is doing an extremely good business, which brings about a strikingly high economic profit and also gets the KD's brand name familiar with the customers in the domestic market as well as the global one. To attain this achievement, beside some internal factors of the company such as the good manager, skillful employees or great capital, the external environment of KDC also makes a significant contribution.

The general factor, which include economic, demographic, technological, social, cultural, political/legal, global, though do not have the direct impacts on the performance of KDC, they still serve as the frame to set the standard for all business activities. On the contrary, KDC is influenced by four specific elements namely customers, suppliers, competitors and pressure groups.

They act as the determinants of the success or failure of KDC. Hence, it is required for KDC to carefully understand the opportunities as well as threats that these factors pose on the company to have the right direction for development in the future.