

A report on the poultry industry



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This report studies the poultry industry in the Sultanate of Oman, highlighting the strong performance and growth in the future. Will be identified A'Saffa food as producer and supplier of its products and its position as market leader in the industry.

The important cultural and social trends reported are the increase consumers' awareness of healthy food, as well as the changes of the economic climate. It was found that the attractiveness of poultry industry has declined because the highly competitive of rivalry and power of buyers and also higher threats from substitutes. It's also addressed that the position of A'Saffa is medium of the change of the attractiveness of the industry.

Three significance functions of A'Saffa : first is the logistics and Distribution network , where A'Saffa can make efficient and quality control of distributions of its products through the network in the country. Secondly operations, which includes inventory management, quality assessment which support in value creation and third one is sales and marketing which keep A'Saffa complete by providing promotions offers. In other side, found that A'Saffa has three important resources and capabilities which can make its extremely proficient supply chain; success full supply chain, brand reputation and the location of the firm.

At the end, recommendation is in two manner, a short term by budgeted more cost on advertisement of A'Saffa as a healthy producer and convenience the consumers that the farm using natural chicken feed. In the Long term, recommended to focus on differential factors like diversify into

more profitable fresh and frozen food due to probability of increase in the cost of production of the industry and which lead to less probability.

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Introduction

This report study A'Saffa Foods S. A. O. G (A'Saffa) position in the Food industry in Sultanate of Oman. To understand A'Saffa Foods' Strategy, will assess its internal operations and then it's successful. Then, can make recommendations for sustained competitive advantage of a future based on an assessment of external factors that affect the market.

With the growth of economic globalization, Food industry in the Sultanate of Oman becomes an additional significant last ten years. The poultry industry is extremely competitive in Oman and A'Saffa Foods is leader of the market with biggest annual production in Oman, Gulf Countries and other countries.

A'Saffa raised its continuing ability to meet the growing demand in the country and abroad. Starting with capacity of 7500 MT in 2004 and increased to the current capacity of 17000 MT per year. The company I planning to add more capacity to achieve the capacity of 21, 000 MT by end of 2011. In addition, the company announced its entry in Bahrain and Yemen, and is planning to enter Kuwait in the near future. The revenue driver of the Company is 35 % from Omani markets.

The vision of A'Saffa is to become No. 1. and mainly winning diversified food firm in Middle East. The products of A'Saffa are natural, healthy and slaughtered as per Islamic law " Halal". A' Saffa has produce a frozen and fresh chicken products.

Although, that Dhofar Poultry Company SAOG , Barka Poultry Company and Sohar Poultry are the main competitor of A'Saffa Company but A'Saffa is still a single player in the industry in Oman with 25 % of market share . To meet the increase demands from domestic from Oman and Gulf countries, A'Saffa has a big capacity of its farm which allocated in “ Thumrait” in the south of Oman, which is the most modern international manufacture techniques and machinery.

With a home grown market share for poultry products of over 25 per cent and plans to increase this to nearly 35 per cent in the near future, A'Saffa Foods core business is making great strides to reduce the dependency for chicken imports to the Sultanate (Oman Observer newspaper, Feb 1 , 2011). In addition, and as part of its plan, A'Saffa continues to maintain its reputation as a leader in the food market and domestic production in Oman through the establishment of a study facility for the production of table eggs for 100 million annually, and manufacture of processed meat products.

A'Saffa uses its skills and expertise to assist in issues of food security in the Gulf Countries. Where the company working as a consultant to assist in the build and operate of the largest poultry manufacture in Qatar.

External Analysis:

The external environment analysis provides the company with a significant external link between its customers, competitors and the products it offer. In this section will analysis the external macro environment that affects the industry by using PEST analysis and examined how it will impact the profit of Al Saffa . After that will assess the position of the competitive environment

by using Five Porters and will look at to the attractiveness of the industry to Al Safa in the upcoming years.

Macro environmental factors affecting the Industry (PEST Analysis):

This step is to identify the trends and issues that will affect and change the industry.

Political Factors: The government of Oman encourages the supports the business of food toward the food security in the country by grants such companies. In Oman, Exempting Wholly Omani Owned Companies from Tax for 5 Year (The law of income tax on companies, Oman, 1975). This trend is give the company opportunities brought by changes of the government and public attitudes toward the industry, changes in political institutions and the direction of political processes, legal issues, and the overall regulatory climate.

Economic Factors: The economic changes in the world led to increase the level cost of food consumables, hence the consumer are thinking of other alternatives food at low prices. For example, buy frozen chicken at the lowest price rather than fresh chicken with higher-price. To compete on the low cost alternative, the company produces a frozen food instead of focusing on a fresh food only.

With international commodity prices rising it will also become increasingly expensive to import food products - making it more important than ever for the Sultanate to lower its dependency on imported food (Oman Turbine, 2011).

Social Factors: The main social trend is increase of the customer's awareness of the health food, and this lead to produce a healthy and fresh alternatives food. This trend gives the opportunity for the Company as the main player of Poultry Farms in the market. But in other side, it's also making a potential threat in niche farmers markets in the internal region of the country which focus in produce the fresh Poultry Farms. During last three years, ASafa achieved and gaining Macro poultry industry in Oman and also invested the opportunity in the market.

On more social factor is the trend of people to be more convenience by buying their needs from a single store includes all the products. This trend also makes the company the opportunity to increase demand for its products due to the distribution of their products to the largest number of retail market. This is an opportunity for also people to buy a fresh poultry in a manner faster without loss of time and effort where the consumer does not need to go to poultry farms to buy fresh poultry.

Technology Factors: A'Saffa has a modern international manufacture techniques and machinery. However, the technology is changing rapidly and do not need to spend more cost to renew or replace the old machine for long term.

Porter's Five Forces Analysis:

In this section will assess the attractiveness and profitability of the poultry sector in Oman than assess the relative position of the company in the industry .

Threat of substitutes: by examining the market, the threat of substitutes is high in poultry in Oman because A'Saffa Foods faces many indirect competitors from farmers markets. Existing indicators in the local market, the indirect competitors are potential substitutes to A'Saffa Foods and create threats in the future. Farmers markets have seen a significant expansion in Oman and providing a fresh food with convenience choice. With increasing the health consciousness towards health alternatives, the farmers markets sell fresh products and natural produce and this also cause a threat potential in the future.

Degree of Rivalry: in Oman, the poultry business is highly competitive. Because the small number of main players in the market and lack of differentiation due to nature of products, a high degree of rivalry exists in the market. Hence, the competition is based on price and other factors like sell location and choice of product. There is an increase in future rivalry due to the entry of new local company " Barka Food" (because their business will focus on the north area of Oman, which have a large number of the population) and also new competitors from UAE and Saudi Arabia which will make the industry further competitive and risky threat in future .

Bargaining power of suppliers: bargaining power of suppliers is extremely very low. A'Saffa Foods controlling market share for poultry products of over 25 per cent and numbers of local suppliers have a very limited choice of intermediaries to select from. Thus, A'Saffa Foods is the main customer and purchaser of raw material in the industry. On the other hand, this set to change with the entry of new companies with Government policy increase the competition in the industry. Therefore, the bargaining power of the

suppliers is a middle in the future because expect a bigger selection to deliver to.

Bargaining power of buyers: the buying power of customers is in an increase. The government raise the level of food security by supporting and encourage the small-scale producers and reduce the competition barriers by allow farmers markets to come in the market which lead to increase customers selections (Al Watan newspaper, 2009). As a result, the customers bargaining power is increase and thus, the increase of customers bargaining power will enable customer to compare prices and select the cheaper alternative and this aspects take customers bargaining to a further medium level.

Threats of new Entrants: the threat of new entrants is low and this is due to the role of government of Oman to support the local business of food toward the food security in the country. A'Saffa also says that it has no fear of other competitors entering the market place - either in Oman or the region" (Times of Oman, 2010). Despite that this market does not require a high infrastructure, but its needs experience to manage the project efficiently and its easily to be exposed to losses because spread of diseases (e. g Bird Flu) or change the social factors of people regarding the health food.

Comparison of industry Attractiveness for A'Saffa:

From previous section on the Porters Five factors analysis, the poultry industry identified reasons of the weak bargaining power of suppliers and buyers and barriers to entry. Consequently, the company achieves profitability until now. Therefore, the position of A'Saffa is medium of the

change of the attractiveness of the industry. Also, the profit of Company may be decrease from high to medium in future.

The reasons for this are increase in bargaining power of suppliers and buyers with the bigger rivalry and the entry of new companies.

When the industry attractiveness and profitability has decreased from earlier levels, the capability to do better than its rivals depend on the Company's resources and capabilities which can develop in the future.

Industry Attractiveness / Profitability of A'Saffa Foods until now.

Internal Analysis:

In this section will identify the major resources and capabilities of A'Saffa Foods by evaluating the situation of A'Saffa Foods in the food chain to participate in and examine the major role within A'Saffa Foods value chain which delivers the large amount value to the firm.

Assessing of food chain A'Saffa Foods participate in:

A'Saffa Foods is the sole supplier of all their chicken products and the food chain is provide wholesale with a channel to reach end consumers. The Company has a big farm with high capacity and intends to increase the production in the future to meet growing demands in Oman and Gulf countries. The A'Saffa farm is on the main highway between South of Oman (Muscat city) and South (Salalah city) which make distribution process are quick and well-organized. The Farm has its own water supply .

From the poultry resource, no serious issues of supply chain face the A'Saffa Foods. A dedicated Supply Chain Management (SCM) team works round the <https://assignbuster.com/a-report-on-the-poultry-industry/>

clock to identify potential suppliers and procure the required high quality raw materials in a timely manner (www. asaffa. com).

Value chain Analysis of A'Saffa Foods:

A'Saffa has made possible 100% product availability through its branch Sales offices spread across Oman covering all the regions and the interior markets. This is a very healthy sign of effective and intensive distribution system across the country. The total coverage exceeds 1600 outlets. With extensive branch network covering entire Oman, our reach is not just limited to groceries, we also cater to restaurants, butcheries, catering companies and other institutions.

There are three main value creating functions to deliver Company's commitment:

Logistics & Distribution Network: the chicken's feed is manufactured in A'Saffa and therefore, the company has own operational control of the logist to conduct QA audits to ensure that the products is in a high manner.

A'Saffa Food is the sole supplier of all their products and its control the network of distribution of its products. To ensure that A'Saffa products are available in every Hyper & Super Markets and retail stores, A'Saffa has owned a fleet of 25 reefer trucks to deliver a frozen and fresh product to be available to the customer at all time and across Oman.

Operations: this includes inventory management, customer satisfaction and quality assessment. A'Saffa offers a large choice of new products to its consumers.

Quality Assessment: A'Saffa has a commitment of the importance of the quality of its Clients/Buyers and to deliver highest quality of products . Also, the Company implements a Hazard Analysis and Critical Control Points systems. Furthermore, the chicken's feed is manufactured in A'Saffa farm by using a scientific feed management and this allow the Company to control the quality of natural fed.

Inventory management: using a technology to make sure that stock level is adequate at all time. Also, using forecasting system to prevent unexpected increase or decrease in demand of the product.

Sales and Marketing: as mentioned before, A'Saffa Food is the sole supplier of all their products and its control the network of distribution of its products. Therefore, A'Saffa Food is compete successfully and increasing its sales by a promotion of a product inside a shop, committed to deliver the fresh products to retailer on time and enhance a consumer research and environmental changes. This is an important to identify and use a strategy to compete successfully in future.

Assessing a significant Resources and Capabilities of A'Saffa Foods:

Strategy capability examines different types of resources and competence within the organization in order to survive in the market. There are two types of resources, first is physical or tangible of the organization including (finance, Plant and labour). The other resource is the intangible resources which consist of (knowledge, brand reputation and information).

To compete, A'Saffa Foods is using strategy of differentiation and cost leadership by adopting an efficient supply chain to control the cost and brand image.

A'saffa growth-oriented strategy to branch out into other complementary products began in 2009 by adding value-added packaged food products. The packaged products are currently out-sourced from the UAE and its contribution to the company's bottom line is less than 10 per cent.

A'Saffa has four significant resources and capabilities:

Successful Supply chain: A'Saffa food has an efficient distribution network across the country. The tangible assets such a manufacture of Chicken's food and technological capabilities are important for A'Saffa food to achieve a higher EBIT. But successful supply chain in inadequate as a distinct competency.

Brand Reputation: A'Saffa Food has built a brand reputation as providing a fresh food and ' Halal' local products (The term is used to designate food seen as allowable as per Islamic law). This has already been through the consumer experience with products and also advertising campaign undertaken by the Company to promote its products. The reputation of the brand is very important of the consumer satisfaction. Therefore, the reputation is not a competitive advantage . it is a point of equality that the Company must have in order to compete.

Financial position: the Company has a good financial position in the market . In addition; the government has supported the company by a Tax exemption

which was expired in 2009. Regardless of the tax deducted for the next years, the profit after tax is expected to increase for the next two with an growth plan.

Location: A'Saffa has a big capacity of its farm which allocated in " Thumrait" in the south of Oman. This location gives A'Saffa more advantage to build a big farm with water resources, government subsidy by not charging any cost of land and also near the big city in Oman.

Despite the above resources and capabilities of A'Saffa, the Company has facing a change in its top management. The growth on Omani economy has resulted in number of opportunities available to professionals. this created a challenge for A'Saffa to change its HR policy by encourage the existing top management by pay high salary and others benefiter.

Tax exemption which was expired in 2009, will lead to high cost of structure for next years. In addition, A'Saffa has a large capacity of the production of the fresh chicken and to change to frozen chicken, it would be more cost for the Company.

SWOT Analysis:

Examination of the internal and external environment is significant measurement of the strategic planning process. SWOT analysis gives information that is useful in matching the resources and capabilities of A'Saffa to the competitive environment.

Summary of SWOT analysis of A'Saff Food

External Analysis

Internal Analysis

Opportunities :

Low of new entrants

Government support.

Strengths:

Strong brand name

Good reputation

Healthy and quality food

Distribution network

Create new products

Location of the farm.

Threats

Substitute products.

Industry is highly competitive.

Shift the consumer from fresh products to frozen foods.

Trade barriers between Oman and other countries e. g Yeman.

Weaknesses:

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High cost structure.

Losing effecting top management

Strategy Options:

TOWS Matrix

By examine the Company Threats and Opportunities (External Environment) and the weakness and strengths (Internal Environment) , it can be understanding , identifying and developing a strategy options for A'Saffa Food.

It's important for A'Saffa to build the majority of its above strengths, avoid its weakness, take advantage of the opportunities available and control its threats. The following is the TOWS Matrix, gives A' Saffa the options that can be could followed:

External Opportunities (O)

Low of new entrants/Government support.

External Threats

(T)

Substitute products./Industry is highly competitive./Shift the consumer from fresh products to frozen foods./Trade barriers

Internal Strengths

(S)

Strong brand name/Good reputation/Healthy and quality food/Distribution network/Create new products/Location of the farm.

SO

“ Maxi-Maxi” Strategy

Using strengths to maximize opportunities.

ST

“ Maxi-Mini” Strategy

using strengths to minimize threats.

Internal Weaknesses (W)

High cost structure/ Losing effecting top management.

WO

“ Mini-Maxi” Strategy

minimize weaknesses by taking advantage of opportunities.

WT

“ Mini-Mini” Strategy

minimize weaknesses and avoid threats.

From the above evaluation of options, the “ Maxi-Maxi” Strategy which use strengths to maximize opportunities is the most benefit to achieve the mission and vision of A’Saffa Food.

Scenario Analysis: investigate different futures:

Scenario Analysis is useful way to assists A’Saffa to make judgment in the situation of the different futures that could arrive. The take steps of make scenarios forces A’Saffa to challenge its assumption about the future. By determining the Company plans based on a possible scenarios, than Company can make sure that its decisions are right even if environmental changes.

The following is same of Scenario analysis process for A’Saffa Food :

High cost structure: A’Saffa is planning to become a number 1. In the Middle East by soon. this can be done by providing a high quality of the fresh and frozen food with competitive price.

From the PEST analysis, it was reported the key factors of political, economic, social and technological that impact the cost of products in A’Saffa food. Thus, the key assumption of reducing a cost of products are:

Build a new farm of poultry in North of Oman to increase the sale and reduce the cost of sale.

Using international advert to keep up a market position of A’Saffa products in order to increase the sale of fresh products

Build a marketing plan to sale the fresh products during the period of validity, so that the company not losing a cost of products if the is expired.

Developing the above Scenarios: A' Saffa can start with improbability scenario of build of new farm in North of Oman . the future scenario will one of the following:

Economy in Oman going up: with government support to the local firms to be more competitive. Hence the Company will have a sustaining competitive advantage over ten years.

Economic slowdown : then the Company will have more cost of capicity which effect the cost advantage and loss the market.

Strategic Direction with Ansoff Matrix

Defining strategic direction might be a big challenge for A'saffa Foods. Ansoff Product/ Market matrix is a tool to recognize the basic option and directions for A'saffa Foods. Taking into consideration A'saffa Foods approach to develop new product and penetrate new markets, four different possibilities can be applied.

Taking into account these combinations, A'safaa Foods seem to successfully attract and penetrate the highly competitive markets by offering its high quality products in a competitive price as the company have a competitive cost advantage. This itself will additionally define its market development and growth with reputation locally as well as existing market and internationally as new market, which will develop and enhance the existing products in the new markets. A'saffa could also move toward product

development strategy with their existing capabilities or creating new ones to assure total satisfaction of the changing needs of the customer by developing new products. The company can also implement a diversification strategy and add new production lines such as dairy products as it has the capabilities and resources.

Recommendation:

In future, A'saffa should have a framework and control models. Those models have set targets, feedback, and measurement of performance (Frances, et al, 2007). For instance, the Company by applying those models can recognize if there is a gap between released direction and desired trend. By this technique, A'saffa Foods can set a plan for unforeseen events and circumstances. As an example, in the near future, there will be more existing or new Food production companies entering the local market. In this situation, A'saffa Foods can use its cost control advantage and adjust its plans to overcome the change in the aggressive competitive forces.

The variable actions are planned by A'saffa Foods in nonstop developed process to administrate and control the unforeseen events the dynamic changing environment. Those actions are best technique to maintain the existing competitive advantage associates with the firm (Frances A. et al, 2007). By apply this technique; A'saffa Foods will improve the strategic planning which therefore, keeps the company doing well in long term