The manufacturing process at almoiz sugar mills marketing essay

Introduction

Al-Moiz Sugar Mills Limited incorporated in 2004 as a limited company and certificate of commencement of business was granted in 2005. The Head Office of the company is located at Gulberg III Lahore whereas the factory unit is located on Chashma Road in the D. I. KHAN District Khyber Pakhtunkhwa. The company is recognized in the local and international market as a fine quality producer of white refined Sugar, Molasses and also holds a substantial share in the market. The company is also engaged in the export of white refined sugar to Afghanistan and molasses to Euro countries and is contributing to the national economy in the form of foreign exchange. The company has strong corporate clients including Engro and Pepsi. This is the only Pakistani company with state of the art technology and is one of the very few mills in Pakistan that is providing Wapda with electricity.

The sugar mills basic plant & machinery was acquired and installed by The Heavy Mechanical Complex Taxila (A State Engineering Company). Other equipment such as turbines and gearboxes etc were imported from Germany and United Kingdom. Currently the plant is working at the crushing capacity of 1oooo MTCD and company is keen to increase it to 12000 MTCD. The sugar mill has a state of the art technology which is the latest technology in Pakistan. The mill produces sugar by using both sugar cane and sugar beet as a raw material. The company is committed to invest in IT with an eventual target of implementing ERP system.

AL-MOIZ Sugar Mills Limited is one of the significant units of Almoiz group of industries. The company is principally engaged in the business of manufacture& sales of white refined sugar & molasses (as a byproduct), Crushing of sugarcane, Sugar beet & raw sugar in to white refined sugar.

Manufacturing Process

The manufacturing process at Almoiz Sugar Mills comprises of the following steps

Main Competitors

Products

White refined sugar:

Major business of the company is to produce white refined cane sugar of intermission standard and from the erased cane and three different components are achieved that are fibber, pith and moisture.

Molasses:

This is a by product and it is sold to molasses contractors. One of the allied concerns, reliance commodities (pvt) limited is the main buyer of the molasses of al-moiz sugar mills limited and also the main buyer of molasses from whole the country. Reliance commodities (pvt) limited is the main exporter of molasses in pakistan.

Baggase

This is also a bye product of the company. Baggase is used as source of energy fuel for sugar industry for juice heating. And also used for making medium density fiber board (mdfb). Baggase is sold to the baggase contractors.

Mud

Mud is also the by-product of the company. It is sold to the mud contractors. This is used in making chocolates and other products.

Electricity

Al-moiz sugar mills also produce electricity on large quantity. The mill does not only fulfil its own energy requirements but is able to product surplus electricity which is supplies to wapda.

Departments at the Factory Site

Departments at the Head Office

The strengths and Weaknesses of the company are as follows

Strengths

Attractive salary packages for employees on the site

Top management. The CEO of the company is a Stanford Graduate and is a man of great vision

Friendly and cooperative working environment

Financial resources

Agricultural assistance to the local farmers

State of the art technology

Corporate Social Responsibility

Weaknesses

Lack of skilled persons available in the region where the mill is located

Shortage of residence available for employees on the site

The site is prone to being affected by the flood and has been affected by the floods that occurred in the past

Unavailability of modern facilities on the site

Number of accidental reports are increasing

Turnover rate is high

Weak organizational policies

Poor GSM services on the site

Literature Review

Sugar Industry in Pakistan

JCR-VIS Credit Rating Company Limited, (2011) described the sugar industry ranked the fifteenth largest globally and the second largest after textile industry with 86 operational factories across the country with an installed capacity of 7. 0 million tons of sugar annually. It directly employed over 30, 000 personnel.

JCR-VIS Credit Rating Company Limited, (2010) described the industry as the driving engine of the rural economy after agrarian economy in many countries. They also stated the sugar industry’s cyclical nature as harvesting of sugar cane was dependent on weather as well as the availability of adequate water.

Khushk, Memon & Saeed described the Pakistan sugar industry as uncompetitive in nature due to low sugarcane yield per hectare and low content of sucrose ranging between 7-9 percent however they also described the sugar industry from a grower’s perspective as competitive since the growers were of the opinion that the sugar crisis was artificially created by mill owners with the motive of keeping sugarcane prices below support prices and reaping abnormal profits.

(Shaukat) described Pakistan as the fifth largest country in the world in terms of area under sugar cane cultivation, eleventh by production and sixtieth in yield. The author also described the sugar industry in Pakistan as the second largest agro based industry with 81 sugar mills with annual crushing capacity of over 6. 1 million tons. The author also mentioned that the Sugar industry is mostly located in the rural areas of Punjab and Sindh. A small percentage of total production is produced in Khyber Pakhtunkhwa. Previously, Punjab was partly dependent on supply of sugar from Sindh however after the establishment of some large scale units in Punjab the Province became self-sufficient in the commodity.

(Rizvi) described Pakistan’s sugar industry as mostly owned by politicians. The author also mentions that majority of the sugar mills were setup with the help of Development Financial Institutions normally trapped with the working capital crisis. Consequently, some of the mills were closed and it was feared that some more sick units would close down. The author also mentions the collapse of sugar mill being a loss of national assets, reduction in the sales tax revenue and an increase in unemployment.

Awareness of consumers towards branded products

Aaker (2000) was of the opinion that brand awareness was a remarkably durable and sustainable asset that provided a sense of familiarity especially in low- involvement products. It also provided with a sense of presence, commitment and substance. It was very vital to recall at the time of purchase. Besides the conventional media there were other effective means to create awareness such as event promotions, publicity and sampling.

Chen (2001) stated that though brand awareness was a necessary asset however it was not sufficient for building strong brand equity. In this view a brand could be well known because it had inferior quality.

Ramasamy et al. (2005) reported that, the buying behavior was vastly influenced by the awareness and attitude towards the product. Television commercials were said to be the most important source of information, followed by retail outlet displays. Consumers formed an opinion about a brand on the basis of various product features. A large number of respondents laid emphasis on quality and were of the opinion that price is an important factor while other respondents attached importance to image of manufacturer.

Purchase Behavior of Consumers

Results of the study conducted by Joshi (1993) in Dharwad on food purchasing habits and consumer awareness among rural and urban housewives indicated that majority of the urban respondents purchased sugar (69. 00%) on monthly basis. Rural respondents purchased sugar (71. 00%) once in week. Both rural and urban respondents purchased groceries (99. 00% each) from retail shops. Price, quality and weight of the products were the important factors considered by both rural and urban respondents while purchasing of food items.

Nagaraja (2004) opined that, buying behaviour is very much influenced by experience of their own and of neighbour consumers and his family. Above all, the quality of the product and its easy availability were the primary and the vital determinants of his buying behaviour. Consumers were influenced by touch and feel aspect of any promotional activity.

Shivkumar (2004) showed that the consumer, irrespective of income groups, was mainly influenced by the opinions of their family members to purchase. Consumers were also influenced by the dealers' recommendation, followed by advertisement.

Brand Preference

Kubendran and Vanniarajan (2005) described the change in consumption pattern a result of change in food habits. If income and urbanization increase among consumers, the percentage of income spent on consumption increased. Branded products were preferred my urban consumers. The major factors influencing buying decisions were accessibility, quality, regular supply, door delivery and the mode of payment.

Narang (2006) claimed that, a buyer does not stick to one brand when it comes to purchasing a food item. They should be able recall different brand names when they go for purchase. Repetitive advertising can be used to aid brand recall. The product should appeal to the consumer.

Kim-Hyunah et al. (2005) concluded that brand preference and brand image had considerable positive effects on brand loyalty. Thus, the companies should strive to strengthen brand loyalty through building brand preference and brand image. Brand loyalty led to increased customer visits.

Low and Lamb Jr. (2000) maintained that known brands tend to exhibit multi-dimensional brand associations, consistent with the idea that consumers have more developed memory structures for more familiar brands. Consumers might be willing to expend more energy in processing information regarding familiar brands compared to unfamiliar brands.

Padmanabhan (1999) conducted study on brand loyalty, which revealed that the price of the preferred brand, efficiency of the preferred brand and influence of advertisement significantly influenced the brand loyalty.

Factors Influencing Brand Preference

In a study conducted by Sarwade (2002) it was observed that the factor which influenced the purchasing decision as against the quality of the product was its price. Another interesting finding was that the company image and brand image were not totally considered by the households.

Kubendran and Vanniarajan (2005) described the change in consumption pattern is due to changes in food habits. If income and urbanization increase among consumers, the percentage of income spent on consumption increases. The urban consumers prefer mostly branded products compared to rural consumers. The most significant factors influencing buying decisions were acceptability, quality, regular supply, door delivery and the mode of payment.

Vincent (2006) elicited that quality was an important factor that draws consumer towards branded products. Branded products were accepted as good quality products. People do not mind paying extra for branded products, as they get value for money. Media is a key constituent in promoting and influencing brand.

External environmental analysis

Sugar Industry in Pakistan

Sugar is the important sector of Pakistan's economy. Sugar industry plays a vital role for development of any countries. In Pakistan this industry play a significant role for economic development.

Its share in the large scale industry is 19. 25% and in GDP is 1. 98%. Sugar industry contribution to the government exchequer in federal excise duty 17. 34%

History

At the time of partition in 1947 only seven sugar mills, existed in the territories of Pakistan, 5 in East Pakistan now known as Bangladesh and only 2 in West Pakistan now known as Pakistan. These two sugar mills namely Rahwali Sugar Mills and Frontier Sugar Mills established in 1936 and 1938 had a capacity of 5000 tonnes each of producing white sugar. During 1954-56 three more sugar mills were established with a capacity of 10000-15000 tonnes. By 1955-56, the sugar production capacity in Pakistan was around 45, 000 tonnes. With an abrupt change in the economic activities and urbanization, the demand for white sugar was on the increase. This was attributed to the manufacture of soft drinks, confectioneries and bakery products etc. The number of sugar mills was also on the increase to meet the demand.

Major Players in the Sugar Industry

The major players in the sugar industry are

Current Scenario

The sugar industry is the second largest in the country after the textile industry. Currently there are 83 sugar mills operating in Pakistan. In Pakistan normally season starts in November and ends in April. Out of the 83 sugar mills present in the country 76 Sugar Mills are operating having crushing capacity of 361, 300 tons of cane per day (TCD). Seven Sugar mills extended capacity but they are unable to utilize. Based on 160 days season these sugar mills have a total crushing capacity of 58 million tons of sugarcane capable to produce 5 million tons of refined sugar and 3 million tons of molasses. Also the weekly sugar production is conveyed to the government via Pakistan Sugar Mills Association.

The environmental analysis can be classified into two major types of environments that a firm has to face. They are micro and the macro (mega) environment. These are discussed in detail below.

Macro Environment

Technological Environment

Almoiz sugar mill's position as far as the technological environment is concerned is pretty strong as of now. It uses the state of the art technology and can produce sugar using sugar beet as a raw material other than sugar cane. Other than sugar production the firm is also engaged in electricity production and is a supplier of electricity to wapda.

Socio-cultural Environment

The impact of societal changes, life styles and culture on Almoiz sugar mill is significant. There has been a shift in the life style, for example the type of stores customer prefer to shop from, the type of packaging they prefer sugar in. Consumers are becoming more health conscious they prefer to go for low calorie versions and are very concerned about hygienic conditions of the sugar and the shop that sugar is purchased from.

Economic Environment

The economic environment of Pakistan is not very stable and it continues to fluctuate every now and then. With the rise in interest rates and double digit inflation in the country, it has practically become impossible for the consumers to buy the same number of products as they used to buy a few years ago, thus the purchasing power of the consumers has sharply gone down.

Political Environment

The political scenario of Pakistan is the biggest threat to a business. Changing tax rates, rebates, labor strikes and the instability in general makes it difficult for Almoiz sugar mill to cope up with these changes and thus it can hamper future operations and thus profitability of the entire business.

Legal Environment

The legal system of Pakistan is generally not very strong and in case of a problem, a company can involve itself into years' long legal implications and trials.

Micro Environment

Suppliers

Almoiz has divided its suppliers into two zones

Factory Zone: 73 % of sugar cane during the cane season is obtained from the factory zone i. e. 640, 000 M . Tons

Outer Zone: 27% of sugar cane during the cane season is obtained from the outer zone i. e. 240, 000 M. Tons. The outer zone comprises of areas including Indus road, Bypass, Bhakkar and Mianwali.

Market Demand

There is a great deal of demand for sugar in households. Sugar is used in very house it may be directly consumed or may be indirectly consumed in other products such as beverages and Confectionery items such as sweets, lollipops, candy bars, chocolate, cotton candy and other sweet snack items.

Competition

Almoiz sugar mill has many competitors with Chashma sugar mill and Layyah sugar mill being the its two immediate competitors. The competitors also offer the same range of products with white refined sugar being the core product and several other by product including molasses however there isn't any sugar mill that generates its own electricity as Almoiz sugar mill.

Skill Level of Workforce

Workforce and the people in the company is the biggest asset of an organization. In the case of Almoiz sugar mill the workforce plays a very important role in the organizations productivity. The location of the factory is in Dera Ismail Khan and due to the instability in the region finding skilled workforce in that area is very hard. Hence attractive salary packages are given to attract skilled workforce from other regions of the country to come and work for Almoiz sugar mill.

Marketing Intermediaries

Marketing intermediaries are involved especially when it comes to sugar distribution to retailers and wholesalers. A high level of intermediary involvement makes communication difficult and increases the dependence.

Porter's Five Forces Model

http://www. 12manage. com/images/porterfiveforces. gif

Porter's five forces model basically gauges the intensity of competition within its industry. The collective strength of all these forces combined determines the ultimate profit potential of the industry where profit potential is measured in terms of the long-run return on investment of capital.

Threat of New Entrants

If someone from a political or influential background wants to set up a sugar mill they have the financial resources to obtain the machinery and contacts needed to obtain a license to start up a sugar mill. So entry into the sugar industry is not hard. There are 83 sugar mills in Pakistan out of which 76 Sugar Mills are operating.

Bargaining Power of Suppliers

Almoiz has a diverse range of suppliers as mentioned earlier. It has separate categories of suppliers based on distance from the factory site. Thus giving the suppliers a low bargaining power.

Bargaining Power of Customers

Customers have the option of switching to other sugar producers since barely one or two sugar mills have done something to distinguish themselves from other competitors in terms if having a brand name or packaging. People don't even take into consideration the brand or sugar mill name while purchasing sugar they just purchase whatever is easily available.

Threat of Substitute Products

Almoiz has many direct competitors. Currently there are 83 sugar mills in the country out of which 76 sugar mills are operating. The competitors also offer the exact same range of products with white refined sugar being the core product thus making the threat of substitute products high. Also other substitute products such as canderal are available for consumers who want to go for a sweetener with less sugar content

Porter's Generic Strategies

According to this strategy, in order to cope up with competition, firms adopt three generic strategic approaches to gain competitive advantage.

Overall cost leadership entails the firm to make all or possible attempts to achieve the lowest costs in production and marketing.

Differentiation approach lays emphasis on achieving class leadership by providing unique characteristics to the product/service.

Focus strategy attempts to serve a narrow strategic target effectively and efficiently.

Thus, on the basis of these three strategies, Almoiz sugar mill follows the Overall Cost Leadership Strategy. By being the low cost leader, it increases its efficiency at all levels thus gaining a significant market share. An illustration is shown below:

External Factor Analysis Summary

Opportunities

Entering International Markets

Expanding corporate clients

Technology

Government and industrial projects.

Minimization of cost by properly utilizing the by-products.

Organic sugar

Threats

Seasonal Variation in sugar cane

Political Instability

Natural Calamities

The region in which the mill is located is very risky in terms of stability

Competitors in the same region can attract the skilled resource of the company by offering them a better package

External Factor

Weight

Rating

Weighted Score

Opportunities

Entering International Markets

0. 05

3

0. 15

Expanding corporate clients

0. 15

4

0. 6

Technology

0. 03

4

0. 12

Government and industrial projects

0. 13

4

0. 52

utilizing by-products

0. 07

3

0. 21

Organic Sugar

0. 14

3

0. 42

Threats

Seasonal Variation in sugar cane

0. 14

4

0. 56

Political Instability

0. 09

3

0. 27

Natural Calamities

0. 07

3

0. 21

location of factory

0. 13

2

0. 26

Total

1

3. 32

Competitor Analysis

The following are the main competitors of Almoiz Sugar mills

Layyah Sugar Mills Layyah

Chashma sugar Mills D. I. Khan

Chashma Sugar Mill (D. I. Khan)

The mill was set up by the sponsors of the Premier Group in 1991. Technical and other assistance is provided to the sugarcane growers, in addition to the development of 150, 000 acres of land for the cane supply. The mill production stands at 18, 000 tons per day, the largest in Pakistan.

In the financial year 2010, the Company was declared a subsidiary of The Premier Sugar Mills & Distillery Company Limited, under the directions of the Securities and Exchange Commission of Pakistan. . The factory is located in Dera Ismail Khan, Khyber Pakhtunkhwa. The company has the following strategic goals

Providing Customer Satisfaction by serving with superior quality production of white sugar at lowest cost

Ensuring Security and Accountability by creating an environment of security and accountability for employees, production facilities and products

Expanding Customer Base by exploring new national and international markets and undertaking product research and development in sugar industry

Ensuring Efficient Resource Management by managing human, financial, technical and infrastructural resources so as to support all our strategic goals and to ensure highest possible value addition to stakeholders.

Products

White Crystaline Sugar

White Crystalline Sugar

Molasses

Molasses

Bagasse

Bagasse

Layyah Sugar Mills (Layyah)

Layyah Sugar Mills is a project of The Thal Industries Corporation Limited having its registered office at 23 Pir Khurshid Colony, Multan. The company was incorporated on September 07, 1953 under the companies Act 1913 (Now Companies Ordinance 1984) as Public Limited company limited by shares. Its shares are quoted on Karachi and Lahore stock exchanges in Pakistan. The company is engaged in production and sale of white refined sugar.

Layyah Sugar Mills was set up by the Thal Development Authority (Defunct) with a capacity of 1200 TCD in 1954, which was enhanced, to 2000 TCD in 1979-80 and further to 2700 TCD in 1990-91. It was the first sugar mills installed and commissioned in Punjab after existence of Pakistan. After privatization the new management, by taking some drastic measures, enhanced the crushing capacity of sugar mills from 2700 TCD to 3500 TCD in year 2001.

In 2002; Company undertook BMR & Expansion to add new mills tandem of 4000 Tons Crushing/Day .

In 2002-2003; Undertook second phase of BMR & Expansion to increase in crushing capacity and synchronize the process house with the mills house to 6700 Tons Crushed/Day (TCD), successfully completed during the crushing season 2002-2003. Due to which capacity of sugar mills has been increased from 6, 700 TCD to 9, 300 TCD.

Financial Analysis

Liquidity Ratios

Year

2011

2010

2009

Almoiz

Chashma

Layyah

Almoiz

Chashma

Layyah

Almoiz

Chashma

Current Ratio

0. 96

0. 96

1. 12

0. 76

0. 87

1. 08

1. 00

0. 72

Quick Ratio

0. 35

0. 22

0. 79

0. 36

0. 52

0. 58

0. 55

0. 22

Inventory to Net working Capital

-13. 50

-19. 63

2. 81

-1. 62

-2. 69

6. 08

213. 06

-1. 80

The current ratio is a financial ratio that measures whether or not a firm has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities. The current ratio is an indication of a firm's market liquidity and ability to meet creditor's demands. Acceptable current ratios vary from industry to industry and are generally between 1. 5 and 3 for healthy businesses. If a company's current ratio is in this range, then it generally indicates good short-term financial strength. Almoiz has a current ratio of less than 1 for the year 2011 as well as the year 2010 where as in 2009 the current assets of Almoiz are slightly more than its current liabilities therefore the ratio is above 1 in 2009. Out of the three sugar mills the value of current ratio for Layyah sugar mill indicates good financial strength as compared to Chashma and Almoiz sugar mills.

Quick Ratio is an indicator of a company's short-term liquidity. The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets. A higher quick ratio indicates a better position of the company. In the years 2010 and 2011 Layyah sugar mills has a higher quick ratio where as in 2009 Almoiz has a higher quick ratio.

Inventory to Net Working Capital measures a firm's capability to finance its inventories from its available cash. Layyah sugar mill has a better capability to finance its inventories from available cash as compared to Almoiz and Chashma sugar mills.

Leverage Ratios

2011

2010

2009

Leverage

Almoiz

Chashma

Layyah

Almoiz

Chashma

Layyah

Almoiz

Chashma

Debt to assets

0. 70

0. 71

0. 81

0. 65

0. 68

0. 80

0. 65

0. 82

Debt to equity

2. 28

2. 43

4. 22

1. 89

2. 12

3. 94

1. 86

4. 48

Long Term Debt to equity

1. 34

0. 83

1. 47

1. 38

1. 35

1. 96

1. 45

2. 30

TIE

1. 08

1. 37

1. 65

0. 12

2. 16

1. 82

0. 02

0. 68

Debt to Assets is A metric used to measure a company's financial risk by determining how much of the company's assets have been financed by debt. Layyah and Chashma sugar mill have a higher debt to assets ratio as compared to Almoiz sugar mill.

Debt to Equity is a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Almoiz sugar mill has a lesser debt to equity ratio as compared to Layyah and Chashma sugar mill.

Long term debt to equity is a way to determine a company's leverage. The ratio is calculated by taking the company's long-term debt and dividing it by stockholders equity. The greater a company's leverage, the higher the ratio. Generally, companies with higher ratios are thought to be more
risky because they have more liabilities and less equity. Overall for all the three years Layyah sugar mill has a higher debt to equity ratio as compared to Almoiz and Chasma sugar mill.

Times Interest Earned (TIE) is a metric used to measure a company's ability to meet its debt obligations. It is calculated by taking a company's earnings before interest and taxes (EBIT) and dividing it by the total interest payable on bonds and other contractual debt. It is usually quoted as a ratio and indicates how many times a company can cover its interest charges on a pretax basis. Failing to meet these obligations could force a company into bankruptcy.

In 2009 Almoiz has a very less TIE ratio Chashma and Layyah have higher TIE ratio than Almoiz sugar mill.

Profitability Ratios

Profitability

2011

2010

2009

Almoiz

Chashma

Layyah

Almoiz

Chashma

Layyah

Almoiz

Chashma

GPM

0. 12

0. 12

0. 13

0. 03

0. 12

0. 11

0. 05

0. 09

NPM

0. 008

0. 02

0. 025

-0. 022

0. 05

0. 018

-0. 217

-0. 05

OPM

0. 106

0. 10

0. 11

0. 013

0. 10

0. 08

0. 005

0. 08

ROA

0. 006

0. 025

0. 046

-0. 015

0. 104

0. 040

-0. 072

-0. 062

EPS

0. 16

4. 9

12. 23

-0. 35

10. 78

7. 9

-7. 59

Gross Profit Margin is a financial metric used to assess a firm's financial health by revealing the proportion of money left over from revenues after accounting for the cost of goods sold. Gross profit margin serves as the source for paying additional expenses and future savings. The GPM for Almoiz sugar mill has increased from 2009 to 2011 and in 2011 it is almost the same as Layyah and Chashma sugar mill however in between it dropped down to 0. 03 in 2010.

Net Profit Margin is very useful when comparing companies in similar industries. A higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors. Almoiz sugar mill has a negative NPM in 2010 and 2009 since it faced a net loss and in 2011 though it didn't face a loss but the NPM is still less than that of its competitors.

Operating Profit Margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. A healthy operating margin is required for a company to be able to pay for its