

Chapter 1

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USE OF SWOT ANALYSIS FOR DETERMINING A STRATEGIC POSITION OF THE DAIRY COMPANY

Abstract: This chapter was written as a result of the summer student placements within the Erasmus program. The purpose of this article is to determine the strategic position of the chosen Romanian company. Chosen company, Albalact, is the largest dairy company in Romania with majority Romanian ownership and the third biggest player on the local dairy market. The production process in the company was presented. The SWOT analysis, which let indicate strategic position, was conducted.

Key words: dairy industry, strategic position, SWOT analysis.

1.1. Characteristics of the chosen company

Albalact is the only Romanian dairy producer established in the old communist industry, which, only a few years after launching its first brand, became one of the top four players on the Romanian dairy market.

Albalact is the largest dairy company in Romania with majority Romanian ownership and the third biggest player on the local dairy market. Company has a tradition of more than 38 years in the dairy business and today it produces dairy products of the finest quality in one of Central and Eastern Europe's largest and most modern greenfield investments - the Oiejdea factory in the Alba district. The company also produces a diverse cheese range in the Raraul factory in Campulung

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Moldovenesc, which Albalact acquired in 2008. The Raraul company also has a long tradition in the white cheese and yellow cheese production.

Albalact brings today on the Romanian market over 80 dairy varieties under its four brand names - Fulga, Zuzu, De Albalact and Raraul. Albalact has a rich dairy products portfolio, from fresh pasteurised and UHT milk, to plain yogurt, fruit yogurt, sour cream, butter, sana, sour milk, kefir, flavoured milk for children, white cheese, fresh cow milk cheese, traditional kneaded cheese, yellow cheese, processed cheese.

The Albalact objective is to consolidate its position on the local market, to expand and responsibly develop new fresh and tasty dairy products. Albalact is a market leader in the segment of fresh pasteurised milk with Zuzu milk and is also a market leader with Albalact butter. With the Albalact sour cream, the company ranks second in this segment. Fulga UHT milk ensured also a second position for Albalact in the UHT segment (<http://brandient.com/en/client/1/albalact>).

1.2. Production process

With a modern technology, the entire processing system in the Albalact factory – tanks, pasteurising and sanitizing equipment, preparation of yogurt – is completely automated. The processing and control system was supplied by TetraPak, the international leader in this field.

The storing tanks with a total capacity of 210 tons of milk are equipped with automated washing devices, temperature and level sensors and alarm systems in order to avoid overfilling.

The pasteurisation equipment consists of a milk pasteuriser with a capacity of 20,000 liters per hour. This equipment also has sensors and a control system.

The yogurt production plant can produce over 60 tons of yogurt per day. This plant is equipped with a sterile air installation, in order to avoid the contamination of the product with germs. The air in the entire room is

filtered and pumped through Hepa filters which eliminate all dust particles within the precinct.

The milk sterilizers are used to prepare UHT milk. These new generation equipments allow the processing of a diverse product range: water, milk, juice, yogurt, etc.

The washing and cleaning of processing equipments is done by the CIP station, which is equipped with two washing units that don't allow washing solutions contaminated by raw milk to enter the pasteurised milk area.

In order to ensure a continuous production process there are two control stations equipped with 6 high performance computers which manage and supervise the whole production process, generating production lists, production reports and washing reports.

The factory is also equipped with modern packaging equipment for UHT products. These equipment were also supplied by the Swedish company Tetrapak. Besides its large production capacity, the advantage of this type of equipment is that it allows a relatively quick change of the shape of package, offering thus a greater diversification of production. The packaging system is highly innovative, fully automated, equipped with a washing unit and a steering and control device. Here, just like in the yogurt production plant, the atmosphere is controlled and the air is filtered, so that no impurity, dust or germs can penetrate the production area. From the time the milk enters the sterilizer, it has no further contact with air until the moment the consumer opens the milk box at home.

In this way, by a thorough control of processing and packaging parameters we can ensure a validity period of 6 months for milk without using any preservatives or chemicals.

The factory is equipped with Tetra Topmachines, the largest developed by Tetrapak for the packaging of fresh products. The machines have sensors which continuously check and verify the steering and packaging systems of the equipment. They have such a high level of performance that they can detect packages that are damaged, top-down or

mispositioned and automatically eliminate them (<http://www.strategic.ro/publicitate/albalact-a-relansat-brandul-zuzu.html>).

1.3. Methodology

SWOT analysis (alternatively SWOT Matrix) is one of the most popular analytical techniques. This method, through the analysis of internal and external business environment, allows to identify its strengths and weaknesses, opportunities and threats (GRUDZIEWSKI W., HEJDUK I. 2008). This analysis is a tool to optimize the business management strategy or build a new strategic plan. The main objective of this study is to determine the current position of the test object and its prospects, and with the best strategies (KONSTANCIAK M. 2012).

SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieving that objective. The technique is credited to Albert Humphrey, who led a convention at the Stanford Research Institute (now SRI International) in the 1960s and 1970s using data from Fortune 500 companies. The degree to which the internal environment of the firm matches with the external environment is expressed by the concept of strategic fit (PRUSAK R., KARDAS E., SKUZA Z. 2012).

Setting the objective should be done after the SWOT analysis has been performed. This would allow achievable goals or objectives to be set for the organization (LESTYÁNSZKA ŠKŮRKOVÁ K., KUDIČOVÁ J. 2011).

The results of the SWOT analysis contains for groups of statements:

- Strengths: characteristics of the business or project that give it an advantage over others.
- Weaknesses: are characteristics that place the team at a disadvantage relative to others.

- Opportunities: elements that the project could exploit to its advantage.
- Threats: elements in the environment that could cause trouble for the business or Project.

The SWOT analysis allows to determine the strategic position of the company. The strategy, that the company should take, is indicated by the point on a coordinate system. Points of coordinates can be determined by following formulas (INGALDI M. 2013):

$$X = | strengths | - | weaknesses | \quad (1.1)$$

$$Y = | opportunities | - | threats | \quad (1.2)$$

The SWOT method allows the separation of the four potential strategic situation (KOŹMIŃSKI A.K., PIOTROWSKI W. 2004, KRUPSKI R. 1999, JEREB B., IVANUŠA T., ROSI B. 2013):

- SO – maxi-maxi strategy – Strategies that use strengths to maximize opportunities. The firm needs to distinguish and list the strengths that could aid in the maximization of each one of its listed opportunities. For example, possible strengths that could help a company penetrate a new market could include high-brand recognition, high-brand loyalty, large levels of research and development spending, and superior customer service.
- WO – mini-maxi strategy – Strategies that use strengths to minimize threats. To illustrate, consider a company that faces rising labour costs in its home country. Simultaneously, it has identified an attractive opportunity to outsource some of its operations to another country where the cost of labour is far cheaper. This outsourcing prospect reduces the company's threat of rising labour expenses.
- ST – maxi-mini strategy – Strategies that use strengths to minimize threats. For instance, a potential threat to a firm could be the loss of market share to a new competitor entering the market. One way the firm could protect its position involves developing a marketing campaign emphasizing its superior customer service or its competitor's inferior customer service.

- WT – mini-mini strategy – Strategies that minimize weaknesses and avoid threats. This section matches the firm's threats and weaknesses in order for the company to recognize the potential situations that could harm its operations. Once these possible conditions are realized, the company can conceive of ways to protect its business. For example, a firm can enter into a strategic alliance or merge with one of its competitors to protect its operations from a rival firm. Moreover, the options to withdraw from a market or suspend operations are always present.

1.4. Determine the strategic position by the enterprise

Individual steps of the SWOT analysis, which allows to determine the strategic position of the company are carried out in stages. The first step was to identify strengths and weaknesses of the company and its opportunities and threats. The next action was to assign a weight to each element in every group, which added, must score 1. In the next step every element received points in 1-5 scale, the ratio of the weight and points were calculated. In the end the weighted average was also calculated. On the basis of the calculated weighted averages the point in Cartesian strategic, which described positions by the enterprise, was specified (INGALDI M. 2013).

In Tables 1.1-1.2 strengths and weaknesses of the chosen company were presented, while in Tables 1.3-1.4 opportunities and threats from the market were mentioned.

Table 1.1. Classification of strengths of the research company [own study]

Strengths	Weight	Points	W x P
Top four doing producer	0,1	4	0,4
Famous brand - Fulga, Zuzu	0,2	5	1
Investments	0,1	3	0,3
Position of the modern Romanian company with European vision	0,1	3	0,3

Huge range of milk assortment (portfolio)	0,1	3	0,3
Market leaders	0,1	5	0,5
Albalact as a national brand	0,1	3	0,3
Albalact as a very competitive organization	0,1	3	0,3
ISO 9001 & HCCP -TUV, 14000	0,1	2	0,2
		Σ	3,6

Table 1.2. Classification of weaknesses of the research company [own study]

Weaknesses	Weight	Points	W x P
Bad internal communication	0,1	3	0,3
Bad human resources practices and policies	0,1	2	0,2
Low share of exports in sales	0,1	1	0,1
High energy costs	0,2	4	0,8
Bad motivation system	0,1	5	0,5
Lack of advertisement in other countries	0,1	3	0,3
Small possibility of new product	0,1	2	0,2
High labour cost	0,2	4	0,4
		Σ	3,1

Table 1.3. Classification of opportunities of the research company [own study]

Opportunities	Weight	Points	W x P
Strong Romanian doing industry	0,2	3	0,6
Availability of information about best practices in human resources	0,1	3	0,3
New advanced technologies	0,2	5	1
Possibility to consolidate position in the local market	0,1	2	0,2
EU funds	0,2	4	0,8
Environmental protection policy	0,1	4	0,4
Fashion for health food	0,1	4	0,4
		Σ	3,7

Table 1.4. Classification of threats of the research company [own study]

Threats	Weight	Points	W x P
Fluctuating prices of raw materials	0,1	3	0,3
Unemployment	0,1	1	0,1
Companies whit international brand (ex: Danone, 2OH)	0,2	4	0,8
Inflation	0,1	2	0,2
Strong competition in Romania	0,1	4	0,4
Strong competition in Europe	0,1	5	0,5
Change of food habits	0,1	2	0,2
High price of energi	0,1	1	0,1
Restricted lows	0,1	3	0,3
		Σ	2,9

On the basis of values in Tables 1.1-1.4 the A point, according to formulas (1.1) and (1.2) was determined:

$$X = 3,6-3,1=0,5 \quad (1.3)$$

$$Y = 3,7-2,9=0,8 \quad (1.4)$$

Then point A was applied to the Cartesian system and on its basis the strategic positions of the enterprise was shown (Figure 1.1).

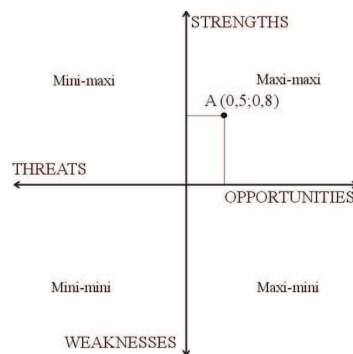


Fig. 1.1. Strategic position of the research company.

Source: Own study

1.5. Summary

The SWOT analysis carried out in the paper let determine the strategic position of the research company. From the Figure 1.1 and determined point A it results that the company was ranked in the sector maxi-maxi strategy, it means aggressive strategies. In the research company, strengths predominate over the weaknesses and the opportunities over the threats. The strategy of the company should aim to maintain this position and to make market expansion. However, it should be noted, that the majority of this strategy is not large, as evidenced by the coordinates of the point A (0,5;0,8).

The key strengths of the research company was the fact that the company Albalact jest market leaders in Romania and that it is a producer of two famous and popular brands of dairy products: Fulga, Zuzu. This company is also a part of the „top four doing producer” in Romania.

Unfortunately, there have been noted many weaknesses of the company. The hey weakness is bad motivation system. This affects the morale of the staff, and thus lower efficiency of their work. Other important weaknesses are high energy costs and high labour cost, which affects the overall cost of production, and thus the price of the product.

The most important opportunity of the company is new advanced technologies. If the research company decides for new investments, it can buy any of the new technology. After the entry of Romania to the European Union Romanian companies can apply for money from the EU funds. The emphasis on the environmental protection policy and fashion for health food causes that people choose healthy foods, including dairy products.

In market there are also many threats. First of all, it is strong competition in Romania and in Europe. The competition from Europe mean also companies with international brand (ex: Danone, 2OH), which sale their product both in Romania and abroad.

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