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The use of comparative advantage of WIG - Food companies

Abstract

The aim of this paper was to present the possibilities of comparative advantage gaining by chosen WIG-Food indexed companies. It has been considered that comparative advantage is a relative measure of company market functioning, allowing client offer is adjusted to the needs and better than competition offer. It has been showed that food companies participation in comparative advances gaining enlarging their independence level can strengthen their market position and effects of action. It has been accepted that food companies react flexibly to the changes of macroeconomic environment and constantly looking for comparative advantage areas as a part of complex approach including all company values. The problem of comparative advantage gaining was presented with an example of companies that gain the advance in the information, quality and price areas. Each one of the companies presented was studied in the aspect of internal strategy that allowed comparative advantage gaining. The analysis was based on the presentation of actions and factors influencing the development of comparative advantage gaining and revealed that companies studied are interested in comparative advantage use.

Key words: comparative advantage, food industry, restructurization

1. Introduction

Among many advantages of modern food companies the leading one is comparative advantage that is the higher market position in the relation with other companies. Comparative advantage is a relative measure of company market functioning, allowing client offer is adjusted to the needs and better than competition offer¹. It is usually observed as high quality product, lower price and better service or more complex satisfaction of client needs. Food companies constantly are looking for comparative advances enlarging their independence level can strengthen their market position and effects of action. According to H. Simon, market competition demands triangle strategic thinking - we, client and our rivals. Management is concerned with strategic comparative advantage gaining that fulfils three conditions: it has to be important from the clients' perspective, noticed by the client and possible to maintain².

¹ http://mfiles.ae.krakow.pl/pl/index.php/Przewaga_konkurencyjna; [accessed: 06.06.2008].

² Simon H., *Przewaga konkurencyjna*, <http://gospodarka.gazeta.pl/firma/>; [accessed: 06.06.2008].

According to Stankiewicz³, the comparative advance is an effect of the use of company resources and M. Romanowska the way of gaining the comparative advance considers the aim of comparative position gaining⁴. Basic kinds of comparative advance are quality, price and information advances. Qualitative advance allows managers to influence the product prices that concentrates orientation on client and fulfilment of client needs. The relation between quality and price is inseparable and allowing client needs to be met. The information advance helps effectively receiving and client preferences forming that begins needed actions.

2. Aims and methods of the study

The aim of this study was to present how food companies can influence their development by the use of information, quality and price advances. The intention was to present the influence of comparative advances, as the factors determining the company independence, enlarging the effects of market actions and market share. It has been accepted that food companies react flexibly to the changes of macroeconomic environment and constantly looking for comparative advance areas as a part of complex approach including all company values. Literature and practice shows that multiaspect approach to the problem of comparative advance gaining is allowing its enlargement and strengthening and it showed the main directions of analysis presented.

The study was based on the analysis of three leading food industry companies which share is noted by Warsaw Stock Exchange and belong to WIG-Food index. It was a purposeful choice, because of the intention to show different kinds of actions taken in analysed companies aiming at comparative advance gaining. The analysis was retrospective and basic to the comparative advance actions strengthening projecting.

The methodological aim of the study was to present the possibilities of food companies comparative advances gaining and the analysis of the influence of comparative advance on management and development. The period studied was the phase of full participation of analysed companies in capital market and the source material were financial data published by analysed companies and the literature on the subject.

The study encompassed three companies concerned to be the most representative according to comparative advances gaining in the certain sector. Meat sector was represented by Polski Koncern Mięśny Duda from Warsaw, soft drinks sector was represented by Hoop S.A. from

³ Stankiewicz M.J., (2002): *Konkurencyjność przedsiębiorstw. Budowanie konkurencyjności przedsiębiorstwa w warunkach globalizacji*, Dom Organizatora TNOiK, Toruń. s. 17-35.

⁴ Romanowska M. (2004): *Planowanie strategiczne w przedsiębiorstwie*, PWE, Warszawa, s. 262.

Warsaw, and confectioner's sector was represented by Przedsiębiorstwo Cukiernicze JUTRZENKA S.A. from Bydgoszcz. The other food sector companies are classed based on the sector criterion in WIG-Food index, including 20 from 21 companies of this sector⁵, without Grupa Żywiec S.A. from Żywiec shares.

Until now the companies from food sector were not interested in significant comparative advance building, because of steady functioning caused by small amplitude of food demand changes⁶. It has to be emphasized however the growing tendency of the food industry market showing that together with the decrease of the development speed the managers show growing interest in investments in this sector⁷, that sometimes is not revealed by economic reality because of speculative actions of stock investors or international tendencies in the capital market.

3. The use of comparative advances by WIG – Food companies – case studies

Examining chosen food companies noted by Warsaw Stock Exchange the share rate level has to be taken into account, because it can influence the investors behaviour. Share prices forming shows how the company is seen in the capital market and what are its chances to develop (excluding irrational behaviour concerning sometimes all indices). The records of market value of shares of PKM Duda, Hoop S.A. and Jutrzenka S.A. during the period 1.01.2002 – 01.06.2008 presented in the Fig. 1, show that the companies in that time properly used their chances according to comparative advances creation in the sector, resulting in the increase of capitalization and development. The analysis of WIG 20 index and WIG – Food index we can conclude that the records of food industry companies follow the WIG 20 index, that is the index of the best Polish companies (Fig. 2). It is the evidence of the position of food industry companies and according to Warren Buffet „...*the investments should be made in the*

⁵ WIG – Food index in 24.02.2008 was including the following companies: ADVANCED DISTRIBUTION SOLUTIONS S.A. from Cracow, Ambra S.A. from Warsaw, Astarta Holding NV from Amsterdam, Beef-San Zakłady Mięsne SA from Sanok, Elstar Oils S.A. from Elbląg, Graal S.A. from Wejherowo, Hoop S.A. from Warsaw, Indykpol S.A. from Olsztyn, Kernel Holding from Luxembourg, MAKARONY POLSKIE S.A. from Rzeszów, Mispol S.A. from Suwałki, Pamapol S.A. from Rusiec, Polski Koncern Mięsny Duda from Warsaw, Przedsiębiorstwo Cukiernicze JUTRZENKA S.A. from Bydgoszcz, Przedsiębiorstwo Przemysłu Spożywczego PEPEES SA from Łomża, SEKO S.A. from Chojnice, Wawel S.A. from Cracow, Wilbo S.A. from Władysławowo, Zakłady Przemysłu Cukierniczego MIESZKO S.A. from Warsaw and Zakłady Tłuszczowe Kruszwica from Kruszwica.

⁶ Szerzej na ten temat: K. Firlej, *Stymulanty konkurencyjności w zarządzaniu spółkami z indeksu WIG – Spożywczy* [w:] *Zarządzanie przedsiębiorstwem w warunkach konkurencji*, Uniwersytet Warmińsko – Mazurski, Olsztyn 2008, s. 141-149.

⁷ Daily C.M., Dalton D.R., *Corporate governance and the bankrupt firm: An empirical assessment*. “Strategic Management Journal”, 1994 nr 15.

companies of stable position, which business models are predictable”⁸ and it can be an investent based on firm background.

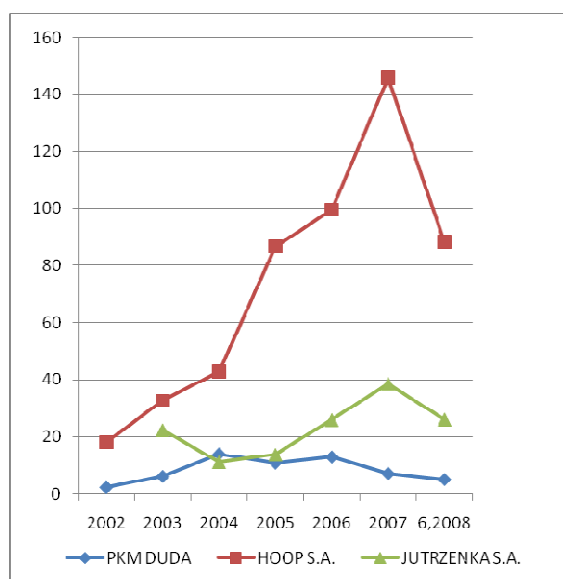


Fig. 1. Records of market value of PKM Duda, Hoop S.A. and Jutrzenka S.A. between 01.01.2002 – 01.06.2008.

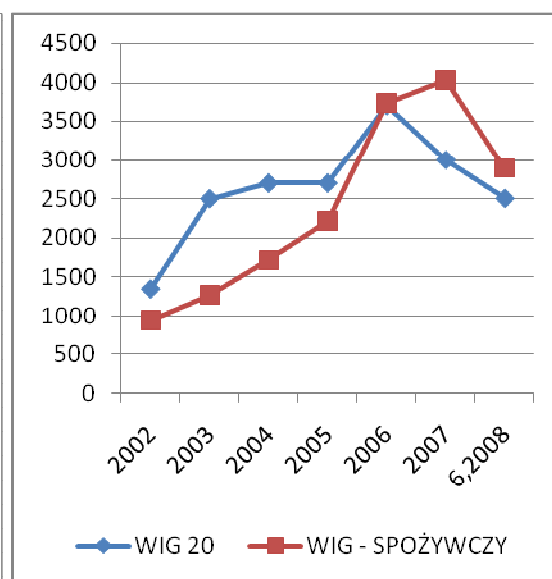


Fig. 2. WIG 20 index WIG - Food index forming between 01.01.2002 – 01.06.2008.

Source: Warsaw Stock Exchange, <http://www.gpw.pl/> [accessed 01. 06.2008].

Analysing the kinds of comparative advances was a try to determine the information advance based on the example of “Polski Koncern Mięśny DUDA” from Warsaw⁹, which consists of capital related national companies and foreign companies from food and agricultural sector. The company since 2002 is present in Warsaw Stock Exchange in Warsaw and its main activities concern red meat production in three main segments: production (slaughter, dismemberment and confection of red meat); trade-service (distribution of meat and smoked meat products, trade agency and specialized dismemberment services) and agricultural (resource backup – breeding, farming, crop processing and storage)¹⁰.

⁸ Pardoe J., *Jak to robi Warren Buffett? 24 genialne strategie największego na świecie inwestora giełdowego*, Wydawnictwo Studio EMKA, Warszawa 2005, s. 14.

⁹ The capital group consists of: PKM DUDA S.A., NetBrokers, Wizental, Agro-Duda, PZZ Dystrybucja, Agroprof, Rolpol, Bioenergia, Euro-Duda, Polska Wołowina, Fedrus, Hunter Wild, Makton, Eurosmak, Agrohop, Przedsiębiorstwo Budowlano-Inwestycyjne, PKM DUDA Distribution, Meat Service, Stół Polski, AgroNet, Agro-Ferm, Borys, Zoria, Rosan-Agro and Pieprzyk Rogatyn from Ukraine.

¹⁰ http://www.pkmduda.pl/f_dzialalnosc.htm; [accessed: 07.06.2008].

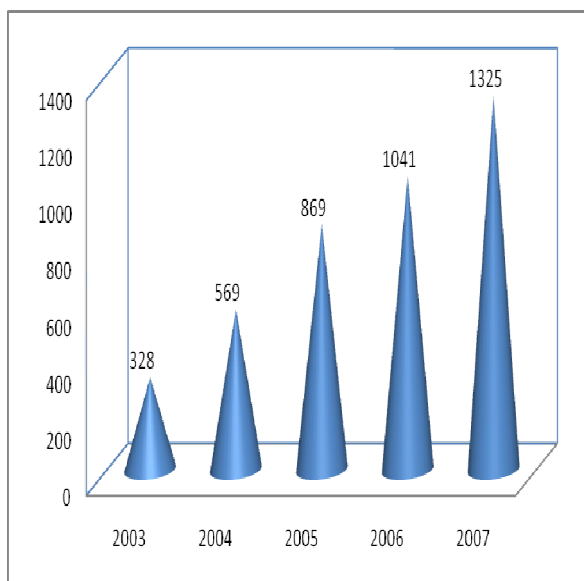


Fig. 3. Income of PKM DUDA in the years 2003-2007 (in million PLN).

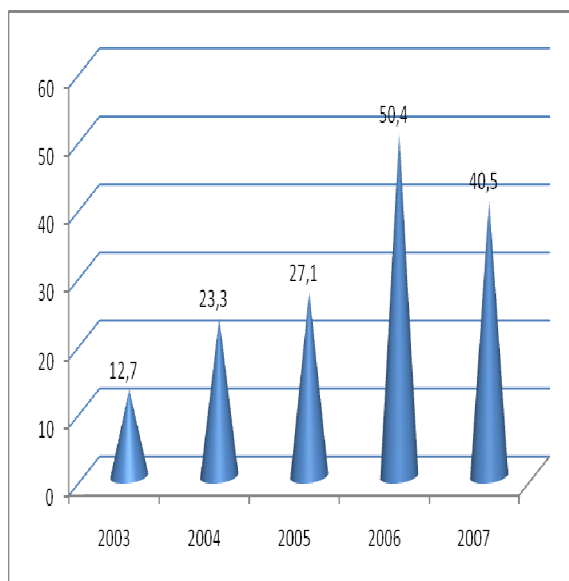


Fig. 4. Consolidated net profit of PKM DUDA in the years 2003-2007 (in million PLN).

Source: Financial data of PKM DUDA in the years 2003-2007.

The company functioning is based on vertical production integration allowing resource backup, modern and efficient slaughter technology and products distribution. Market value of the company in 06.06.2008 was 509 million PLN, and company's books value was 449,7 million PLN. Profit per share was 0,32 PLN (with the market value – 5,28 PLN), and indexes: price/profit - 16,7; price/books value - 1,13¹¹. Grupa Kapitałowa Polski Koncern Mięsy DUDA showed in 2007 high sale increase, caused by 27% increase in 1 325 million PLN income. The main rivals of Grupa are (Animex Sp. z o.o. from Grupa Smithfield – income 2006: 2,3 billion PLN and Sokołów S.A. HK Ruokatalo, Danish Crown - income 2006: 1 585 million PLN). It has to emphasized that the highest income in the company history was elaborated during the last quarter of 2006 and it was 368 million PLN, what was a very good outcome having in mind the difficult situation in meat sector. Unfortunately the profit in 2007 was 12% lower than in 2006 although still satisfying the investors. The worse situation was observed in case of net increasing profit that was 40,5 million PLN in comparison to 50,3 million PLN in 2006 and 27,1 million PLN in 2005 (Fig. 3 and 4). The first quarter of 2008 was concerned to be successful although world financial market crisis. The income of PKM DUDA was about 318,3 million PLN, that was a better result in comparison with the same period of the previous year (year to year ratio) by 10%. Consolidated profit from operational actions exceeded 12,1 million PLN in comparison with 17,5 million PLN gained at the end of

¹¹ Gazeta Giełdy „Parkiet”, 2008, nr 130, s. 24.

the first quarter of 2007. The net profit was 5,6 million PLN. Among segments of company functioning the highest profitability was gained by the trade department which leader is Centrum Mięsne Makton. Grupa Kapitałowa PKM DUDA is taking the third place in the Polish meat market, the first place according to specialization in dismemberment and is the leader in distribution.

Examining the information advance on the example of PKM DUDA it has to be noted that according to the definition it is concerned with the processes of information creation and it should have two functions:

- servile in the process of quality and price comparative advance gaining – it is related with informing the client by the company about higher (different) quality level of products and services, such as client service, the lower than rivals price level and other benefits offered to clients¹². The servile function in comparative advance gaining in PKM DUDA the company board realizes by the proper strategy that along with high volume production can allow for high quality standards gaining by business integrating the company with taken over companies (Grupa Makton and Stół Polski), the use of synergy effect, the increase of market share, the creation and development of bargain power, investments in takeovers and integration with added companies. In servile function realization the following actions aiming at comparative advance gaining in red meat sector are in use: export licenses gain to the EU countries, HACCP quality certificate, the adjustment to the requirements of European Union, the ability to complex meat processing, feasibility in offer change according to the client needs, long-term contracts with large companies, pro-ecologic actions minimalizing the influence on natural environment, the experienced and high qualified managers and workers, the use of scale economy, the experience in EU funds use, the experience in trade in the European market, efficiency, the possibility to enlarge the group of clients by expansive actions (including export) in the new markets, the tightening of veterinary norms determining meat sector industrialization with the weakening positions of local rivals at the same time, the possibility of participation in branch consolidation, looking for new clients, for example trade nets, which role is increasing, the improvement of distribution process through the introduction of electronic order system and realization of delivery, public relations and marketing¹³.

- autonomic, aimed at client preferences forming in the more efficient way than rivals do, at certain level of quality and process of products or services – and it is going to form client

¹² http://mfiles.ae.krakow.pl/pl/index.php/Przewaga_konkurencyjna; [accessed: 06.06.2008].

offer acceptance at certain quality and price. The autonomic function in comparative advance gaining in PKM DUDA the company board realizes by the growing portfolio of products in the direction of high margin products, including „Fedrus” products offered by Makton net, the introduction to the market products with own brand names and growing expenditures on promotion, the development of delivery for the HORECA segment and preparing the offer for trade nets, increased trade actions of NetBrokers, increased sale of the products in the markets of EU. Other actions giving benefits are realization of contracts for meat delivery to the countries of European Union, South Korea, China, Kazakhstan – and also in other foreign markets, realization of contracts on private storage, the restructurization of production processes in taken over companies, the participation in consolidation, the increase in share of own resources delivery from Grąbkowo and the increase of quality and efficiency of resources, the following independence from resources supply in the market, the lease of high class land in Ukraine, farming for the crop production and bio fuel components, investments in Ukrainian market and better resource base, the costs of resource base creation, the expenditures on farming in Poland and Ukraine, the modernization of farms taken, the organization of central resources buying for farmers co-working with PKM Duda and the planning of takeovers in resources segment¹⁴.

The second comparative advance is quality advance which presents actions and marketing instrument changing quality, for example product, package, distribution, services and offer circumstances. The company should give the above mentioned instrument the higher quality than rivals and adjust it to the client needs and that gives bargain power¹⁵. It can be illustrated by the example of Przedsiębiorstwo Cukiernicze JUTRZENKA S.A. from Bydgoszcz. The company is the group of co-working sweets producers with the brands of Jutrzenka, Goplana, Kaliszanka and Ziółopex – the producer, exporter and importer of spices, teas and delicacies. It is the one of largest producers of Polish market (12%) and begins to act in spices market. It produces almost 250 kinds of sweets, spices, delicacies and teas. During the first quarter of 2008 there were over 2 000 employees working in Bydgoszcz, Poznań, Kalisz and Wykroty, and the products were exported not only to the European Union countries, and also Middle-East Europe, United States, Canada and Close East. The market value was in 06.06.2008 232,5 million PLN, the books value was 241,2 million PLN, the market share values was 89 PLN, profit per share 25,96 PLN, and indexes price/profit - 3,4 and price/books value - 0.96

¹³ http://www.pkmduda.pl/f_dzialalnosc.htm; [accessed: 08.06.2008].

¹⁴ http://www.pkmduda.pl/f_dzialalnosc.htm; [accessed: 08.06.2008].

¹⁵ http://mfiles.ae.krakow.pl/pl/index.php/Przewaga_konkurencyjna; [accessed: 08.06.2008].

PLN¹⁶. The income and consolidated net profit of Jutrzenka S.A. in the years 2003-2007 is presented in Fig. 5 and 6. It can be noticed that the income is increasing since 2003 and it is reflected by increased net profit.

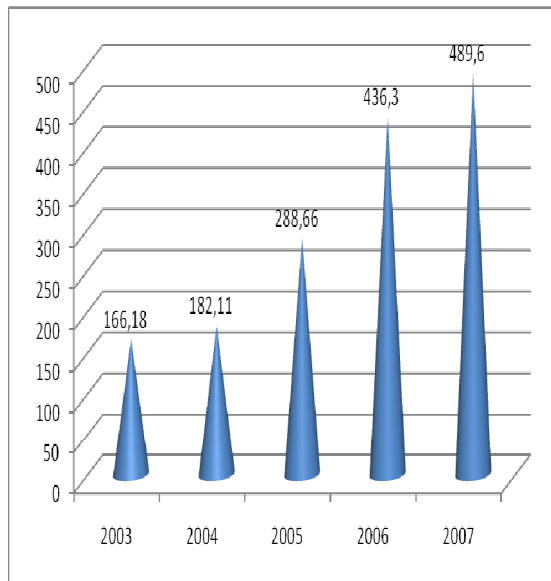


Fig. 5. Income of Jutrzenka S.A. in the years 2003-2007 (in million PLN).

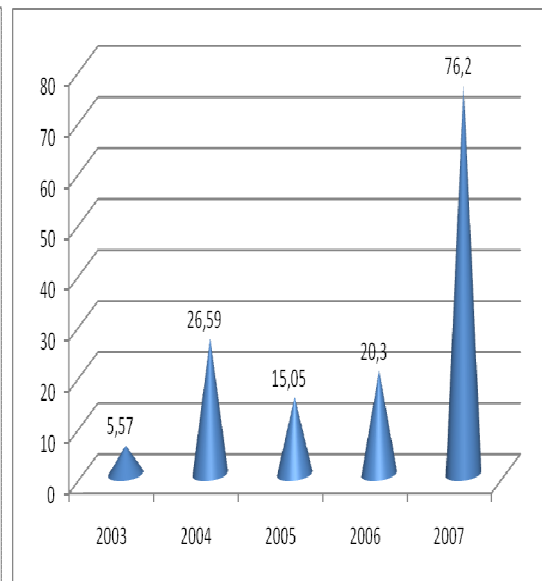


Fig. 6. Consolidated net profit of Jutrzenka S.A. in the years 2003-2007 (in million PLN).

Source: Financial data of Jutrzenka S.A. in the years 2003-2007.

The history of the company begins in the 20-ies of the 20th century, when the then Fabryka Lukullus sold its products in the company shops in Pomeranian Region. Of a significant meaning for quality advance was Goplana brand purchase and the purchase of Poznań production company from Nestlé corporation Polska S.A. and Societe des Produits Nestle S.A. in 2004, what made possible the enlargement of production volume by brand new products. The company ion its offer has got many high quality products well recognized by clients. These are for example: *Wafle Familijne*, *Grzeški*, *Jezyki*, *Mella* jelly, Goplana hard caramels and *Akuku!* jellies. The company takes care of high quality packages and product image, for example chocolate packages with a “window”. The aesthetics is increased by original gilding and pressing, and the well known brand of Goplana. Goplana brand is examining the client preferences and takes care of the highest quality of its products. The high taste and quality features makes the export to Great Britain possible. In 2007 the “Oskar FMCG” in the category of cookies went to *Jezyki Classic* – the cookies with delicacies from

¹⁶ Gazeta Gieldy „Parkiet”, 2008, nr 130, s. 24.

Jutrzenka¹⁷. The choice was made with taking into consideration the package of the product, the relation between price and quality, the innovativeness, sale support and product accessibility. The prize is a recommendation to client, and the distinction with the special contest logo stimulates the buyer¹⁸. In 28.06.2007 Jutrzenka S.A. has bought the soft drinks producer from Kalisz - Hellena and the production facility in Opatówek, which belonged to ING Lease. Jutrzenka S.A. has bought the assets together with water source which is one of the best quality water sources in Poland. Among the spices produced by the company, the prestigious title Product of the Year 2007 in the category of loose spices went to the line of spicy mixtures „*Gotujemy po polsku*” of Appetita brand.

The quality is the most important challenge for Jutrzenka S.A. and for food products clients is the basic category of food choice. The control actions concerning quality are done at each production and distribution phase. It concerns the resources delivered, product packages, technology processes and production lines, finished products and workers qualifications. The quality control is aimed at the best products offered to clients, safe for their health and consistent with the declared description about the content and weight. In 1998 Jutrzenka S.A. has introduced the first quality management system, based on ISO 9002 norm, and in 2004 as a result of an audit done by SGS Yarsley ICS has gained the Quality Management Certificate ISO 9001:2000. In 2005 Jutrzenka S.A. has gained the certificate from the company Bureau Veritas Certification, encompassing production and sale of sweets products consistent with the system Hazard Analysis and Critical Control Points (Analiza Zagrożeń i Krytycznych Punktów Kontroli). The company wants to introduce and certificate two trade nets standards: International Food Standard and BRC Global Standard Food¹⁹. The company clearly declared the highest standards of quality and products reflected by the presented policy.

The third king of comparative advance is price advance with the instrument and actions directly influencing clients behaviour. The most important element is the price setting at the level lower than rivals, supported by promotion actions increasing client interest. The example of company with such strategy is Grupa Kapitałowa Kofola Hoop S.A. that produces, trades and distributes soft drinks and mineral water. Since the join with Kofola (31.03.2008) the company is present in the five Middle-East Europe, and its total turnover is over 1,4 billion PLN. The market value of the company was in 06.06.2008 772,1 million

¹⁷ „Oskar FMCG” is the prize given by "Życie Handlowe" magazine as a result of contest aimed to all producers and distributors in the market.

¹⁸ <http://www.jutrzenka.com.pl/?page=1>; [accessed: 08.06.2008].

¹⁹ Ibidem.

PLN, the books value was 141,1 million PLN, the market share values was 29,5 PLN, the profit per share was 1,10 PLN, and indexes price/profit - 26,9 and price/books value - 7.47 PLN. The income and consolidated net profit of Hoop S.A. in the years 2003-2007 is presented in Fig. 7 and 8. It can be noticed that the company since 2004 increases the income and generates profits. The price advance of the Kofola Hoop S.A. is built by brand development, innovations, high quality, high qualifications of workers and reasonable financial investments. The company is taking care of product prices by market monitoring, reduction of operational and material cost and quality management improvement and operational procedures. The lower prices are mainly determined by operational cost reduction. The company gains better sale results, the sale dynamics is increasing, and reducing operational cost is the evidence of the proper strategy accepted by the company, allowing for the development and expansion to other markets. The board declares that after joining Kofola the volume of production will increase and it will secure the comparative advance gained.

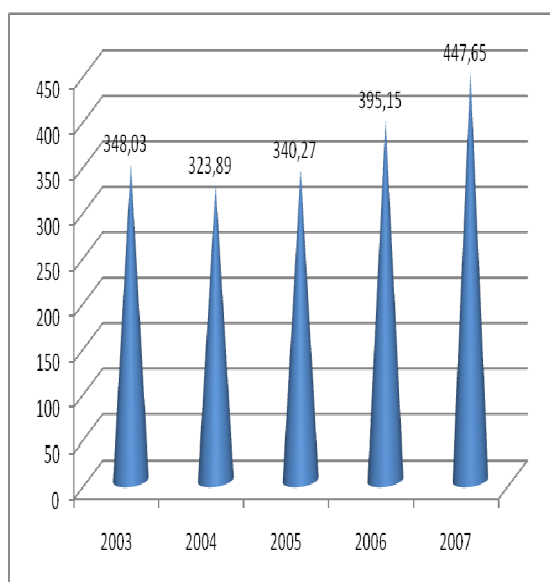


Fig. 7. Income of Hoop S.A. in the years 2003-2007 (in million PLN).

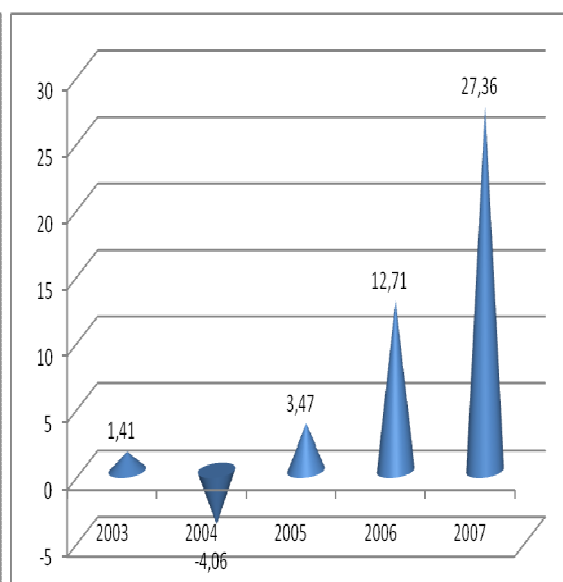


Fig. 8. Consolidated net profit of Hoop S.A. in the years 2003-2007 (in million PLN).

Source: Financial data of Hoop S.A. in the years 2003-2007.

Summary

Based on above presented studies it can be concluded that the companies of WIG-Food are interested in comparative advances gain in three aspects: quality, price and information. In each case the factors influencing the development of comparative advance were discussed, together with the possibilities of its increase. Each one of the companies

studied was examined in the context of strategy accepted allowing for comparative advance gain. PKM DUDA company is an example of comparative information advance use allowing for better functioning and results obtained. The company informs about its results, market functioning, production resources, products and management systems that can be further improved. This strategy use makes transparency of functioning possible, together internal and external, and can emphasize the openness and sensitivity according to the needs of the people and environment. The growing information advance influences the level of company independence and influences the choice of instruments that enlarge the benefits of market participation. The quality advance was presented using the example of Przedsiębiorstwo Cukiernicze Jutrzenka S.A. from Bydgoszcz, as a leading company in the sweets branch. The quality advance gained by the company supports the increase of income and profit. The company gains the advance by high quality products and modern production resources use. The third kind of advance is price advance, presented with an example of Kofola – Hoop S.A. The actions taken by this company supported the market penetration and gaining price-sensitive clients. Accepted strategy of action was concerning soft drinks offered by competitive price. The company takes care of the high standards what is accepted by the clients.

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