

## **Strategic Decision-Making in the Bakery Market: Experience of SMEs in Kazakhstan**

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Basic competitive strategy of M.Porter (1980) creates a theoretical basis for development of practical recommendations on adoption of strategic decisions since the moment of their publication [1]. Baking enterprises are not an exception.

For the last five years Kazakhstan takes the seventh place in the world on grain export. Its share in the world market of wheat makes about 5%. Therefore not incidentally consumption of bread traditionally is at high level in Kazakhstan. Translation of the word “bread” into Kazakh language is “nan”. Kazakhstan wheat is characterized by high content of protein, and flour from soft wheat possesses excellent baking qualities appreciated in many countries of the world (Afghanistan, Iran, Turkey, EU countries, the CIS).

Bakery products can be divided into several main groups: bread from wheat flour, bread from rye flour, bread from mix of rye and wheat flour, bun goods, etc. The word “bread” is used to denominate products weighing more than 500 grams. Baked products which weight is less are called bun goods. Bread is classified also by a way of baking: we distinguish between hearth bread and tin bread. Only wheat flour is used for making bun goods. French bread, rolls, puffs and pies are classified as bun goods. Dietary bakery products are intended for medical and preventive purposes.

Supply of all layers of population with the most available product and, finally, food security of the country depends on how effectively the bakery industry operates and develops. The research objective was to analyze business environment in bakery products market and justify differentiation as a basic model of competitive advantages for a baking enterprise. Aggravation of competition induces enterprises to take quick measures for holding competitive positions in the market and this is not possible without Strategic Decision-Making. It is strategic planning that allows to ensure the most effective management of an enterprise, having transferred it from the sphere of uncertain and probabilistic operation to the sphere of predictable and scientifically grounded operation.

Statistical data show that during the period from 2008 to 2012 average consumption of bread made from wheat flour per capita in kind remains relatively stable. The same trend is observed also with regard to consumption indicator for "bakeries and cereal products" group of goods (Table 1). On the basis of this dynamics it is possible to make a conclusion that demand for bakery products is rather stable in spite of the fact that in 2012 the price index on food commodities, compared to year 2000, made up 284.3%, and the average price for one kilo of bread made from wheat flour, compared to year 2008, increased by 22, 8%. The increase in prices is caused by increase in costs of electric power and services. Bread is considered the main strategically and socially significant product, therefore, the prices of this product are regulated by Agency of the Republic of Kazakhstan for

Competition Protection. It is seen from dynamics of changes in price for premium wheat flour. The regional authorities pursue policy of restricting prices for mass grades of bread (the first and second grades) by allocation to enterprises of lower prices flour from the state reserves.

Table 1 - Dynamics of the main indicators of bread and bakeries market in Kazakhstan [2]

Indicators	2008	2009	2010	2011	2012
Annual average consumption of white bread per capita, kilograms	59,1	55,6	54,5	56,2	53,9
Annual average consumption of bakeries and cereal products per capita, kilograms	122,0	121,0	123,0	124,0	124,0
Index of average nominal monetary income per capita, 2001=100	450,8	468,5	530,0	627,8	707,3
Index of average consumer expenses related to foodstuffs per capita, 2001=100	286,5	311,9	383,9	511,4	545,0
Index of average white bread consumption per capita, 2001=100	87,7	82,5	80,8	83,4	80,0
Share of expenses related to bread and bakeries in consumer expenses on foodstuffs per capita of the respective year, %	21,8	20,8	18,7	15,9	14,9
Index of physical output of fresh bread, 2001=100	117,9	118,7	132,5	131,7	129,8
Consumer price index for food commodities, end of the period, December 2000 =100	218,2	224,7	247,3	269,9	284,3
Index of average price for bread made from premium wheat flour, end of the period, 2008=100	100,0	100,0	103,2	117,1	122,8
Index of average prices for premium wheat flour, end of the period, 2008=100	100,0	85,0	86,9	92,5	103,7
Index of number of active SMEs in manufacturing industry, 2008=100	100,0	87,8	101,3	118,1	128,0
Index of output of all the subjects of SMEs, 2008=100	100,0	85,8	147,3	153,3	166,6
Share of medium-sized enterprises in the total output of SMEs of the respective year, %	79,6	76,8	81,1	82,2	83,3

Stability of bakery products consumption can be explained, first of all, by the fact that bread is a traditional food product in Kazakhstan. At the same time, statistical data testify also to another tendency in change of consumer expenses of the population. Monetary income of the population has a steady tendency to growth which, in its turn, causes reduction of a share of expenses related to bread and bakeries in the total amount of money spent by consumers for purchasing of foodstuffs from 21, 8% in 2008 to 14,9% in 2012 (Table 1).

Strategy of the baking enterprise activity is determined by peculiarities of bakery products market in Kazakhstan. Firstly, this market is represented, mainly, by domestic producers and practically doesn't include import. Secondly, the market is completely formed or shaped and regulated. Threat of replacement in this segment is minimal since this branch is strategic and is supported by the government. Thirdly, the level of a barrier when entering the branch is estimated as below average value because of insignificant volume of capital investments, availability of raw materials and lack of need to be licensed. Fourthly, the important feature of the market is concentration of manufacturing capacities in large bread-baking plants and, at the same time, existence of a large

number of SMEs of various forms of ownership which are often called mini-bakeries, with different quality of bread and applied recipes.

It predetermines the high level of competition. Therefore the bakery market, especially in the large cities, is treated like a monopolistic competition market. This fact is also confirmed by the analysis of statistical information. The number of active SMEs related to the activity 'Manufacturing' increased by 28% for the five years (Table 1). In 2012, the share of medium-sized enterprises made 83.3% in the total output of SMEs. SMEs include small and medium enterprises, as well as individual entrepreneurs without a legal entity. As it is known from the economic theory, under the conditions of monopolistic competition market activities of enterprises are characterized by broad diversification and differentiated produce typical of bakery industry as well [3].

Strategy of the baking enterprise was developed, based on the example of the enterprise under the imaginary name of Alma-Nan Ltd which works at the market of Almaty. Almaty is the first city in Kazakhstan in terms of population size (1,5 million people). According to the legislation of Kazakhstan, Alma-Nan Ltd is considered to be a medium-size enterprise since it has more than 200 employees. The bakery was founded ten years ago and has 5 production shops meant for production of bread, rolls, croissants, pulled bread and packing. Full capacity of the enterprise equals to 40 tons of bakery products per day, with assortment exceeding 100 items. The structure of production with a breakdown by main groups of the assortment is given in Table 2.

Table 2 - Assortment of products of Alma-Nan Ltd in 2012 and 2013

№	Name of a product	Specific weight in total production, %		Change for the period, % (column 4-column 3)
		2012	2013	
1	2	3	4	5
1	Bakery goods from wheat flour	50,09	49	-1,09
2	Bakery goods from rye flour	15,63	16	+0,37
3	French bread	23,33	22,38	-0,95
4	Baranky or soushky	6,19	6,3	+0,11
5	Other types of bread	2,42	2,58	+0,16
6	Other types of production (crackers or pulled bread, cookies, confectionery, etc.)	2,34	3,74	+1,4
	Total	100,00	100,00	-

From the point of view of Strategic Decision-Making in the enterprise and assessment of quality of management, of great interest is the indicator of capital profitability (Return On Assets, ROA) expressed through production profitability (Return On Sales, Net Profit Margin, ROS) and capital turnover (Assets Turnover ratio, AT).

$$ROA = AT \cdot ROS \quad (1)$$

Results of the factorial analysis of the first tier indicators influence on change of capital profitability level with the help of absolute differences method are given in Table 3.

Table 3- The factorial analysis for Alma-Nan Ltd\*

Indicators	2012	2013	Change for the period, (column 3-column 2)
1	2	3	
1. Net profit	444124	450114	+5990
2. Revenue	2813450	2855040	+41590
3. Average annual value of assets	979892	1150062	+170170
4. ROA,% (item 1 / item 3)	45,3238	39,1381	-6,1857
5. AT, turnovers, (item 2 / item 3)	2,8711	2,4825	-0,3886
6. ROS, % (item 1 / item 2)	15,7857	15,7656	-0,0201
The change of ROA due to:			
AT		-0,3886 x 15,7857 = - 6,1343	
ROS		2,4825 x (-0,0201) = <u>- 0,0499</u>	
		- 6,1842	
* For preservation of proportions, data are submitted in national currency			

ROA for the period decreased by 6, 1842% mainly due to slowdown of capital turnover coefficient. The theory of economic analysis shows that at identical profitability of capital two enterprises can have different competitive advantages due to different impact of factors [4]. At one enterprise ROA can be reached at the expense of higher level of product profitability at low level of capital turnover, at the second one it can be reached at the expense of higher coefficient of turnover at low level of production profitability sold. It is obvious that the first enterprise can achieve faster and considerable success at the expense of the measures aimed at acceleration of capital turnover (increase in sales volume, reduction of unused assets, etc.) rather than looking for the reasons that caused low level of production profitability and reserves needed for its increase. Therefore, Alma-Nan Ltd has stronger competitive positions belonging to the first type of enterprises.

The advantage of ROA is that it can be used to predict the amount of profit. For this purpose the following model can be used:

$$P = A \times ROA \quad (2)$$

Here A is the average annual value of assets and P is profit.

For example, in 2013 the change in the amount of profit in Alma-Nan Ltd was due to:

- increasing the amount of capital:

$$(+170170) \times 0,453238 = 77127,51046 \quad (3)$$

- reducing of ROA:

$$\Delta P = 1150062 \times (-0,061857) = \underline{-71139,57070} \quad (4)$$

Receipt of rather high profit on investments made in the enterprise depends, mainly, on ingenuity, skills and motivation of the management.

The analysis of marketing activity of Alma-Nan Ltd shows that typical shortcomings of the work of small and medium-size baking enterprises are the following:

1. Assortment policy has no strategic basis. The main objective of its development is that on show-windows there has to be complete list of the planned goods.
2. Marketing Department does not study life cycles of many sold goods, that is the price of good is constant since the beginning of its realization up to sale of the last unit of production.
3. Analysis of competitive environment is carried out only within the framework of collection of information about the prices of competitors for similar goods.
4. There are practically no channels of feedback from buyers, therefore, the enterprise has no opportunity to foreknow preferences of buyers and, respectively, is not able to quickly adjust range and prices for its production.
5. There is almost complete lack of PR – actions the main objective of which consists in creation and maintenance of enterprise's image. General public does not have enough information about the enterprise as a whole, its traditions, objectives and values. The enterprise does not seek to create an image of a successful and socially oriented company taking care of its clients.
6. Purchasing policy is more focused on work with permanent suppliers of products, than on search of new partners with possibly more favorable conditions of cooperation.
7. TV advertizing is used extremely seldom. It is known that it is the most expensive type of advertizing, but, given its coverage and impact on a potential consumer, it is considered to be the most effective one. Therefore, it is necessary to keep to a more detailed and balanced approach to this aspect of marketing activity.

Further SWOT analysis allows to evaluate business environment and to substantiate differentiation as a basic competitive model of strategy for the baking enterprise (Table 3).

Table 3 - SWOT Analysis Matrix

	<p><i>Opportunities:</i>  Appearance of new suppliers  Reduction of prices of raw materials  Decrease in taxes and duties  Improvement of manufacturing technique  Unsuccessful behavior of competitors  Bankruptcy of the competitor  Inflow of new investments  Growing requirements of consumers</p>	<p><i>Threats:</i>  Change of consumer preferences  Bad harvest of grain crops  Failures in deliveries of raw materials  Change of certification rules  Decline of the level of living  Growth of inflation rates  Toughening of legislation  Change of price level  Competition strengthening  Short term of product realization</p>
<p><i>Strengths:</i>  Wide range of products  Low cost value  Quality control  Service standardization  Qualified personnel  Sufficient popularity  Advanced facilities surpassing those of competitors  Presence of a strong partner  Financial opportunities  Increase in production  Focus on service</p>	<p><i>Strengths and opportunities:</i>  Sufficient popularity promotes strengthening of positions  Bankruptcy of the competitor and financial opportunities allow to absorb the bankrupt, having increased capacities  Improvement of manufacturing technique, availability of modern equipment and sufficient financial resources will ensure lag of competitors  Inflow of new investments, presence of a strong partner allow to conduct research</p>	<p><i>Strengths and threats:</i>  The policy of the state, inflation and growth of taxes, change of consumers' tastes will impact on the strategy implementation  Availability of financial resources against change of consumers' preferences will require working with negative profit for long time in order to launch a new product  Popularity will add advantages in competition  It is difficult to regulate wide range of products when preferences of consumers change on constant basis</p>
<p><i>Weaknesses:</i>  Personnel is not involved in adoption of administrative decisions  Complexity of control over delivery of production  Complexity of control over prices in remote regions  The following weak assortment positions: sugarless rolls, baguettes, rolls for hot dogs</p>	<p><i>Weaknesses and opportunities:</i>  Complexity of control over delivery of production and growing requirements of consumers can lead to loss of some consumers due to stale products  Non-participation of personnel in decision-making and insufficient control over execution of orders against decrease in unemployment can lead to sabotage</p>	<p><i>Weaknesses and threats:</i>  Unfavourable policy of the state can lead to a difficult financial situation  Weak assortment positions such as sugarless rolls, baguettes, rolls for hot dogs will not contribute to retention of buyers against change of their tastes  Increase of inflation rates and exchange rates fluctuation can result in problems with implementation of the strategy</p>

Apparently, the company has sufficient potential for the use of opportunities and overcoming of threats. The major problems are complexity of sales management in remote regions, need for

strengthening of control over delivery, as well as weaknesses of the company with regard to some assortment positions.

Based on SWOT analysis, the plan of promotion of the enterprise's produce for the next year has been developed, including such instruments of marketing as advertising, promotion, sales stimulation, personal sales. Promotion has to create a certain level of awareness about Alma-Nan Ltd products among consumers and stimulate sales of these products.

The main conclusion is that Strategic Decision-Making in the bakery market demands close attention to studying of behavior of buyers, their tastes, desires and preferences, which means that continuous differentiation of assortment is required. Growth of incomes of population, reorientation of consumer demand to other foodstuffs replacing bread, and also promotion of healthy lifestyle can be classified as factors influencing change of a consumer's behavior. Strategy has to be focused on increase of mass production of tin bread made from wheat flour (the first and second grades) against constant launch of new items of bakery goods of a medical, preventive and functional character. Strategy of differentiation will ensure competitive advantages due to uniqueness of assortment and quality of bakery products, as well as non-price methods of competition, such as packing, storage time, assortment, reputation of a company, etc. Under the condition of government restraint of the prices, contribution to profit in other items of assortment will be higher than ones for mass grades of tin bread made from wheat flour. Hence, the decision about displacement of the assortment in favor of the release of more expensive types of bakery goods could lead to the situation that the planned break-even point could be reduced, and as a result the financial stability of the company may be increased in the future.

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