

REMOVING THE PRESSURE FROM COMPETITION BY USING DIVERSIFICATION STRATEGY

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Abstract: *The paper describes how Kandia Dulce Company, the largest chocolate producer in Romania, chose to implement the diversification strategy to stay on the market and compete. The introduction refers to the quality and safety of the importance of food and chocolate products, then the paper describes the company and its history, the business environment, its quality policy, the implementation of the quality strategy and its results. The end of the article contains several concluding ideas and remarks related to the present study.*

Key words: *Food quality, chocolate products, quality strategies*

1. Introduction

A characteristic of the food commodity market is that in the last few decades there has been a real assortment explosion. New products have emerged, encompassing modern technologies such as production, processing, and presentation.

Food is a complex product that contributes to the needs of the body: it provides substances for its own synthesis, it ensures the need for energy and it maintains life. At the same time, it responds to some desires, therefore it also pleases man.

Food is the source of energy through which the body meets vital needs. Food consists of proteins, lipids, carbohydrates, mineral salts and water, which undergo a process of transformation in the body. Carbohydrates, lipids and proteins are energy suppliers, but they can also perform plastic replenishment or renewal of used tissues. Man cannot benefit from a healthy life without having a healthy diet.

Food quality is a key element of efficiency and competitiveness, and implicitly, a source of competitive advantage for companies in the industry. The food quality represents all properties that determine their usefulness to meet certain needs in accordance with their indication.

The type of substances and their proportion in the products is very different. In most cases, one or another chemical group is predominant, hence the classification of foods

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according to chemical preponderance: predominantly proteins (milk and dairy products, eggs, meat, fish, and their products); predominantly lipid (food fats); predominantly carbohydrates (cereals and derivatives, legume beans, vegetables and fruits, sugar and sugar products).

Some foods consist almost exclusively of a single substance (or one kind of substance), such as sugar (sucrose), starch (amylose and amylopectin), gelatine (from collagen), fats (glycerides), salt (from sodium chloride), etc. But in most cases, we meet the five major chemical groups: water, mineral substances, carbohydrates, lipids, and proteins. In addition, the food composition includes: vitamins, pigments, acids, enzymes, tanning substances, essential oils, glucosides, alkaloids, hormones and others.

Knowing the particularities of the chemical composition of raw materials and processed foods is necessary, both for the knowledge of the processes taking place at their level during their logistic circuit, the production and marketing, and for the establishment of their qualitative level, of the nutritional and technological potential, in relation to all operators operating along food chains (Procopie R.). In order to be able to meet the quality and security requirements of the products offered, and to keep its customers and attract new ones, food market producers must implement quality strategies according to the possibilities and restrictions imposed by their capacity and by the market. Such a strategy is that of diversification by quality that allows companies to enter new areas of activity with products or services, oriented on quality classes or at higher levels of quality versus competition (Todoruţ, 2007). The diversification strategy enables complementing and also reinventing the company's offer (Băltescu, 2016).

The modern history of chocolate began with the discovery of America by Christopher Columbus at the end of the 15th century, when it first brought cocoa beans to Europe. The scientific name of the cocoa tree is *Theobroma Cacao*, which means the `Food of the Gods` and it is cultivated in America, Asia, Africa, Indonesia, and Australia (Bărbulescu, 2003).

Chocolate products are part of the group of sugary products that are characterized by high carbohydrate content. These are necessary for the human body because, by burning, they produce the energy necessary for its activity.

The following raw materials are used in the manufacturing of chocolate products: cocoa powder, sugar, powdered milk, lecithin, and as additives, depending on the range, vegetable fats, kernels, sugary fruits, raisins, coffee, food essences, colorants, etc. Cocoa powder contains 48-54% lipid, 0.8-2.5% physiologically active substances (theobromine and caffeine), about 20% carbohydrates, 15% protein, 3.2-5.8% tanning substances, aromatic substances etc. Cocoa lipids have a relatively low melting temperature (32°C) also bearing the ability to lower their volume when cooled, which makes it easier to get out of shape the chocolate products (?) (Bărbulescu G., 2003).

Since the range of chocolate products is varied, they have been grouped as follows:

- plain chocolate;
- chocolate with additives (milk, coffee, peanuts, raisins);
- filled chocolate (with fondants, liqueur, creams, kernels).

2. Company Presentation

2.1. Short History

In 1948 the sugar confectionery company Bucharest was born. In 1991 it became the Excelent Bucharest company. Among the company's brands at that time were: ROM chocolate bar and Măgura wrapped cake. In 1997, it became a private company, being the producer with the widest assortment of sweets in the country. In 2003, Excelent Bucharest company took over 60% of the capital of Kandia Timisoara company and then merged, becoming Kandia – Excelent company, also re-launching the Kandia brand. Thanks to the accumulated tradition and performance, in 2007 Kandia Excellent became part of the Cadbury-Schweppes group, the world's largest candy producer, becoming Cadbury Romania company. In the same year, the brand of Silvana jellies and the brand of Sugus jellies and sweet gums were bought from Kraft Romania. Kraft Foods company purchased the Cadbury Group and then sold the Cadbury Romania company to the Oryxa Investment Fund. The sweets company was renamed Kandia-Dulce. In 2012, Kandia Dulce bought the local Supreme Chocolate company, adding brands like Anidor, Ulpio, Primola and Novatini to its portfolio, thus becoming the largest sweets producer in Romania.

2.2. Presentation of the Company's Economic Environment

Kandia Dulce's suppliers are organizations that own raw materials and materials, machinery, technology equipment, energy, packaging, labels, necessary to manufacture and prepare products for sale.

Kandia Dulce's marketing specialists are in constant contact with the suppliers because in the long run their unresolved problems, can cause serious disturbance in their own business and increase the cost of their products with serious consequences in terms of profitability and customer portfolio.

The most important strength of Kandia Dulce is the ongoing customer relationship, focusing on customer wishes.

The company's products address consumers of all ages, women, men, and children who want to consume chocolate. Products reach customers through intermediaries, who are both retailers and wholesalers. Of the most important *clients* we mention:

- Hypermarkets: Metro Cash & Carry, Selgros Cash & Carry;
- Supermarkets: Kaufland, Billa, Cora, Gima, Lidl, Penny;
- Others: petrol stations, online shopping sites (www.e-shopping.com, www.kaboo.ro, www.magazineonline.ro).

Consumers of Kandia Dulce products are segmented according to three variables:

A) By preferences:

- People who prefer plain chocolate: Kandia milk, Kandia white chocolate;
- People who prefer chocolate with different flavours and fillings: Kandia hazelnuts, Kandia cream with caramel, Kandia cappuccino cream.
- People who prefer chocolate rich in cocoa: Kandia dark 45%.

B) By age:

- children aged 5-14;
- adolescents aged 15-21;
- people aged 30-50;
- people over 50.

C) By revenue:

- people with high incomes: chocolate with the minimum price of 4.5 lei;
- middle-income people: chocolate for less than 4 lei;
- low income people: chocolate with a price between 2 and 2.5 lei.

The most important *competitors* of Kandia Dulce company are:

Former Kraft Foods, the current *Mondelez*, which markets internationally renowned brands in over 155 countries. Its product portfolio includes the brands: Milka, Poiana, Toblerone and Suchard (www.vault.com). Mondelez achieved a turnover of 550,742,557 RON (www.mfinanțe.ro) in 2015 and a market share of 24%, which increased by 1% in 2016 (www.euromonitor.com).

Ferrero Romania. According to Euromonitor, it is the main competitor of Mondelez S.A. In 2015 it had a turnover of 299,464,117 RON and a market share of 17%, and in 2016 the turnover was of 378,447,163 RON and the market share of 18% (www.mfinanțe.ro). The main brands of the company sold on the Romanian market are Kinder and Ferrero Rocher. Above-average prices are driven by the company's investment in innovation and technology to deliver superior quality products.

Heidi Chocolat S.A. is part of the same group as Kandia Dulce (Kex Confectionery) and had a turnover of 98,790,835 RON in 2015 and 106,278,058 in 2016 (www.mfinanțe.ro). The range of chocolate products sold by Heidi includes tablets and chocolate bars and chocolate pralines. The company's strategy is based on increasing production capacities.

Nestle Romania S.R.L. is a strong player on the chocolate market, but has a range of products that includes other food products. The most famous chocolate brands of this company are: Lion, Kit Kat, Smarties, After Eight and Nestle Dessert Noir. This company is very active in innovation and in global campaigns for sustainable development.

2.3. Financial Results of the Company

In the period 2012-2016, the turnover of Kandia Dulce company increased from 148,801,234 RON in 2012 to 183,974,883 RON in 2014, after which it decreased to 161,423,950 RON in 2016. Throughout this period, the company recorded losses that could be converted to profit only in 2016 (Table 1).

Table 1

Evolution of turnover and net profit of S.C. Kandia Dulce in 2012-2016 (RON)

Year	Turnover	Net profit	Average number of employees
2012	148,801,234	-30,537,161	536
2013	173,479,720	-13,851,729	490
2014	183,974,883	-4,581,487	493
2015	169,800,797	-2,142,816	483
2016	161,423,950	4,004,573	491

Source: www.mfinanțe.ro

2.4. Quality Policy

Kandia Dulce company's management aims, through adopting a pro-quality systematic policy, to meet the demands of its customers, as it is essential to ensure the quality of chocolate products. The CTC Laboratorium has a key role in this policy:

- it establishes the technological quality control program;
- it organizes the quality control activities throughout the manufacturing cycle of products, from receiving raw materials and materials to final product control;
- it traces non-compliant products and establishes protection and remediation / reuse measures;
- it issues documents certifying the quality of the delivered products;
- it tracks and records the proper storage of finished products as well as raw materials and materials;
- it regularly analyses the quality of the products so that they can provide at all times written and archived objective evidence that the delivered products are in accordance with the technical documents.

Kandia Dulce company receives 40-50 raw materials and materials for which compliance with standards and specifications is verified by determining about 150 parameters. All batches of raw materials and determined values of the parameters are recorded in the raw material and material records register.

An important emphasis is placed on the appearance of non-compliant products, with particular emphasis on quality control on the production flow phases. Thirty-four work points are controlled with the determination of about 100 parameters. All of these parameters are recorded in the semi-finished products control register.

The next assessment regards the final product control and compliance with technical standards in terms of packaging, net mass marking, organoleptic and physico-chemical properties. The values of all parameters are recorded in the finished product registry.

The supply department has direct implication in product quality:

- it provides, in commands and contracts for raw materials and materials, the quality conditions that they must meet;
- it communicates to the CTC compartment the proposed suppliers for auditing them;
- It performs a qualitative study of the suppliers of raw materials and materials market.

Kandia Dulce's management ensures that quality policy is implemented and maintained at all levels through training, testing, licensing, auditing, and periodic analysis of the quality system's operation.

2.5. SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> - The quality of products - Competitive prices - Various assortment range - International distribution - The brand's notoriety 	<p>Weaknesses</p> <ul style="list-style-type: none"> -Poor marketing and promotion activity both on the domestic and the foreign markets
<p>Opportunities</p> <ul style="list-style-type: none"> - Improving the relationship with external customers -Potential for increasing consumption 	<p>Threats</p> <ul style="list-style-type: none"> -An aggressive promotion of external competition -The diversity of the assortment of competition - Consumer perception of domestic products

3. Implementation of Quality Strategy

The strategies the company has implemented over the years have been based on its strengths and the fruition of the opportunities that the external environment has provided, as well as the minimization of weaknesses and threats, which can cause problems in the long run.

From the point of view of the strategies at the company level, the aim was to obtain a competitive advantage in the market and to attract new clients. To create an edge over competition, Kandia Dulce has chosen diversification as a quality strategy. This is a dynamic and complex strategy that helps businesses to create new product lines with superior quality features.

This strategy offers the advantage of retaining consumers as well as the opportunity to attract new customers. At the same time, by implementing this strategy, a competitive advantage was gained on the Romanian chocolate market by offering chocolate premium pralines at a lower price than competition. The trust of the customers will increase in time if they continue to offer good quality products at affordable prices (Boşcor, 2016).

The quality of the products offered is one of Kandia Dulce company's priorities, as demonstrated by obtaining the ISO 22000 Food Safety Certification in 2005 and the desire to obtain certification in the near future for the implementation of the ISO 9000 quality management standard. ISO 22000 certification provides confidence in the quality and safety of manufactured products and contributes to improving the company's performance.

For Kandia Dulce, customer satisfaction means getting to know the customers, listening to them, and inviting all staff to focus their attention on customer needs and satisfaction. The main means of customer interaction are: customer satisfaction analysis, investigation, complaint management, and marketing communication. The company promotes customer focus, continuous improvement of quality and the concept of "zero defects".

Customers should be prompted to complain, as complaints are a precise source of instruction, and the enterprise has the interest in gathering information and proving corrective actions.

The company successfully manages complaints, thus succeeding in improving product quality by correcting problems at different product stages and increasing the loyalty of customers who feel they are important to the business and that their opinion counts. In this way, the company recorded a 20% reduction in complaints in 2016 compared to 2015.

The main objective of this strategy was to add a new product, chocolate pralines, to the company's product portfolio in order to increase customer satisfaction and market competitiveness. To achieve this goal, it was necessary to establish secondary objectives such as:

- Developing a unique recipe for the new product;
- Finding new suppliers of raw materials;
- Ensuring advanced technology to achieve high quality products;
- Achieving the new product with an appealing look for consumers.

By achieving the secondary goals, the company has the opportunity to fulfil its main objective of achieving a new and innovative product that will renew the assortment range.

The proposed deadline for the implementation of this strategy was six months, the time needed to acquire new machinery, recipes, market prospecting in order to find the best suppliers of raw materials and to develop the marketing strategy.

The implementation of this strategy implied certain investments, ranging from research and development of the new product to the human resource.

To achieve the proposed goal, Kandia Dulce followed closely the following steps:

- Research and development of the new product;
- Acquiring the necessary technology;
- Purchasing the raw material needed for the new product;
- Employee training;
- Marketing activity.

In order to create the new assortment of chocolate pralines, a higher effort was made by R & D employees who have been studying to find the best and most precise quantities of ingredients to give the new product the desired flavour and quality. Three months were needed to establish the final recipe.

The implementation of the strategy implied investments for the purchase of the equipment and devices necessary to achieve the new product, which would provide the

texture and the established shape of the pralines. The following machines and devices were purchased:

Machine with glazing device that allows the application of glaze in a perfectly uniform layer, without loss of raw material. This machine provides productivity for up to 100 glazed products in just 15 seconds. The large pan in which glazing is introduced eliminates the need for frequent loading, which significantly reduces the time the machine is not working.

Praline formatting device featuring great productivity and ease of product development, fast cleaning at format change. This device also has a conveyor belt for products.

The two machines are designed for large-scale production, such as Kandia Dulce. The company already owned a universal machine for packaging the products, so there was no need for a new one. The time for purchasing the machines was relatively short, with the company holding the necessary financial resources.

In terms of raw material and materials, the company had to purchase boxes for packaging new products, cellophane for packing boxes, cocoa beans and other necessary ingredients. In order to acquire the best raw and auxiliary materials, the company carefully selected suppliers, also obtaining certain contract discounts, which led to lower production costs.

In order to successfully implement the strategy, the company also invested in employee training, namely production, packaging and quality control, in terms of:

- The operation and use of new machines;
- How to pack new products;
- How to control the quality of new products.

An important aspect that the company has taken into account was marketing, especially promotional, to make the new products visible on the market and to convince as many consumers as possible to buy them. Knowing the importance of packaging as the first customer contact with the product, the company has created a package for this new product that combines ease of use and handling with eye-catching looks and complete product information. In order to differentiate itself from competition, a special message is written on each package of chocolate pralines, which can help any consumer to convey his good thoughts to those who are offered the product.

Kandia Dulce company called on an advertiser to run a promotional campaign by informing potential customers about new products and giving them the opportunity to taste premiums before buying.

4. Results

Investments for implementing this strategy are presented in Table 2.

Table 2

The budget needed to implement the diversification strategy of the assortment range at S.C. Kandia Dulce

	Investment (euro)
<i>Praline formatting device</i>	8,000
<i>Machine with glazing device</i>	6,000
Wages and bonuses for machine operators (6 months)	14,400
Employee training	250
Developing the promotion campaign	2,000
Total	30,650

5. Conclusions

Some of the major producers to increase their competitiveness in the market have set their own strategies that ensure both quality standards imposed by law, and on the external market (Neacșu, 2017). Among the quality strategies, the diversification of the assortment is successfully applied by the big players.

The diversification strategy has proved to be successful. Through the quality of pralines, the company has succeeded in introducing and keeping on the market these products, which are particularly popular, especially during holidays, when they are purchased to be given together with other gifts.

Considering the investment of about 30,000 Euros for the strategy's elaboration and implementation and the fact that in the total chocolate products of the company, the pralines have about 15-20% (www.zf.ro) it can be said that the goal has been achieved and the company enjoys the benefits that this new product has brought.

Regarding the external demand, the efforts to find new markets should be continued, as well as the endeavour to discover new market segments and to convince foreign consumers about the quality of Romanian products (Bărbulescu, 2017).

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