

# MARKETING STRATEGY – FOUNDATION FOR SMEs DEVELOPMENT ON MACEDONIAN CONSUMER MARKET OF CONFECTIONERY PRODUCTS

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## Abstract

Marketing strategy helps to set the way of future success in general. The aim of this paper is to explain how marketing strategy can be effective for the development of (Small and Medium Enterprises) SMEs, in particular on the consumer market. It will show how to design a marketing strategy for the SMEs in confectionery industry, hence it is the industry in which the domestic Macedonian companies are losing the market share to foreign competitors with brand names and closely defined strategies. The paper will provide answers to the question how is marketing strategy positively associated with company's development and growth in the confectionery industry.

**Key words:** Marketing strategy; consumer market; SMEs; confectionery industry.

**JEL Classification:** M3, L1, D4

## Introduction

Knowledge is the new battlefield for countries, companies and individuals. We are a society of cheap labor, which dreams of becoming a society based on capabilities. The development of SMEs depends engagement of the enterprises and the national institutions, because SMEs are one of the greatest sources of strength of world economy, quality way of creating new jobs and competitive economy. It is shown that proportional to their size, small firms create more jobs than large firms do<sup>1</sup>. Small and new enterprises have an important role in innovation, which has replaced price as the most central competitive weapon in key parts of the economy<sup>2</sup>. The many experiments by these enterprises, even if not successful, facilitate implementation by larger firms<sup>3</sup>. New enterprises create a higher degree of competition, leading to a positive effect on aggregate employment growth five

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<sup>1</sup> **European Commission.** SBA Fact Sheet – FYROM. DG Enterprise and Industry. 2009. [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/final/sba\\_fact\\_sheet\\_fyrom\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/final/sba_fact_sheet_fyrom_en.pdf) (accessed 25.06.2011)

<sup>2</sup> **Baumol W.J.** The Free-Market InnovationMachine:Analyzing the Growth Miracle of Capitalism. Princeton University Press. 2002.

<sup>3</sup> **Nooteboom B.** Learning and Innovation in Organizations and Economies. Oxford. UK. Oxford University Press. 2000.

to eight years later<sup>4</sup>. SMEs can't exist on the market if they are not market orientated and don't have closely defined marketing strategy. Confectionery companies are constantly struggling to catch the attention of consumers, with improvements of the quality of products, making the package more attractive, promoting it in a more interesting way, etc. Many companies in Macedonia identify their competitors from industrial point of view, but instead of this narrow view, the company should identify its competitors from a market perspective, where the focus is shifted from companies that offer products that are near each other on companies that strive to meet the same consumer group. It is often the case that companies have a false idea about current market conditions, such as believing that they are producing the best quality in the industry, supporting the general opinion that customers prefer companies with full product lines, that sale force is the only worthy marketing tool or that price is the key factor for purchase and building a strong brand is not an imperative. Such understanding of the market must be revised, because only through meeting the real needs and desires of the consumer the company can eventually become the market leader.

### **Analysis of the Confectionery Industry in Macedonia**

Food production is of strategic interest for every country. Therefore the organization of food producers and advocacy of their interests for the purpose of providing and promoting food production and increasing competitiveness is of particular importance. Confectionery industry (production of chocolate, candy, cookies, waffles, cream and chewing gum) is an important part of the food industry with its quantum of production (industry that finalizes materials such as flour, sugar, vegetable oil, milk, cocoa, and others) employs a significant number of workers. It is a large consumer of packaging from domestic manufacturers; it uses the domestic transport services, and plays a significant part in the trade of food products. This industry has a positive impact on the foreign trade balance of the state, because the value of exports of finished confectionery products is nearly 10% of the total export of food products<sup>5</sup>. In the period from 1992 to 1998 production fell and remained 14,000 -16 000 tones or 45-50% less compared to 1991, with capacity used maximum to 30-36%. From 1996 the process of liberalization through free trade agreements began, at first among the countries of Former Yugoslavia, i.e. the region. The new market relations and the further liberalization took place much faster than the process of advancement and modernization of the domestic production, which led to a situation where domestic confectionery industry faced strong competition from foreign companies. The total annual production dropped to 12,500 tons in 2002 despite the 30 new micro entities in confectionery industry, about 50% less compared to 1991 when it was 24,000

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<sup>4</sup> **Fritsch, M.** How Does New Business Formation Affect Regional Development? Small Business Economics.30(1). 2008. pp.1-14.

<sup>5</sup><http://www.mchamber.org.mk/%28S%28tdxvop55ig1bkr551hz2py45%29%29/default.aspx?mfid=130&IId=1&smId=6> (visited at 15.09.2011)

tons per year<sup>6</sup>. Within the strategy of the EU integration processes in the past ten years, foreign trade moved and still moves within the creation of a free trade zone in the region and the EU, thus the problem of small markets was exceeded, and conditions for permanent growth of production in this area were created. The market is a mature, differentiated and exacting market, which makes distinguishing yourself a challenge to marketers of chocolate products. On the side of the supply there are 50 business entities, from which 85% are micro and small companies. The demand is constructed from the total population in the country on one side, as well as the wholesalers and retailers on the other. The production capacity of the domestic confectionery industry is around 45,000 (within the projected time to work on capacity) tons annually, 16 000 tons of which are accounted for the largest domestic manufacturers - JSC "Europe" - Skopje and JSC "Vitaminka" - Prilep, which are considered to be the strongest direct domestic competitors. Lately, under the pressure from foreign competition that enters the market with well-known and established brands, the placement of domestic products on the domestic chocolate market is visibly reduced. The increase in export is seen as a way out, of course with constantly decreasing profitability per unit. Namely, the export in 2007 was higher for 33% than in 2006, but in 2008, only 11,5% higher than in 2008. The production in 2009 reached 22,000 tons, (the level of 1991), with available capacity used on the level of over 55%. In addition, the total production in 2009 compared to 2008 was higher by 32%, where separately by products the highest growth was in products containing cocoa (6.5 times), sweet biscuits 119% waffles 126% etc. As compared to 1998, when the enhanced liberalization of the market started, production in 2009 was higher by 73%.

*Table 1. Export - Import of Confectionery products (in tons)*

Year	Product				
	Export				
	Candies, biscuits, waffles, cookies	Chewing gums	Other products made from sugar	Products made from cocoa	Total
<b>2000</b>	1.181	551	1.556	1.441	4.729
<b>2002</b>	846	515	1.777	1.275	4.413
<b>2005</b>	2.048	508	2.000	1.412	5.968
<b>2008</b>	2.389	522	2.816	2.773	8.500
<b>2009</b>	2.699	516	2.688	2.353	8.256
<b>2010</b>	4.033	563	2.853	2.657	10.106
	Import				
<b>2000</b>	7.927	131	1.190	2.142	11.390
<b>2002</b>	8.170	120	1.560	2.430	12.280
<b>2005</b>	9.047	334	1.942	2.445	13.768
<b>2008</b>	8.789	301	1.909	6.272	17.271
<b>2009</b>	7.864	207	1.741	7.818	17.630
<b>2010</b>	6.710	141	1.789	7.648	16.288

Source: <http://www.mchamber.org.mk/%28S%28dxvop55ig1bkr551hz2py45%29%29/default.aspx?mId=130&lId=1&smId=6> (visited at 15.09.2011)

<sup>6</sup> Ibid.

By type of products, the chocolate market is fragmented as any other market of fast moving consumer goods (FMCG), such as: ice cream, soft drinks, cosmetics etc. On the market exists strong competition between manufacturers of confectionary products. Macedonian confectionery market can be divided into four parts: Market of candies, biscuits, waffles, cookies; Market of products made from cocoa; Market of other products made from sugar; Market of chewing gums. Some of the main players on the market are: Kraft Foods with its brand Milka, Kraskomerc Ltd with more brands of products – Dorina chocolate, Bajadera and Grioti– boxed chocolate, Domachica – chocolate biscuits etc., Nestle with Nestle chocolate, Kit-Kat and Lion - molded bar chocolate, Makprogres Ltd. with its brand of products – Vincini – sweet cakes, soft lines, JSC SwissLion – Skopje with SwissLion waffles, biscuits and cookies, JSC Vitaminka – Prilep and JSC Evropa – Skopje. Kraskomerc Ltd. led sales in 2009 with a market share of 10%, Kraft Foods followed in second place on 7%, with Vitaminka in third with a 6% share<sup>7</sup>. Kraskomerc and Vitaminka were able to secure sufficient market share due to their longstanding and traditional presence on the Macedonian market, while Kraft gained ground based on its commitment towards brand development and aggressive marketing activities. As Macedonia recovers from the global recession and consumer spending increases, demand for chocolate confectionery and the impulse and indulgence products is expected to rise again and the sectors growth rates will improve. The impulse and indulgence products sector is expected to increase by a CAGR<sup>8</sup> of 3% in constant value terms, reaching MKD9 billion by 2015<sup>9</sup>. Current market trends are<sup>10</sup>: Despite the positive growth of the market of FMCG, market share of the companies is with a downward trend, because of the maturity of the industry, driven by pricing competition and growth in the number of competitors; Innovation of products, offering better value for the price, building and maintaining strong brand of products are the keys which boost the growth in the industry, therefore the development of new products will need to be supported by new technology, intense distribution, interactive and new packages that will attract attention; It is expected shifting in the demand from larger to smaller individual packages of conventional products, as a direct result of increased consumer awareness of the need for practical packaging that allow a sense of control of the size of the individual serving as part of the daily diet - a result of greater concern for the individual health care status; Within the European confectionery market, chocolate industry is the largest segment by value and quantity, and the fastest growing market is one of the molded bar - chocolate. Various industries realize different levels of profitability which can partly be explained by the structure of the industry, defined as a market for identical or

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<sup>7</sup> <http://www.euromonitor.com/chocolate-confectionery-in-macedonia/report> (visited at 16.06.2011)

<sup>8</sup> Compound Annual Growth Rate (CAGR)

<sup>9</sup> Ibid.

<sup>10</sup> **O'Bornick, M.** Growth Strategies In Packaging Food And Drink To 2007: Identifying the key market sectors. Business Insights Ltd. 2002. p.19-54

similar products and services offered to consumers. For the analysis of the industry, qualitative analysis of the competitive position and business strategy development there are many models that can be applied, including Porter's 5 forces model<sup>11</sup>. The five forces (1.Rivalry among existing competitors; 2.Threat of substitutes; 3.The possibility of entry of new competitors; 4.Bargaining power of suppliers; 5.Bargaining power of customers) whose influence determines market attractiveness are divided into two levels, i.e. three of them are at the level of horizontal competition, and other two on the level of vertical competition, respectively<sup>12</sup>. The evaluation of the current impact of the 5 forces on the Macedonian confectionery industry profitability is based on the average of managers' opinion about the degree of current influence of each sub-factor of the 5 forces on interval scale from 1 - 3 (1-lowest, 3-highest)<sup>13</sup>. The calculation of the rate of each force is done by the following formula:

$$\text{Current rate of the force} = \sum Xi \div Yi, \quad (1)$$

Where, for each force individually:

$\sum Xi$  is -  $\sum$  rates of sub - factors

$Yi$  is - number of sub - factors

Example: Rivalry among existing competitors =  $19 \div 8 = 2,38$

From the analysis it can be concluded that the degree of competitive intensity on the market is high (2,6), which inevitably, from the point of profitability reduces the attractiveness of the market. Confectionery market is

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<sup>11</sup>This model places the industry in the context of the impact of 5 forces from company's environment that affect its ability to satisfy customers and make a profit and that determine the degree of competitive intensity and therefore attractiveness of the market, which in this case refers to the general profitability of the industry. Unattractive market/industry is one where the combination of the impact of the 5 forces reduces profitability, and totally unattractive industry is one that is close to the model of perfect competition.

<sup>12</sup> **Michael, P. E.** Competitive Advantage: Creating and Sustaining Superior Performance. NY: Free Press. 1985. p.225

<sup>13</sup> 1.Rivalry among existing competitors – 2,38 (high number of competitors - 3, low market growth rate - 3, barriers for exit the market - 1, fixed costs - 2, highly differentiated products - 2, low costs for crossing over - 3, high promotional costs - 2, brand identity -3); 2.Threat of substitutes – 3 (high number of product substitutes – 3, low costs for crossing over – 3); 3.The possibility of entry of new competitors - barriers to enter and exit the market – 2,15 (need for investment – 2, availability of materials - 2, politics and law regulations – 1, high transaction costs – 3, high promotional costs – 3, the direction of prices movement – 2, brand power – 2, customer loyalty and elasticity of demand - 2, economy of scale is needed – 3, vertical integration is present – 2, absolute advantage in costs is present – 3, network effect and globalization is present - 3); 4.Bargaining power of suppliers – 2,5 (low concentration of suppliers – 3, high quantity of purchase per supplier – 3, high importance of raw materials - 3, cost of change – 2, little number of substitutes for raw materials -3, power of labor organizations -1); 5.Bargaining power of customers – 2,67 (high concentration of byers as opposed to sellers – 3; degree of dependence on existing channels of distribution - 2, great number of substitutes - 3; consumer price elasticity – 2, great product differentiation - 3, great informational power of consumers - 3).

mature and fragmented market, where more profit can be achieved by increasing market share, which means that companies must lead in the fight for the end consumer.

### **Meaning and Development of a Marketing Strategy for SMEs in the Confectionery Industry**

The marketing strategy of an enterprise is a complete and unbeatable plan or instrument specifically designed to achieve the set of marketing objectives. Strategic planning is a managerial process of developing and maintaining the strategic relationship between the company and changing market opportunities, and is based on development of a mission or strategic direction, goals, strategy, and business portfolio of markets and products<sup>14</sup>. All companies undertake four actions of planning<sup>15</sup>: 1. Defining corporate mission; 2. Establishing strategic business unit; 3. Determining resources for every strategic business unit; 4. Determining opportunities for growth. Marketing strategy predetermines the choice of target market segments, positioning, marketing mix and allocation of resources. Michael Porter has suggested three alternative competitive strategies<sup>16</sup>: 1. Cost leadership; 2. Differentiation; 3. Focus. SMEs should consider adapting and implementing a strategy for intensive growth according to the type of products and the markets they are serving or entering on. The Ansoff's product-market matrix offers four strategies for intensive growth (see Table 2).

*Table 2. Ansoff's product-market matrix*

	Existing products	New products
Existing markets	1. Strategy of market penetration	3. Strategy of product development
New markets	2. Strategy of market development	4. Strategy of diversification

*Source: Philip Kotler. Kevin Lejn Keller. Marketing management. 13th edition. Pearson Education. Prentice Hall. 2009. p.49*

In most cases, the company can't serve all customers, and it is necessary to identify market segments and select those that the company will be able to serve most effectively. Market segmentation and selection of target group of consumers within a segment are procedures that are closely related to the formulation of marketing strategy of an enterprise. Segmentation would mean separation of heterogeneous markets of homogeneous groups of consumers who have similar characteristics, requirements and needs. There are

<sup>14</sup> **Paley, N.** The Marketing Strategy Desktop Guide. UK: Thorodood Publishing. 2007. p.17

<sup>15</sup> **Philip Kotler. Kevin Lejn Keller.** Marketing management. 13th edition. Pearson Education. Prentice Hall. 2009. p.44

<sup>16</sup> **Philip Kotler. Kevin Lejn Keller.** Marketing management. 13th edition. Pearson Education. Prentice Hall. 2009. p.58

many factors that influence the segment selection process, and in the case of chocolate market the following should be taken into consideration: geographic factors (where do customers live?), demographic factors (who are the customers?) and psychographic factors (how do the customers behave?). The target group for confectionery products should include consumers from the age of 7 - 77, from all ethnic groups and races, young people in primary and secondary school, students and employees with secondary or higher education and middle aged people that live and work in urban centers with over 10,000 inhabitants, from different professions, with an active life, socially mobile, devoted to family and the wider community, from middle and higher low social layers, impulsive buyers, with a desire to succeed, loyal to the national/domestic brands, who are not too price sensitive, appreciate the quality of products, and are willing to try new products. The positioning of the product and the company can be done through a new solution for old problems, on the base of consumers' behavior (the rising awareness of the advantage when using domestic products), products characteristics (quality and taste, communication, availability, packaging) and the usefulness of the product. The purpose of the marketing mix should be to create a product that offers the greatest value for the price, according to the taste and eating habits of the target consumers, which will be easily accessible, attractive and desirable for consumers. Marketing mix models analyze data from various sources such as data recorded in retail trade, information on the company supplies, pricing, media and data for advertising costs so they can be able to understand the effects of the specific marketing activities more accurately<sup>17</sup>. For deeper understanding the marketers can conduct various analysis, such as analysis of regression which provides answers for the association and cause – effects of one or more marketing activities on the marketing results (brand sales or market share), i.e. company profitability<sup>18</sup>. In the struggle for a better market position, the following competitive steps can be implemented: 1. Differentiation of products - technical, informative or distribution differentiation of products; 2. Change in prices - price increases according to consumer opinion for appropriate price and adjustment to competitors prices, for gaining a temporary advantage; 3. Creative use of distribution channels - using vertical integration forward or backwards, or use channels that are new and unconventional for the industry, such as chocolate bars, bakery shops, fast food restaurants, etc.; 4. Creating an effective and efficient communication with customers that will build an unbreakable connection with the community, affiliation and love for the brand product and the company.

## **Conclusion**

The need of enriching the knowledge and enabling managers to possess the right information at the right time, which helps in creation of a

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<sup>17</sup> Gerard J. Tels, Modeling Marketing Mix, in Handbook of Marketing Research, ed. Rajiv Grover and Marco Vriens (Tausand Oaks, CA: Sage Publications, 2006)

<sup>18</sup> Jack Neff, P&G, Clorox Rediscover Modeling, advertising Age, March 29, 2004, p.10

business unit strategy or corporate strategy in general calls for devoted action of changes in the managerial way of thinking and therefore the way of doing business. Essential parts of the marketing management process are full insights, creative marketing strategies and plans which can guide marketing activities. The need for strategy formulation is motivated by the need to set the strategy direction, to enable the company to maneuver through turbulent business environment. The competitive marketing strategy for chocolate products should be a strategy of differentiation of the products, with prices higher than the ones of the competitors that are attacked, but lower than the ones of the leaders on the market. The product should be placed on the market through intensive distribution and supported with integrated marketing communications consisted of economic propaganda, sale promotion, PR and publicity. On the end, a system of control should be implemented in order to insure the proper execution of the marketing activities.

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