
An entry strategy report for Dairy Crest in Germany

A theoretical application of matrix marketing

Strategy report
for Dairy Crest

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Abstract *This case study investigates the possibility of Dairy Crest dairy products entering the German market. The study gives an insight and analyses the company's internal capabilities as well as its external industrial forces that may influence and direct strategies and tactics. Finally, it presents a suggested possible strategic and tactical marketing approach that could alternatively be used by Dairy Crest in optimising performance when targeting the German market.*

Background of the German market

Germany has become the largest country in Europe since the unification in 1990 which brought about 16 million new consumers in the former German Democratic Republic.

1993 saw the sharpest downturn in the German economy since the Second World War. Unemployment increased by about 500,000, the inflation rate went over 4 per cent, GDP and private consumption both became negative.

The major reason for this development was the world-wide recession and the implications of the unification process in 1990. After the heavy rise in the demand figures following 1990, the inflation rate and the money supply increased dramatically.

This was mainly caused by the created purchasing power after the exchange of the former East German currency to the DM at a one-to-one rate. Rising interest rates and a strong DM caused the break-down of the EMS-system and lowered exports. The necessary funds to finance the recovery of the new countries in East Germany were raised by increasing taxes, with its implications on private consumption.

The annual inflation rate fell to 3.4 per cent, although after 1 January 1994 a significant increase in the fuel tax took place. Exports have risen slightly, caused by a weaker DM against the major currencies. The main problem will be the further cuts in interest rates, which could be lowered by a weak DM and the further fall of disposable incomes in Germany. The reasons for this are as follows:

- higher unemployment
- lower unemployment benefits
- shorter working hours in exchange for less money
- higher tax on fuel since 1 January 1994
- reintroduction of the solidarity income tax in 1995
- higher contributions to pension insurance
- new insurance for nursing care likely
- Germany's support for EU's proposal for an EU-wide CO₂ energy tax
- DM400 billion new debts at 1 January 1995 with the effect of about a DM35 billion increase in budget spending
- rise in wages will not meet the inflation rate.

Consequently a slight decrease in private consumption will be realistic.

Internal analysis

The internal audit examines the company's own resources and supplies suggestions as to the company's strengths and weaknesses. Internal analysis is important for Dairy Crest as it will allow it to decide on its capability in entering the German market.

Dairy Crest

Dairy Crest is a broadly based UK dairy food company with a significant presence in the UK dairy market, serving both the retail and grocery trade food manufacturers. It has significant positions in a number of sectors within the UK dairy market which have recently experienced strong growth. Dairy Crest is one of the UK's largest buyers of milk. It is the market leader in the dairy spreads sector with Clover and is the leading supplier of mature cheddar in the UK. Dairy Crest is also a leading supplier of liquid milk to multiple retailers and Friij is the brand leader in the fresh flavoured milk drinks sector. Dairy Crest has developed its presence in fresh dairy products through the Yoplait Dairy Crest joint venture. It is also a leading British producer of dairy ingredients (Dairy Crest, 1998).

The principal activities of the company are trading in, manufacture, and transport of milk and dairy products. In our study we will concentrate mainly on dairy products.

By this date, the situation of the company saw another encouraging financial performance. It has achieved a significant improvement in profits and sustained the momentum of its extensive programmes of corporate restructuring. The group's turnover, including its share of joint ventures' turnover, was £787 million (Dairy Crest, 1998).

It is through a focused strategy direction, a stronger market orientation and a higher level of operating efficiency that the company achieved its actual position.

Dairy Crest dairy products

The fresh dairy product markets – yoghurts, *fromage frais* and chilled desserts – continue to enjoy strong growth in the domestic market – now worth over £670 million and increasing by 13 per cent.

It was the fastest growing dairy sector last year, making it one of the most dynamic food markets in the UK. The market is expected to continue to show substantial growth.

Thanks to a very strong working partnership with Yoplait SA, Dairy Crest has had a very successful year. In fact, Yoplait SA is contributing to the volume and market share growth of Dairy Crest. In this expanding market, we can safely say that Dairy Crest is strongly positioned in the fastest growing segments. The Yoplait brands led by Petits Filous are market leaders in *fromage frais* and fruit yoghurt. In the drinking yoghurt sector, Yop achieved market leadership by the end of the year. Frijj became the major brand in the UK milk shake market.

The company has also broadened its balanced product portfolio by entering the adult dessert market. The company, as well as expanding its branded business, is looking with major retail customers to develop products under their labels.

Research and development

One of the key dynamics in this market is product innovation. This is an area of particular strength for Yoplait Dairy Crest has access to a wide range of product developments supported by competitive manufacturing operations.

As a result, 15 new products have been introduced over the year, ranging from fruit on the bottom *fromage frais* to more sophisticated adult desserts like Iles flottantes. That is a key element of the strategy of the company (see Figure 1). It aims at growing its business, adding value to it as products and services and focusing on its new products. It has also launched a variety of new products and worked closely with its customers to develop its products.

Once again the Yoplait Dairy Crest joint venture has enabled the company to establish a firm base. It has been allowed to develop its share of the expanding fresh dairy products market. Yoplait Dairy Crest will become an increasingly important contributor to future profit growth.

The developing relationship with Yoplait SA will strengthen the progress towards the positioning of Dairy Crest as a leading UK dairy food company with a significant European position.

Figure 1.
Matrix of the product
portfolio of Dairy Crest

		Product	
		Traditional	Innovative
Competitive Position	Weak	Milk Natural yoghurt Cream	Mousse au chocolat Iles flottantes
	Strong	Fromage frais Petits suisses Fruit yoghurt	Milk shake Drinking yoghurt

The external analysis

The external analysis covers the German dairy market and its direct competitive environment. The market analysis tackles information for the customers, competition and the external industrial four Ps (see Appendix).

The market structure

Consumers. East Germans consumed less yoghurt than their West German neighbours (see Table I). Although the consumption per head in Germany is the third among the European countries, it registered the fastest growth during the last four years.

Frequency of consumption is relatively high with around two-thirds of the population eating yoghurt at least once a week.

Overall trends influencing patterns of consumption include:

- the increase of popularity of healthy food
- an increase of readiness to experiment with the new foods
- a tendency towards gourmet food
- among some sectors of the population, increased awareness of price (and convenience factors).

Kg	1990	1992	1994	1997	Percentage change 1990/97
West Germany	10.4	11.9	12.2	13.3	25.0
East Germany	2.0				
France	15.2	15.9	16.2	16.4	8.0
The Netherlands	18.9	21.1	21.8	22.5	20.0
Spain	7.9	7.7	8.0	8.3	5.0
Denmark	7.8	7.9	7.8	8.0	2.5
Belgium	6.6	6.9	7.2	7.0	1.5

Table I.
Per head consumption **Source:** ZMP Review (1998)

Consumer analysis reveals regarding yoghurt that:

- It is eaten above all by the young, with almost 50 per cent of consumers being under 40.
- The product appeals particularly to females.
- Typical yoghurt consumers tend to practise sport, to be fashion conscious, interested in culture and open-minded.
- The main criteria of quality perception are the taste, then the fat content and then creaminess.

The main pattern of time of consumption appears to be between meals, as shown in Table II. Fruit yoghurt is associated with dessert and non-fruit yoghurt is consumed as a “complement” – for breakfast.

Ready desserts are most popular with working women and students, and in households with children.

The number of Germans consuming dairy products outside the home is increasing. The products consumed most frequently away from the home are fruit yoghurt and plain yoghurt. The main place of consumption is at work, on picnics or travelling and at sports events.

Competition

While there are around 400 manufacturers of dairy products in Germany, most have only a regional presence.

Table III gives the main dairy concerns which have a particular importance in the white line sector.

Based on industrial economic concepts, the set of manufacturers can be divided into three groups: the criteria of selection are the turnover, number of employees and relative market share:

- Group 1: represents those with less than 3 per cent of market share, a wide diversity of companies with regional coverage and family owned structure – potential take-overs.
- Group 2: represents those between 3 per cent and 9 per cent of market share; the number of companies is decreasing. That group can have a relative weight in the evolution of the market.

Time of consumption	Percentage	
	Fruit	Non-fruit
Breakfast	13	20
Between meals	60	49
Workplace	13	15
Dessert	45	25
After dinner	21	19

Source: ZMP Review (1998)

Table II.
Occasion of
consumption

Table III.
Main dairy concerns

Name	Location	Employees	Turnover (DM million)	Market share %
Bauer	Wasserburg		350	1.8
Ehrmann	Oberschöneck	250	300	1.5
Gervais Danone	Munich	610	432	2.2
Molkerei	Gütersloh	300	140	1.0
Nestlé	Frankfurt	15,348	5,020	25.6
Nordmilch AG	Zeven	999	875	4.5
Oetkerfood	Bielefeld		1,708	8.7
Südmilch AG	Stuttgart	1,240	1,509	7.7

Source: EIU Marketing in Europe (1997)

- Group 3: represents those with more than 9 per cent. The only one – Nestlé – constitutes the real competitor of Dairy Crest with a large capacity for defensive actions and trade barriers.

The main products of Bauer, a family owned firm based in Wasserburg, are yoghurt, and soft and semi-hard cheese, under the Bauer label. While the range consists of some 100 products, yoghurt remains the main line. Its best success story was the launch of the 250mg yoghurt pack in 1975. Dairy products account for 55 per cent of a total turnover of DM350.

The Munich based Gervais Danone group is one of the main German arms of the French BSN Group. Among the group's products are natural cheese, quark, drinking yoghurt and other yoghurt products. The group operates with three factories in the country.

The family owned Muller group has an important promotional budget – about 10 per cent of turnover – using professional sportsmen. Muller's main products are yoghurt, kefir, rice puddings and other milk based specialities; the company claims 45 per cent of the buttermilk and 70 per cent of the kefir markets.

Nestlé Deutschland AG was formed recently to incorporate virtually all the German subsidiaries of the Swiss multi-national. The main brands are Nestlé, Chambourcy, Lunebest, Der milde, Elite, Barenmarke and Gluchlee. Nestlé's advertising budget was to rise to DM227 million in 1991, the increase being in part a reflection of a move in the Eastern market.

Nordmilch AG is a co-operative jointly owned by 35 dairies. The company's white line products are sold under the main brand name Milram and the Oetker label. Nordmilch leads the German market for spiced quarks preparations with a share of 75 per cent; it has also 19 per cent of the sweetened quark desserts market, produces 9 per cent of the German condensed milk and 8 per cent of the *crème fraîche* sector.

The family owned Oetker group is active in a large number of activities – drinks, food, shipping. Oetker's main dairy product is ready desserts. It concentrates on premium products, where it claims a market share of almost 70

per cent. While Oetker abandoned the low calorie sector, it says it may re-enter the sector in the future. Among its latest launches is the 200mg Fruchtzauber, a fruit/dairy mixture. In *crème frais*, Oetker claims a market share of 57 per cent.

Molkerei has a third of its turnover coming from discounted second brand lines and exports. Exports go mainly to the Benelux countries and France while the company has an agreement of licensing in Korea and India. Some DM two million annually is devoted to promotion, of which 85 per cent is on point of sale promotion, printed media and local radio. The firm moved to a national distribution with the historic core in East Westfalia. The company launches innovative products such as fruit-nectar Molke, Dreikorn, bio-fruit yoghurt without added sugar and vitamin yoghurt with added calcium. Strohmann argues that the national distribution is most likely to succeed for clear innovation; only ten Strohmann products are likely to be distributed nationally, while the remaining 30 are sold locally.

Südmilch is owned mainly by the dairy co-operatives which supply it with milk in Eastern Germany. Südmilch sells a range of products, above all fruit yoghurt. The company agrees to collaborate with the former East German VEB Kombinat Milchwirtschaft Dresden and owns 40 per cent of the joint venture, Sachsenmilch. It is Germany's largest dairy exporter with 25 per cent of the production. The company's main brands are Landliebe, Fruttis, Biobest, Fruchtkornble/Fruit basket, Emmi and Puddis. Fruttis is claimed to have 5 per cent of the domestic market, and Emmi is second in the premium yoghurt sector. Their competitors' relative positions are shown in Figure 2.

Place

There are over 70,000 outlets in Western Germany which stock a full range of dairy products (see Table IV).

Superstores, hypermarkets and discounters have all been gaining market share. The discounter Aldi alone is believed to account for some 25 per cent of the market in volume.

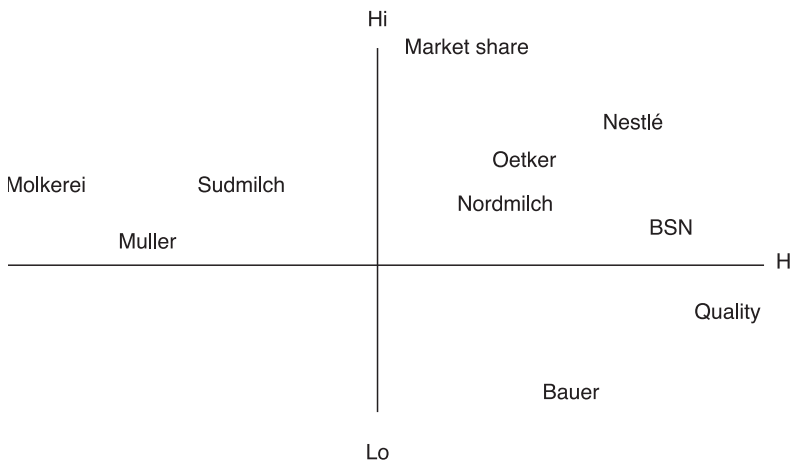


Figure 2.
Competitors' analysis
allows the mapping of
competitors' positioning

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Product

Yoghurt pack sizes of between 100mg and 250mg are the most popular. Environmental awareness has had a significant effect on packaging with cardboard containers for yoghurt increasingly replacing plastic. Light products using sugar replacers look set to expand their share of the market. Manufacturers are increasingly making yoghurt with organic ingredients and fruit sugar sweetening, as shown in Table V. The different sectors are not in the same stage of the PLC: Figure 3 gives their respective positions.

Promotion

Expenditures on media advertising of yoghurt rose substantially and is now closer to its proportional share of total sales in the white line sector (see Table VI).

Spending is the greatest in the spring with some 40 per cent of the total falling in March and April. Spending is the lowest around new year and in the summer.

Price

Prices have fallen even though high demand in 1997 helped push prices upwards (see Tables VII and VIII).

Table IV.
Number of outlets
selling dairy products

Grocery stores	4,000
Superstores	4,000
Discounters	7,000
Supermarkets	4,000
Other	55,000
Department stores	400
including:	
Karstadt	150
Kaufhof	73
Hertie	62
Horten	50

Table V.
The sectors of the
German yoghurt
market can be
classified using the
Ansoff matrix

		Product	
		New	Existing
Market	New	Frozen yoghurt Soya yoghurt Drink yoghurt	Bio yoghurt Luxury yoghurt
	Existing	Greek style fruit yoghurt	Long life yoghurt Children's yoghurt Mousse Diet yoghurt

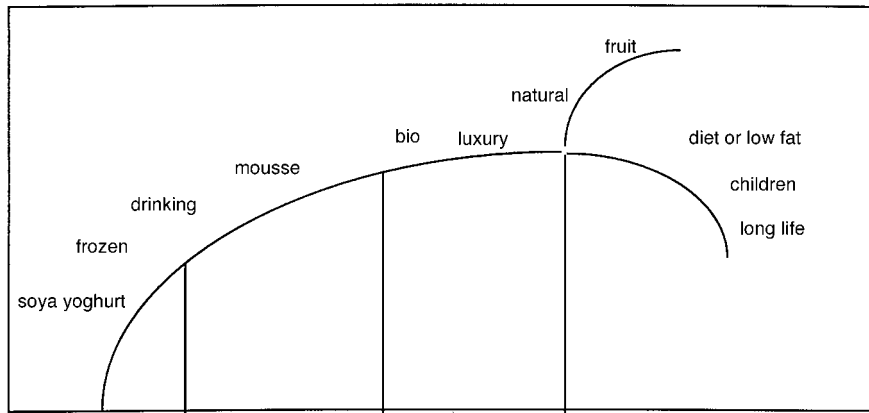


Figure 3.
PLC for yoghurt market
in Germany

	1991	DM mn	1997
Milk	9.2		8.4
Yoghurt	32.1		39.4
Sour cream	3.0		3.2
Desserts	12.4		18.7

Source: Euromonitor (1998)

Table VI.
Advertising
expenditure on dairy
products

Marketing strategy

Dairy Crest should consider Germany as a key element to a further expansion in the Central European countries (see Figure 4).

A market penetration strategy in three different sectors of the German yoghurt market could be planned.

According to the PLC we have chosen three sectors either in the growth stage – drinking yoghurt – or in a process of re-launch – fruit yoghurt:

- (1) Drinking yoghurt with YOP
- (2) Fruit yoghurt for children with Petits Filous
- (3) Fruit yoghurt for adults with Yoplait

	1991	Prices DM 1995	1997
Plain yoghurt 150mg	3.31	3.33	3.32
Cream dessert 125mg	0.54	0.54	0.54

Source: Euromonitor (1998)

Table VII.
Prices of dairy
products

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		mg	DM	
<i>Specialities</i>				
	Nestlé	Mousse	2 × 75	1.59
	Oetker	Fruchtzauber	200	1.69
	Lunebest	Dickmilch	500	1.29
<i>Yoghurt</i>				
	Onken	Biogurt	500	2.99
	Onken	Drinking yoghurt	500	1.99
	Bremerland	Biogarde	250	1.19
	Zott	Cream Yoghurt	150	0.99
	Bauer	Yoghurt	250	0.99
	Danone	Fruchtzwerge	6 × 60	1.75

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Table VIII.
Retail prices of leading brands (1993)

Source: Euromonitor (1998)

		Product	
		new	existing
market	new		X
	existing		

Figure 4.
Ansoff matrix

Steps for market penetration

Looking at the Boston Consulting Group matrix strategy, the following programme is a futuristic view:

- Steps 1 and 2:
over the first year: introduction – step 1
penetration and growth – step 2
- Step 3:
leadership in the different sectors chosen over the two next years – step 3

The movement of Dairy Crest from 1 to 3 (see Figure 5) means that the company will become a star and enjoy high market share within a high market growth. This gives them the opportunity to become market leaders and enjoy the plethora of their advantages (Vignali and Vrontis, 1999, p. 175).

Tactics

To establish the tactics in the different sectors of the yoghurt market, the MIXMAP concept is used. Although more elements in the MIXMAP can be used, we do not perceive the need to use added elements to the four traditional Ps. However, we would like to focus on building a positive image for our own

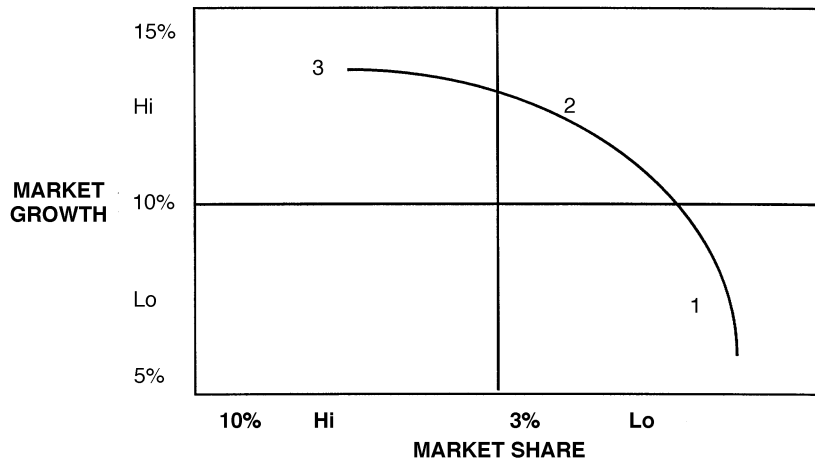


Figure 5.
Boston group matrix

products in that new market. To do so we use an “S” added to the four Ps: service. Tactics are based on a push and pull strategy; we would like to create a demand either to incite consumers to buy thanks to advertising or to ensure a presence on their shelves granting an attractive margin to the retailers.

Product

For the three sectors, we launch a product in a value for money position with a high quality. We offer a small range of flavours: strawberry, vanilla and natural. The quality is an important variable to create consumer confidence for our new product. We concentrate the range of our flavours in the most attractive ones to guarantee a successful launch (Figure 6).

Price

We set a relatively low level of prices in the market compared with our competitors’ products – the value for money position. We use pricing slightly below the price of our competitors to attract the consumers for the same level of quality. To ensure a wide presence on the shelves, we offer a substantial discount for retailers – push and pull strategy (Figure 7).

Place

We would like a national coverage with a high selection of our distributors to associate a good image with our new products (Figure 8).

Although we concentrate the distribution of our products in few retailers – supermarkets and hypermarkets – distribution channels will be characterised by big orders. That tactic takes into consideration the growth of superstores and the desire to have a high ratio of order quantity per outlet.

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Figure 6.
Product mix map

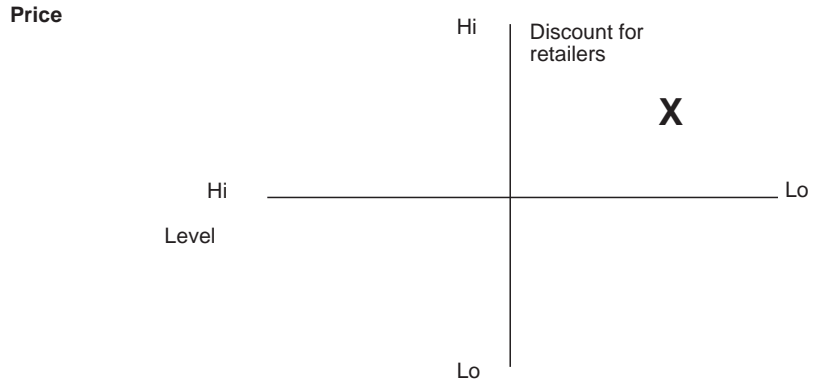
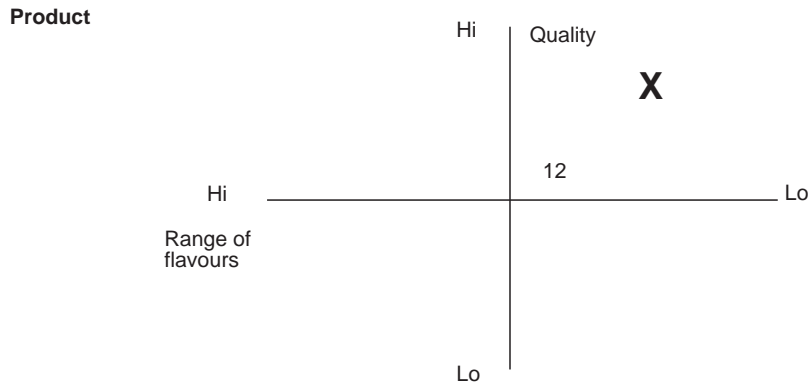


Figure 7.
Price mix map

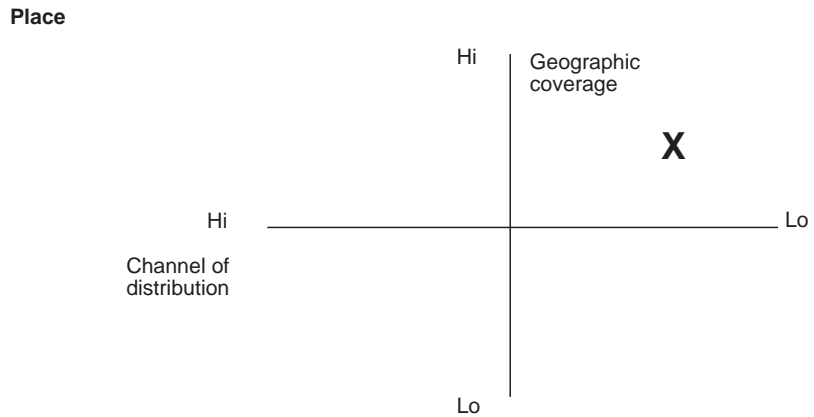


Figure 8.
Place mix map

Promotion

We invest in advertising to introduce our products in that new market. We maximise our budget and campaign by a selection of few media (Figure 9).

Promotion

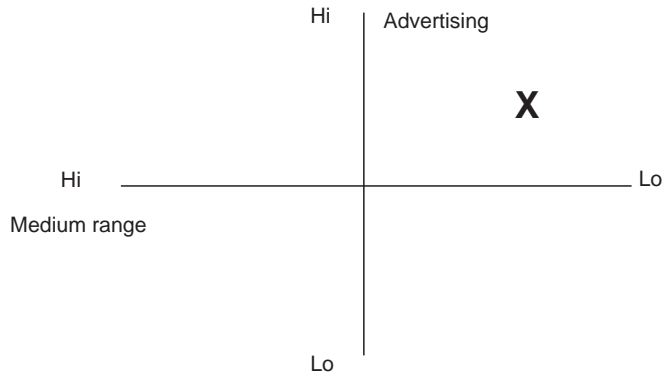


Figure 9.
Promotion mix map

Segments

Drinking yoghurt

The target consumer for that innovative product is a young population – under 30 – with cultural life and/or sport practice. They could be teenagers, students, young workers, young single householders. We would like to associate with our product the new way of consuming a yoghurt easily – to drink it.

Fruit yoghurt – adult

In that sector, the target is under 45, employed – for consumption at work. We would like to communicate an image of healthy worker, balancing his food to face everyday tasks – “fruit yoghurt with breakfast cereals to have a good start”.

Fruit yoghurt – children

We dissociate the purchaser from the consumer. Our first target is the consumer, with kids having a dynamic life – for example sports. Our second target is the purchaser; we would like to touch families – especially the mothers – we want them to have a healthy image of our products so that they can buy them for their children.

Proposed future developments

Expected results are presented in Figures 10, 11 and 12. For the three charts, incomes are represented by a curve: the slope is increasing more sharply during the first two years than the last one – the marginal increase is decreasing.

Total costs comprise variable and fixed costs. With economies of scale, the total cost does not follow a line and the slope is decreasing.

The different percentages of all the sectors are calculated thanks to the Boston Matrix presented in the strategies.

Fruit yoghurt for adults

We base our expected results on market share target – we consider that the global turnover is the product of quantity by price. We would like to attain the

break-even point between the first and second year of presence in the fruit yoghurt sector for adults.

Fruit yoghurt for children

The projected market shares for fruit yoghurt for children are higher than fruit yoghurt for adults because competition is lower and the segment we have chosen in that sector is wider.

Drinking yoghurt

Our innovative product and the lack of strong competitors allow us to occupy a significant market share in that sector. The following objective will be to expand the total market of the drinking yoghurt.

Fruit yoghurt for adults

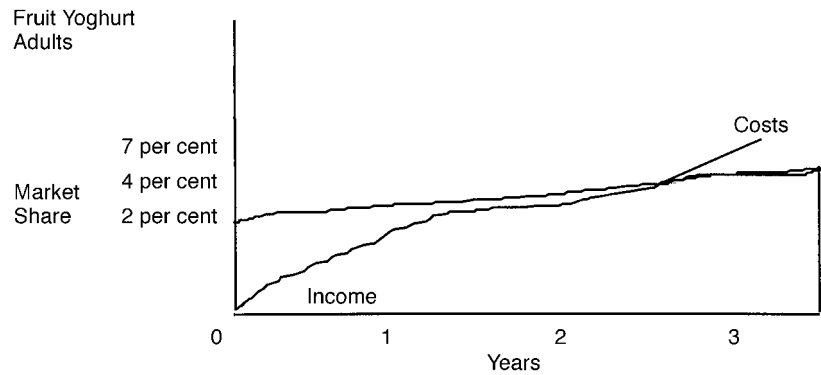


Figure 10.
Fruit yoghurt for adults

Fruit yoghurt for children

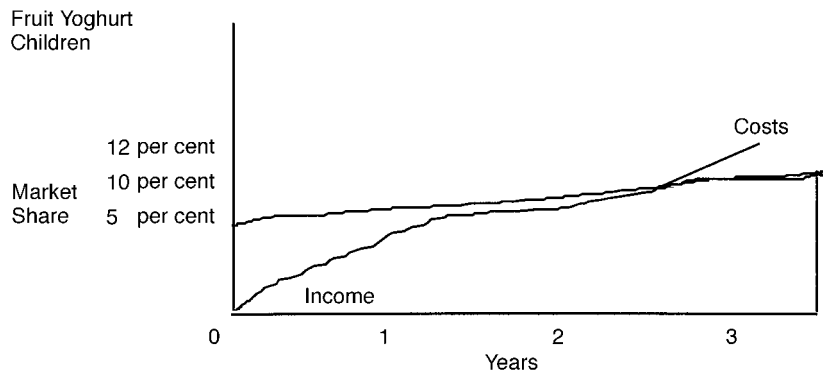


Figure 11.
Fruit yoghurt for children

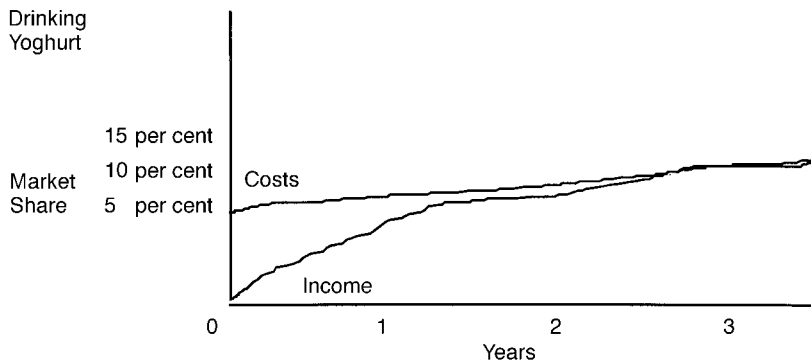


Figure 12.
Drinking yoghurt

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Appendix

	Percentage of population		
	All Germans	Eat daily	Other eaters
<i>Attitudes</i>			
Like sport	46	54	51
Interested in dieting	26	32	28
Brand important	48	52	47
Attention to health	75	81	76
Weigh regularly	56	63	59
Like cooking	52	60	56
<i>Frequency</i>			
Several times a day	1.6		
Daily	12.9		
Several times a week	8.3		
One to two a month	22.4		
Never			

Table AI.
Analysis of yoghurt
consumers –
Verbraucher analysis

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	Average in line	Percentage of all lines	Percentage of turnover	
408	<i>Superstore</i>			
	Yoghurt, cheese	94	0.7	1.6
	Other dairy	30	0.2	1.3
	<i>Hypermarket</i>			
	Yoghurt, cheese	146	0.6	1.2
	Other dairy	40	0.2	0.9
Table AII. Product range by shop style	<i>Discounter</i>			
	Yoghurt, cheese	35	2.3	1.2
	Other dairy	11	0.7	1.5

	Days			
	Shops	Retail centres	Total distribution	
Table AIII. Suggested length of time in shop	Plain yoghurt	16	4	20
	Plain yoghurt without preservatives	8	2	10
	Fruit yoghurt	16	4	20
	Cream dessert	8	4	12
	Cream milk pudding	16	4	20
Source: Euromonitor (1998)				