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MARKETING DETERMINANTS OF SMALL ENTERPRISES COMPETITIVENESS IN BEVERAGE SECTOR

Introduction

The paper focuses on the issue of small enterprises competitiveness conducting their activity in the beverage sector. The opportunities of small firms seem to be limited because of strong domination of big companies and advanced concentration processes, which characterize this sector. However, it should be emphasized that the sector is growing in the internal market, what makes a chance for development of small enterprises there. But the condition is to intensify marketing activities oriented on strengthening relations with customers and care about above-average quality of products.

The purpose of this study is to present opportunities and expansion barriers of small enterprises in the beverage sector in Poland, taking into consideration the specificity of assortment and general conditions of development for the SMEs sector in Poland.

Small enterprises in the beverage sector in Poland – current situation

The beverage sector in Poland plays an important role in the economy. It is reflected by the state budget's revenues, where sales revenues from beverages, mainly in the form of excise duty and direct taxes, amount almost up to 5 per cent of the income. Only in 2007 manufacturers of beverages paid PLN 11.5 bln, at the same time the budget revenues accounted for PLN 236.4 bln.[1] It is determined by

[1] R. Urban, *Rynek i produkcja napojów w Polsce [Beverage Market and Production in Poland]*, „Przemysł Fermentacyjny i Owocowo-Warzywny" 2009, No. 4, p. 6.

the fact that beverages not only constitute important items on household expenditure lists, but also their consumption rate increases regularly (Table 1).

Table 1. Beverage consumption in Poland (litres per capita)

Category	2000	2003	2007	2008
Vodka 100%	2.0	2.4	3.0	3.4
Wine	12.0	11.3	8.9	9.0
Beer	66.9	74.5	93.4	94.0
Juice and juice & vegetable drinks	27.0	32.0	398	40.4
Bottled water	34	52	70	78
Other soft drinks	50	50	68	67

Source: R. Urban, *Rynek i produkcja napojów w Polsce* [*Beverage Market and Production in Poland*], „Przemysł Fermentacyjny i Owocowo-Warzywny" 2009, No. 4, p. 6.

The highest consumption levels were in relation to soft drinks and in 2008 amounted to 183 litres (the total balance consumption of drinks increased by import and reduced by export) per capita and were higher than the average in years 2004–2006 by 16 per cent. Sales of alcoholic and soft drinks reached the value of PLN 41 bln (retail prices), which constituted almost 5 per cent of households' consumption (PLN 830 bln in 2007) and increase by 23.3 per cent of consumer expenditures on food and drinks.[2]

The beverage sector in Poland comprises of 306 enterprises, where more than 60 per cent constitute small ones (the situation at the end of 2008). The number of companies classified according to their production profile is presented in Table 2.

Table 2. Number of small enterprises according to production profile in the beverage sector in 2008

Production profile	Number of companies	Structure in%
Juice production	22	10.2
Soft drinks	63	32.5
Beer and malt production	17	8.8
Wine production	30	15.5
Spirits sector	62	32.0
Beverage sector in total	194	100.0

Source: own calculations on the basis of R. Urban, *Rynek i produkcja napojów...* [*Beverage Market and Production…*], *op.cit.*, p. 8.

[2] B. Nosecka, *Napoje bezalkoholowe. Produkcja, ceny spożycie [Soft Drinks. Production, Prices, Consumption]*, „Przemysł Spożywczy" 2009, No. 6, p. 12.

The biggest group, more than 60 per cent, constitute soft drinks manufacturers and producers in the spirits sector. This is a typical situation for the whole beverage sector. Soft drinks producers accomplish about 96.6 per cent of total production. The highest growth rate of production in the soft drinks sector concerns mineral water and other beverages. During eight years, that is from year 2000, production of water doubled in volume, and in relation to other beverages increased by 150 per cent.[3]

This big share of small enterprises in total number of companies from the beverage sector does not translate into the level of employment and achieved sales revenues (Table 3).

Soft drinks production is characterized by the highest level of employment (30 per cent) as well as the spirits sector. They employ about 55 per cent of employees altogether. High level of employment in these two lines of business is the result of concentration and increasing work efficiency. It is reflected in sales revenues, with the reservation that companies of juice and spirits sectors produce the highest turnover at the level of PLN 400 mln.

Table 3. Employment and sales revenues in the sector of small enterprises in Poland in 2008

Profile of production	Employment		Sales revenues	
	in thousands	structure (in %)	PLN (in mln)	structure (in %)
Juice production	0.6	15.0	400.0	29.6
Soft drinks	1.2	30.0	200.0	14.8
Beer and malt production	0.7	17.5	300.0	22.2
Wine production	0.5	12.5	50.0	3.8
Spirits sector	1.0	25.0	400.0	296
Beverage sector in total	4.0	100.0	1350.0	100.0

Source: own calculations on the basis of R. Urban, *Rynek i produkcja napojów...* [*Beverage Market and Production…*], *op.cit.*, p. 7.

The small enterprises sector concentrates 8.4 per cent of employees in the whole beverage branch and produces just under 7 per cent of the sector's turnover. It is a low share taking into consideration the number of small enterprises operating in this market.

It is determined among others by high rate of concentration processes taking place in the beverage sector. Polish juice market is dominated for few years by three companies, which have in total 60 per cent share. More than 30 per cent

[3] *Ibidem.*

belong to Maspex Group in Wadowice, which is the owner of brands Kubuś and Tymbark. The other leading companies are Agros Nova Sp. z o.o., whose sales in 2007 amounted to PLN 0.9 bln and Hortex, which in 2007 increased sales by more than 20 per cent, up to PLN 740 bln.[4]

The leader of the soft drink market is Coca-Cola. In 2008 its share in the value of retail sales amounted to 21.8 per cent. The second place goes to the company Maspex (12.9 per cent), whereas the third one to PepsiCo (9.1 per cent), which outstripped Danone Group (6.7 proc.). The companies Hortex, Agros Nova and Hoop Poland had more than 3 per cent share each. At the end of 2008 Hoop Poland entered the group Kofola and the Kofola-Hoop company was established. On the other hand, in the market of spirits and spirits beverages worth more than PLN 2.5 bln, the leader is the Central European Distribution Corporation (CEDC) – the distributor and producer controlling 30 per cent of the market. The second leading company is the Belvedere Group, whose market share is by 4 per cent lower than share of the CEDC. Polmos is next on the list.[5]

On the basis of conducted analysis a question has emerged: What chances do small enterprises have in the beverage market, dominated by medium and large companies (with more than 50 employees) and what instruments should they use to not only survive but to develop in the market?

Marketing specificity of beverages

In order to determine chances for development of small enterprises in the analysed sector, one should pertain to marketing specificity of beverages in the first place. Similarly as other food products, beverages are characterized by:[6]
- fulfilling elementary needs,
- high level of diversity,
- mutual substitutability – many kinds of products within the same category,
- high frequency of products purchase,
- easy availability.

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[4] J. Drożdż, *Liderzy branż spożywczych* [*Leaders of Food Industry*], „Przemysł Spożywczy" 2008, No. 8, p. 34.

[5] Ibidem

[6] U. Widelska, *Jakość jako element promocji produktów żywnościowych*, w: *Instrumenty marketingu jako czynnik ekspansji sektora żywnościowego* [*Quality as Component in Promoting Food Products*, in: *Marketing Instruments as Factor of Food Industry Expansion*], red. [eds.]. E. Hościłowicz, I. Janowska, K. Meredyk, WSFiZ w Białymstoku, Białystok 2007, p. 62.

The assessment of food products (including beverages) by consumers is made very often from the quality characteristics point of view, both in their natural as well as commercial quality. Assessing the natural quality of a food product, a customer pertains to such features as: the taste, nutritional values, energy, mineral elements and vitamins in content or consistency. The commercial quality in this group of products is determined by: a brand, packaging and product shelf positioning. This way of assessment is a result of the duality of marketing activities taken by producers, since the specificity of a food product requires to emphasize both natural features as well as components of the commercial quality at the same time. Food is a specific product to a customer, because its purchase does not mean only fulfilling their elementary needs, but also is a manifestation of their attitude to life or a healthy life-style.

Beverages in the group of food products are characterized by high assortment diversity (fizzy and still drinks, juice, mineral water, vodka, wine, beer). As it was indicated before, specific brands dominate clearly in each assortment group, what in many cases is a result of direct competition. It means that the most important ability of an enterprise is efficient product positioning in customer awareness and searching for distinctive factors. Regular sales growth of beverages in Polish market was also achieved through successful marketing activities, especially in the promotion area. Increasing nutritional awareness of customers was used in this sphere, a range of beverages was extended by retail chain brands and many product innovations were applied in relation to the taste, packages and functional extras.[7]

When analyzing marketing activities in the beverage market it should be remembered that customer awareness on food increases more and more considerably[8]. It determines higher importance of advertising messages, where health qualities specific for a particular manufacturer are emphasized. In enables to present these product characteristics which are to constitute its distinctive features. It

[7] H. Górska-Warsewicz, *Konsument a strategie pozycjonowania na rynku soków, nektarów i napojów niegazowanych* [*Consumer and Positioning Strategies in Juice, Nectar and Still Drinks Market*], „Przemysł Spożywczy" 2005, No. 6, p. 16.

[8] *Coraz większe oczekiwania konsumentów wobec przemysłu spożywczego* [*Higher Consumers Demands towards Food Industry*], „Przemysł Spożywczy" 2005, No. 1, p. 36.

is confirmed by carried out research which indicates strong influence of advertising on individual brand recognition among consumers.[9]

Distribution is also important competence of companies conducting their activities in the beverage sector. Although the biggest sales of drinks is made through traditional distribution channels, increasing importance of direct selling methods is observed.[10] It cannot be said that there is domination of alternative selling methods, but there is an increase of their efficiency in modern trade.

Marketing efficiency of a manufacturer in the beverage sector is also reflected by the ability to use market niches. As it appears the market of ecological or functional drinks grows regularly in the world. In the case of Polish beverage producers, their activity in the niche area is rather of a residual character.[11]

As a results of conducted analysis it can be stated that marketing specificity of beverages requires high activity in the market. It sets the necessity to diversify products not only in the market, but also in customers' awareness. The specificity of products on offer from the small enterprises in the sector point of view, forces the need to intensify broadly understood marketing activities and to emphasize distinctive natural quality at the same time.

Marketing activity determinants of small enterprises in the beverage sector in dynamic environment

Changes in the beverage market as a result of concentration processes and increasing competition determine the necessity to focus small enterprises managers' attention on customers satisfaction and quality of their products. They are undoubtedly the most effective tools to build competitive advantage of a company. Building this advantage seems to be difficult, what results from limited abilities of small enterprises to create unique abilities in comparison with big companies.

[9] M. Świątkowska, *Znaczenie reklamy na rynku soków* [*Importance of Advertising in the Juice Market*], „Przemysł Spożywczy", 2006, No. 6, pp. 40–41; D. Sikorska, *Psychologiczne aspekty wpływu reklamy na decyzje nabywcze konsumentów żywności* [*Psychological Aspects of Advertising Influence on Purchase Decisions of Food Consumers*], Roczniki Naukowe Stowarzyszenia Agrobiznesu [Scientific Yearbooks of Agriculture Association], Volume VIII, Book 3, Poznań 2006, pp. 132–135.

[10] *Vending, czyli szybko i tanio* [*Vending that is Fast and Cheap*], „Rynek Spożywczy", 26 June 2009, http://biznes.onet.pl/vending-czyli-szybko-i-tanio,18584,1563728,1,prasa-detal.

[11] A. Bogacz, W. Pietrykowska, *Jeszcze daleko nam do świata* [*We Are Stall Far Away from the World*], „Rynek Spożywczy" 24 April 2009, http://biznes.onet.pl/jeszcze-daleko-nam-do-swiata-,18584,1554155,1,prasa-detal.

Research on Polish sector of SMEs confirms that competition and mainly meeting the competition requirements is the main barrier in enterprise development.[12] About 72 per cent of examined small and medium enterprises indicated competition as a main factor limiting their development. It can prove a poor competitive ability, and consequently a low level of marketing knowledge. Low marketing efficiency can be confirmed also by the following facts:[13]

– a big group of small enterprises have little knowledge on competitive environment and own competitive potential in comparison with other companies,
– straight majority of companies do not conduct (or do not order) research and analyses of the market where they conduct their activities,
– few companies carry out any marketing activities what influences developing their competitive advantage against market competitors,
– more than 3/4 of companies from the SMEs sector do not conduct activity in order to develop (implement) new or considerably improved products (services),
– 19-22 per cent of examined enterprises reckon obtaining market information as of little importance,
– only 10 per cent of companies in the sector have certificates of company or product quality,
– in micro companies the share of main customer in revenues do not exceed 1 per cent,
– about 44 per cent of companies declare to maintain long-term contracts, a similar number of companies state that they have short-term relations with their customers.

Limitations in marketing efficiency in the SMEs sector are also reflected by the example of small domestic trade companies, where there is lack of detailed knowledge on competitors, benchmarking is only an attempt to imitate competitors, not a constructive creation, and marketing activities are of imitative character.[14]

Development of marketing activity in the group of small enterprises is treated in a rather traditional way. For most of them, main activities concerning utilization of opportunities and threats from the outside environment, comes down to

[12] *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2006–2007* [*Report on the Situation of Small and Medium Enterrprises in Poland in Years 2006–2007*], PARP, Warszawa 2008.

[13] *Ibidem*.

[14] U. Kłosiewicz-Górecka, *Małe firmy handlowe a zmiany w otoczeniu rynkowym* [*Small Trade Companies vs. Changes in Market Environment*], October 2008, http//:gazeta.pl.

launching new products into the market, reducing costs and increasing sales on existing markets.[15]

Marketing abilities of small enterprises in Poland have undoubtedly limited character, and the beverage sector in this context seems to be a particular business line. Firstly, we deal with high market dynamics and structural changes. Secondly, strong domination of brands occurs as well as high degree of their recognition in target markets. Such conditioning certainly limits their development, but at the same time requires to intensify marketing activities. As it was presented before, main efforts should be concentrated on customer satisfaction and care about product quality. Small enterprises in the examined sector should rather focus on creating close relations with target markets using the local aspects. Big companies build their relations on the basis of universal messages, whereas small enterprises operating in local markets should use regional values and undertake activities to strengthen brand recognition in local purchasers' awareness. Such activities may increase efficiency of offer positioning by small enterprises. Quality of products should not be in this case examined in a traditional way. A small enterprise may develop distinctive competences through increasing product quality not only in the context of the natural quality, but in the commercial quality as well. Emphasizing health-related features and care about imaging aspects, enabling easier recognition of a product, and even enabling successful confrontation with competitive brands directly at selling points seems to be also an opportunity.

Summary

Small enterprises in the beverage sector have limited possibilities to build permanent competitive advantage. It results mainly from the specificity of the industry itself, as well as from functioning conditions of small enterprises sector in Poland. Beverage production is characterized by the fast concentration process, which weakens the position of small producers. On the other hand, however, drink consumption increases, what is a chance for their development.

Functioning of small enterprises, in such dynamic market environment, is determined by the efficiency of undertaken marketing activities, which consider increasing customers' requirements. The activities should focus on customer

[15] *Raport badania warunków dla funkcjonowania firm z sektora MSP* [*Report about Reaserch on Conditions for Functioning of Companies from SMEs Sector*], Krajowa Izba Gospodarcza, Warszawa 2006, p. 2.

satisfaction and care about product quality as well as be oriented on building permanent distinctive features, especially in the context of local markets. Small enterprises should build distinctive competences, increase product quality both in the natural and commercial context. Other opportunity may also be the emphasis on health-related features and care about imaging aspects.

MARKETINGOWE UWARUNKOWANIA KONKURENCYJNOŚCI MAŁYCH PRZEDSIĘBIORSTW Z SEKTORA NAPOJÓW

Streszczenie

Artykuł podejmuje problem konkurencyjności małych przedsiębiorstw prowadzących działalność w sektorze napojów. Jest to sektor, który na rodzimym rynku ma charakter wzrostowy, co niewątpliwie stwarza szansę rozwoju na nim małych firm. Warunkiem jest jednak intensyfikacja działalności marketingowej ukierunkowanej na umacnianie relacji z klientem oraz dbałość o wyróżniającą jakość produktów.

Celem opracowania jest ukazanie możliwości i barier ekspansji małych przedsiębiorstw branży napojów w Polsce przy uwzględnieniu specyfiki asortymentowej, wymagań rynków docelowych oraz ogólnych uwarunkowań rozwoju sektora MSP w Polsce.

Małe przedsiębiorstwa w sektorze napojów mają ograniczone możliwości budowania trwałej przewagi konkurencyjnej. Wynika to przede wszystkim ze specyfiki samej branży, jak również z uwarunkowań funkcjonowania sektora małych przedsiębiorstw w Polsce. Produkcję napojów charakteryzuje bardzo szybki proces koncentracji, który osłabia pozycję małych producentów. Z drugiej jednak strony spożycie napojów rośnie, co stanowi także szansę ich rozwoju.

Streszczenie Grażyna Michalczuk