

International Marketing Case Study

Chrombach Foods

The marketing management of Chrombach Foods were identifying problems encountered in the last 6 months of rapid expansion in the eastern Lander of the unified Germany.

The company

Chrombach Foods was a major supplier of catering products to German restaurants, cafes and takeaways. It had grown rapidly as the number of snack type meals eaten in Germany had increased since the 1960s - as a result of economic expansion such demographic trends as ageing populations and smaller households. The number of customers supplied had grown from 200 in the first year of operation, in the early 1960s, to 12,500 at the beginning of the 1990s. Profit had risen throughout the last 5 years (Table 7A). But the rate of increase had slowed, in the last 2 years, as a result of the higher costs of servicing the new market areas within Germany.

Table 7A. Sales and profitability over the last five years, year 5 most recent in millions of Euro.

	<i>Yr 1</i>	<i>Yr 2</i>	<i>Yr 3</i>	<i>Yr 4</i>	<i>Yr 5</i>
Sales	110	125	135	165	175
Profit	15	17	19	22	23

Throughout its development, Chrombach concentrated on supplying the smaller, independent outlet in medium to large towns. The company avoided rural outlets, and did not supply the chains because the specific demands on manufacturing and credit policies that this would cause would create substantial difficulties. This policy had been encouraged by Chrombach's limited penetration of chain restaurants and takeaways. Its customers were typically run by the owner, with the assistance of family or long serving staff. They supplied local clientele with a range of value for money meals, and opened long hours. With such customers, Chrombach had to regularly supply quality products. Generally, customers required daily delivery; or every 2 days at the most. This was because of the perishability of product, lack of storage space on the premises, and demand for maximum freshness of supply. Sales were always made by the van driver of the refrigerated delivery vehicle, who delivered product, and collected orders for the following delivery. The company had always emphasised the recruitment of local delivery staff who understood local conditions, and could discuss requirements in the local dialect with the cafe owners. This also allowed the van drivers to sell additional product not included in the original order. This type of sale made up a regular 15 per cent of total sales.

Chrombach currently manufactured three main product groups. A substantial proportion of its business had always been in meat products - sausage, pates, and a variety of hams. Their overall contribution to turnover and profit had declined over the years as the company introduced other products. These included cheese and a variety of sauces. Though both meat and cheese products were perishable, they had relatively long shelf lives under normal conditions, but there could be occasional problems at the height of the

summer. Shelf lives were improved by recent improvements in vacuum packing for most meat products.

Production

Chrombach currently manufactured at one site in Germany - Frankfurt. There it had one of the most modern and flexible manufacturing plants in Europe. Recent investment had increased capacity to meet the potentially greater demand in the east. Sales were currently running at 80 per cent of capacity. Though the company had concentrated all production in-house, during periods of growth it had used subcontractors for particular products. This option still existed, should Chrombach need to meet particular demand patterns. It was anticipated that a 50 per cent expansion of sales in the eastern Lander would involve the company in further investment in manufacturing plant. Fixed costs of the manufacturing plant were around 30 million Euro per year. An additional 50 per cent capacity would cost around 15 million Euro.

The Chrombach delivery policy evolved as it expanded away from its Frankfurt base. Originally, each van started from the depot each morning with a route plan and the relevant load for the day. As customers increased, so did the numbers of vans and drivers the company employed. Each round was an oval journey with the maximum outward point approximately 150 kilometres from the supply point. An average daily sale was 1500 Euro on a 275 kilometre journey. Expansion to northern and southern Germany meant new distribution centres - depots at Hamburg and Munich to service towns in those areas. Deliveries to these depots were by train and truck from the Frankfurt manufacturing centre. As product moved rapidly out of these depots, they had no cold store facilities. The cost of each was around 0.3 million Euro per year. Delivery charges to these depots depended on the transport method chosen. For tinned food and the majority of the cheese products, rail freight was the best option, as refrigeration was not normally necessary. This had an additional advantage of by-passing the regulations that limited maximum driver journey times to 8 hours per day. For meat products, the company used two refrigerated trucks to supply the two depots. Overall costs of supplying the depots was 0.5 million Euro per year.

Eastern Lander policy

The Eastern Lander formed a block of territory, roughly square of 400 kilometres north to south, by 300 kilometres west to east. Three main centres of population were identified by Chrombach as most appropriate for development, Leipzig/Dresden in the south, Berlin in the centre, and Rostock in the north. Initially, the company decided to use distributors based in the three towns to deliver to the growing number of independent cafes and restaurants in the new Lander. The number of accounts that these three distributors serviced had risen over the last 2 years from 150 to 620, but the average sale was substantially below that in the west of the country. Even so, sales had risen from 5 million Euro to 17 million Euro over the last 2 years.

Delivery costs to the distributors were also substantially higher. The rail network was still inefficient so Chrombach delivered the entire product range by road. Delay in delivery to distributor depots, poor distributor storage facilities, and further delays in delivery to customers all limited shelf life. A poor road network substantially increased delivery times, and the company had to hire more drivers to overcome the 8 hour working limitation. For the last year, delivery costs were 1.2 million Euro to the eastern Lander. Company executives had investigated the commercial property market in the three main centres. It was impossible to rent space, and it would be necessary to build warehouses in the three centres of population, should the company consider increasing its investment. The costs of building each of these warehouses ranged from 0.3 million Euro for standard warehousing

to 0.5 million Euro for chilled warehousing. Chilled warehousing would allow the company to revert to a mixture of road and rail delivery. This would bring transport costs into line with those of western Germany. With the low cost of land, the company could also consider the development of an additional production facility in the eastern Lander. This was likely to cost around 8 million Euro for the required capacity to service the eastern Lander.

Promotion

The company had relied on high quality products to achieve repeat purchase after becoming established in an outlet. In the old west of Germany, this policy had worked well. The company had a reputation throughout the trade for its quality and price competitive products. In the east, Chrombach was relatively unknown. It had considered a number of alternative promotional policies but, at present, was concentrating on supplying large quantities of leaflets to distributors. Other possible avenues included promotion in trade magazines, or direct mail or telephone. Three trade magazines were starting to be circulated in the eastern Lander. They were the main three catering magazines on sale in the west. In total, they had a circulation of 200,000 of which 15,000 was currently in the east. Costs of advertising in all three would total 20,000 Euro per month for a full page advertisement. The company could also invest in the creation of a direct mail database, which would cost around 30,000 Euro to establish and then around 1.5 Euro per mail shot. Finally, the company could use telesales to maintain contact with the new market. Chrombach could either subcontract this service at a cost of around 10,000 Euro per month or establish an in-house operation.

Action

Should marketing management support the development of business in eastern Germany?
Should the company chose production and/or warehousing?
What type of warehousing policy should be followed?
As the company moves into the new market, what other implications will there be for promotion policy and organisational development?