The Greek Ice Cream industry analysis based on Porter’s Five Forces

ECO 610 – MANAGERIAL ECONOMICS

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## Appendix

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THE GREEK ICE CREAM INDUSTRY ANALYSIS BASED ON PORTER’S FIVE FORCES
Vasileios Antonopoulos

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1.0 INTRODUCTIONS

The objective of this study is to conduct an industry analysis based on Michael Porter’s Five Forces approach. The study uses data from newspapers, internet sites also data from ice cream manufacturer in Greece. The important questions I’m trying to answer in this study are: If it is effective to invest in Greek Ice Cream Industry? In which sector it is worth? What are the main business problems – limitations to entry in this market?

Final study ends with the conclusions and recommendations answering the study research questions.

1.1 BACKGROUND AND MARKET DEFINITION

Until recently, 2006 the Greek Ice Cream Industry was dominated by two local companies, Delta and Evgia with overall market share 68% (Delta 38% - Evgia 30%). Both companies was also and diary companies. The two Greek companies had longtime national presence. Convenience stores was synonym with the brand Delta - Evgia and was called as “the neighborhood’s Delta” or “the neighborhood’s Evgia”. Delta and Evgia ice cream was sold through near 70,000 pos (position of sales) in Greece.

Nestle and Unilever, the two global Ice Cream multinational giants didn’t have a comparative advantage in the Greek market. The overall market share was limited to 19,2% (Nestle 3% - Algida (Unilever) 16,2%).

The two multinational companies followed the aggressive acquisition strategy. In 2006 Nestle obtained the rights of Delta. Delta was a company with Balkan and East Europe presence. Globally Nestle have also obtained the rights of Haagen Dazs, Dreyers, Movenpick, Scholler, Antica Gelateria etc. In 2010 Unilever acquired Evgia. Globally have also obtained Breyers, Ben & Jerry’s, Wall’s, Ola etc.

Today Nestle and Unilever possesses the 33,5% of the global Ice Cream Industry (Nestle 17,5%, Unilever 16%). In Greece Unilever holds 40% (with the 2 brands Evgia and Algida) of the value of Ice cream market and Nestle 30,6% (with one brand).

The Greek market is valued near to 150,00 m. €. Out of Home channel represents the 71% of the Greek Ice Cream market and the retailers the 21%. It is mentioned that the Greek ice cream market is a peculiar market. The designation of Greek market as peculiarity is based on four main reasons:

- The Ice Cream market in Greece is an impulse buying
  The 65% of consumers do not plan the purchase
- There is a strong seasonality
  The 92% of consumption is from April to August
- The distribution and advertising costs are high
  Greece extends through islands, mountains and plains
- In Greece there is intense competition of pos (position of sales)
Greece has a large number of points that sell ice cream (85,000)

- **Weather Conditions**
  Weather conditions affect the opening and end of the season. Also they affect the evolution of sales during the period
- **Tourism**
  The number of tourists, duration of visit, the country of origin and their economic situation are factors that affect the tourism and Ice Cream industry
- **Economic condition of the consumer**
  The economic condition of the consumer affects the consumption and the preferences.
- **Variety and number of codes**
  The two main companies have Algida (133) Evg (110) and Nestle (129) for impulse, take home and Horeca codes. Dodoni that trades only in Horeca has 46 ice cream bulk flavors

The ice cream market can be divided into three important segments

- **Take-home**
  Ice cream purchased from grocery stores for home consumption. It includes products like multi-packs, standard tubs of ice cream and ice cream deserts. This segment represents the 25% of the Greek market
- **Impulse**
  Ice cream usually bought from kiosks, small grocery stores and gas stations. The products include mostly wrapped ice cream. This segment represents the 51% of the Greek market
- **Horeca Artisan segment:**
  Ice cream bought in vans, stands also sold to café, gelaterias. The products include scooped and homemade ice cream. This segment represents the 54% of Greek market

## 1.0 Entry

In some industries new competitors find it difficult to enter into the market because of the advantageous position from the existent companies. Several existent companies successfully operate in the market. Some companies achieve sales, brand awareness and business stability. Developing decision for a market entry involves a thorough analysis of relevant factors that are important in deciding the viability of entry into a particular market. Moreover, the importance of entry decisions should prompt detailed analysis.

Entry to the Greek Ice Cream market may be achieved by starting up a new company, acquiring an existing company or in the case of a foreign producer import into the country.

There are many entry barriers to the ice cream industry. The most significant barrier for a new enter is the cost for building production facilities and freezers. For an importer the cost can be narrowed down to storage facilities and freezers. Both factors are required and have main impact for the quality of the
production to place it to the largest number of pos. Many pos don’t have freezers so it’s required to commodate one to achieve sales. In the scenario of producing or importing a lot other expenses as loans will be additional to the low sales at the beginning.

Individual makers of gourmet ice cream can appeal to customers by emphasizing their use of natural ingredients and the high quality of products on offer or special flavors. Such specialty or 'home-made' ice creams can be sold at higher prices and any initial investment in raw materials, production equipment, etc can be recouped by adding a good margin to the price of the end-product. This may suggest a good entry strategy for a small or a local company into the Horeca market.

Larger companies, however, produce not only premium ice cream but also mass marketed products (impulse, take home market). Here, margins may be lower.

The other limitation on entering this market concerns distribution channels. Ice cream is by nature difficult to transport and the storage cost is rather high. It is necessary to create a distribution network if your priority is to have a national coverage.

Producers need to distribute their ice cream through special channels such as supermarkets (take home). Also, the manufacturers need to persuade supermarkets, specialist stores, and other businesses to stock their products. The supermarkets don’t have enough shelf space to stock also they want to promote their own brands.

The market has been in decline over the last few years, which also makes it less attractive to new companies. Manufacturers of ice cream can differentiate their products quite strongly. To hold on to their market shares, they must be willing to push out new flavors and replace them quickly. More demanding consumers want both to experiment with new taste and to pay a higher price for more sophisticated products.

The strong differentiation of the ice cream market makes it harder for newcomers to attract buyers away from the existing companies and diminishes the likelihood of new entrants. The dairy sector is tightly controlled already very sensitive to food safety. Checks in the production and the distribution from state services aims for the consumer safety and health. More market regulations increase manufacturing costs, and make it harder for new companies to enter the market.

Newcomers may be discouraged by the presence of large multinational incumbents (Nestle 30,6%, Unilever 40%) and local players such as: Kri-kri, Kayak, Dodoni benefiting from brand recognition and scale economies.

Another barrier is the brand recognition within the industry as well as the reputations for major companies. The existent companies have spent a great amount of money for years advertising their brands to the consumers creating a relationship of trust and loyalty. Especially into the impulse and take home market.

The ice cream industry also experiences economies of scale. The larger companies with their own sources for dairy products and other inputs can
realize lower marginal costs, as can those companies with extensive distribution networks in place.

The industry also has very differentiated products. The major companies offer ice cream across many different categories including premium, super premium good-for-you, ice cream snack products, and more. In addition, there are hundreds of different flavors of ice cream available. Usually manufacturers have to afford TTS (Total trade spends) to entry in the market or to make an agreement with the pos to cooperate with him. TTS concerns pos price reductions (rebates). For a newcomer pos will required a higher reduction because of the sales uncertainty of new product. The agreements with the pos especially with the pos of the Out of Home market are annually. Every year company’s or distributors executive negotiate with the ice cream pos the rebate of the cooperation.

3.0 SUPPLIER AND BUYER POWER

3.1 SUPPLIER POWER

Ice cream, a flavored frozen food, is made up of milkfat or butterfat, milk solids, sweeteners, stabilizers, emulsifiers and water. As long-term supply contracts are uncommon, dairy products are usually purchased on the open market. In this case ice cream companies have little control over prices, and often use techniques to mitigate the impact of price fluctuations.

Large ice cream manufacturing firms may have a strong negotiating position, but due to a lack of long term supply contracts there is regular switch of suppliers and the cost of switching supplier is generally very low. The Greek dairy production sector is tightly limited, however, in response to the summer large demands, they are allowed to make dairy imports.

Supplier power is boosted somewhat by the presence of larger dairies and companies, who sell milk fat and concentrates in bulk to the ice cream industry, as well as companies who supply trademarked ingredients. The substitution of milk protein concentrate or milk in powder for milk is possible but will result in lower quality. Leading players in the ice cream market must maintain product quality if they are to maintain their brand equity in the long term their need to source raw materials of appropriate quality boosts the strength of the suppliers that can offer these.

Packaging is an important input in this market and some market players may enter into long-term contracts with their suppliers, which also increases supplier power. It may be possible to find substitutes for some minor ingredients such as flavorings in the production of ice cream but there are no satisfactory substitutes for major ingredients like milk and sugar. This also tends to strengthen supplier power, which is moderate overall.

Freezers are required to sell your product at the pos. Manufacturing firms supply them from 2 companies in Greece or other countries in Europe (mainly
from Italy). The freezers standards must be for tropical climate (class 5). The 65% of the freezers are placed outside of the pos.

The larger companies can afford to supply freezers for renewing their pool. It’s easy for them to spread the cost windily than small companies.

3.2 BUYER POWER

The ice cream industry is a competitive industry with “fluid” end-customers and loyalty that is challenged from economic crisis. The end-customers were mainly children whose parents bought the lowest-cost product available. The per capital consumption is 5,5 lt when the European average is 7 lt. The greater consumption originate from children 6 - 14 age old (15 lt per capital consumption).

The Greek ice cream market will be analyzed by taking ice cream manufacturers as players and POS as the main buyers. The important buyers for ice cream products are supermarkets, hypermarkets, kiosks, convenience stores, gelaterias, beach bars café, fast foods, restaurants, petrol stations, bakeries, patisseries, canteens, camps, hotels, Ships. As the ice cream market is a high volume sales and low-margin area, competitor rivalry tends to be high.

The key drivers of buyer power in the ice cream market are buyer independence, buyer size, financial power, low-cost switching, oligopoly threat, price sensitivity and product dispensability. The manufacturers are able to obtain their key ingredients from a large number of suppliers, change recipes, change ingredients to reduce the supplier power in the market. Given the presence of large brands in the ice cream industry, small scale manufacturers tend to struggle to be in the market.

Big supermarket chains have strong buyer power and may exert pressure on ice cream manufacturers for better deals. Supermarkets account for approximately 29% of the market's total value. The retail food industry is very disconnected, which means that key players can sell to a large number of diverse buyers. While the large buyers such as supermarkets, negotiate better deals with the manufacturers, and the smaller independent retailers have less negotiating leverage with the main players. The ice cream products are differentiated by their brand, flavor and calorie content, the key buyers offer a wide variety of products which tend to weaken their buyer power.

If the consumers are loyal to particular brands, the buyer power of the retailers is diminished. Many retail chains in recent years have tried to put the branded products under pressure. They developed their own private label ice cream products with much lower prices than the branded products. Some Supermarkets developed a great product range with many flavors and packaging. The 48,9% of the ice cream that Supermarkets sells are Private label and it is estimated to 14,2% of market's total value.

The rest group of the buyers (kiosks, convenience stores etc) are estimated to 71% of the market's total value. In many cases they cooperate only with one company selling only their products from their freezer. It’s important to achieve an agreement with a large number of POS and high capability to ensure sales.
The TTS is lower than the retail channel. But some categories with high potential (kiosks, convenience stores, hotels, canteens) are over the average. They press to achieve a better agreements. Large manufacturers giving the presence of large brands in the ice cream industry they guarantee POS sales and profits. The buyers power gets limit because they prefer guarantee sales. Newcomers have to face the uncertainty of the cooperation with the POS and tend to be struggle in the market.

In the HORECA channel (Café, gelaterias etc) the TTS and the product loyalty is limit. Pos apply cost–plus pricing. The owners calculate how much the product costs and add o flat percentage on the top. In this way they gain the desired result.

**SUBSTITUTES AND COMPLEMENTS**

The factors influencing the threat of substitutes in the ice cream market in the Greece are beneficial alternatives, cheap alternatives and low-cost switching. From the consumer point of view, there are number of alternatives or substitutes for commercially available ice cream and these include fruits, soft drinks, frozen desserts (such as frozen yogurt), confectionery, smoothies and ready ice cream powder for home made.

All of these industries are highly competitive. For example:

- two large global FMCG companies and one local (Coca Cola, Pepsi and Lux ) with strong brands dominate the market for soft drinks. This, combined with low switching costs, makes the threat of soft drinks high.
- Greece produces a great variety of summer fruits (watermelons, cherries peaches, apricots, melons, pears etc. The prices are very low and consumer can obtained it with a third of ice cream price.
- A great ice cream alternative is frozen yogurt. There are franchise shops (Chillbox, Yoyo, My Yoghurt, Yoomoo, Fro-yo etc) that offer a 1/2 cup serving for around 60 calories. Lots of flavors are available in your grocery store as well. A guilt-free scoop and a cake cone can bring you in at just 100 calories, so you can enjoy it anytime! In 2011 more than 350 shops opened in Greece with sales that achieved 2,5 – 3,0 m. €. In 2013 753 frozen yogurt shops operated in Greece but the half of them closed in 2014. Only the shops that operate in islands, beaches have possibilities to operate because the price to obtain for the consumer is high.
- Ice cream powder for home made (as Giotis, Morfat, PL etc) is another low price and easy switching substitute for the consumer. Consumer can obtain them from 3,5 € / kgr

From the POS point of view, Ice cream may offer benefits such as higher margins but switching costs are not very high for the consumer. However, most POS are likely to continue selling ice cream as a small part of their product range.

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5.0 INTERNAL RIVALRY

5.1 COMPETITORS AND MARKET CONDITIONS

The Greek Impulse and Take Home ice cream market is fragmented, dominated by three players. The two of them Unilever (Algida, Evga) Nestle are multinational ice cream manufacturers. Together they claim global market shares about 33,5% (Nestle 17,5%, Unilever 16%) and 70,6 % of the Greek market (Unilever 40% Nestle 30,6%). The third firm is a local manufacturer named Kri-kri with 9,8% market share. The presence of strong, international incumbents boost the competition within the market.

POS don’t switch between different manufacturers' products quite easily, although the brand loyalty of consumers is a reference point and makes it difficult for them to completely abandon a popular branded product for a brand with less consumer appeal or private-label alternatives. It is notable that the largest players in this market own the majority of their factories.

The large ice cream manufacturer’s products have been in the market for many years. Therefore, a significant brand loyalty have developed over those years. With strong brand awareness, a slight change in the brand price will not affect the purchase decisions of the loyal customers. Over time, as consumers prefer a product and develop brand loyalty, they become less price sensitive in their choices.

The 24% of the Greek market deal with Horeca ice cream (Artisan bulk). Except the three impulse manufacturers a large number of small firms (Kayak, Dodoni, etc) also produce ice cream for professionals. The gourmet or high quality ice cream manufacturers attract customers by highlighting their natural ingredients and the high-quality of their products. Homemade ice creams can be sold at a higher price than the impulse products, and the small-scale gourmet ice cream manufacturers are able to recoup their investments in raw materials, production equipment and personnel in a short period of time.

5.2 EXIT BARRIER

In consequence, exit barriers are high, since leaving the ice cream market would require divestment of substantial – and often quite specialized - assets. Fixed costs are also likely to be high, and automated processes mean that production can be ramped up when necessary. These factors, coupled with the declining market, tend to intensify rivalry. The degree of competition is assessed as moderate overall.

6.0 CONCLUSIONS

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The decision process about the entry is an important strategic procedure. The target areas of interest and the choices are basic for the determination.

**IMPULSE – TAKE HOME**

Based on the above analysis, the Greek impulse ice cream market is clearly unattractive. The primary drivers behind this are the high demand variability, the low margins and narrow customer focus. Furthermore, fixed costs and transaction costs are high, which, coupled with low margin, ensures very long payback periods. Finally, competition is fierce, there are two multinational companies that control the 70% of the market. Additional many substitutes and switching costs are low. We must consider the market decline in combination of the economic crisis.

**HORECA**

The above analysis for the Greek Horeca ice cream market is unattractive too. The investments are low in this case but the brand loyalty is limited because the product is aimed to professionals and in many cases the consumer doesn’t know the brand. The margins not low as impulse. Fixed costs are very high and there are many competing in the market. Also in this area many substitutes exist and switching costs are low.

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