Company Delivery as a Strategy for Competitiveness in the Nigerian Flour Industry

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Abstract

The strategy of competition in the Nigerian flour industry has changed in recent times. In the main, the use of company delivery has become more pronounced compared to price and quality competition. This paper examined the competitiveness of the use of company vehicles to deliver goods to customers. Using data from the sales orders made over an 18-month period between January 2016 and June 2017 of 6 flour mills, the evidence indicates that company delivery only had significant effect on the sales volume of smaller firms. Dangote, Life and Valleumbra flour mills have delivered most of their sales with own vehicles in the last one decade. However, their market share in the industry in terms of sales and revenue has remained less than 20 percent over the years. The relevance seems to decline as the firm's size grows and each deploys more resources to compete for price and quantity. Since the impact on competitiveness is transmitted through improvement in sales volume, a flour firm seeking to be competitive cannot rely solely on its delivery capacity.

Keywords: Company delivery, Competition, Flour mills

Introduction

Competition in the Nigerian flour industry is concentrated on three main fronts: price, quality (including packaging and bagging quantity) and delivery mode (Ofonyelu, 2014; Ekwujulu and Kazeem, 2017). The mode of delivery used to be the least strategic of the factors until recently. At the peak of the flour sale season,[1] firms tend to concentrate on production rather than distribution. At this time, sales are high and firms' major preoccupation is meeting the increased consumer demand. However, as demand declines in the off-peak period, firms are forced to move into the markets to promote their products and create new markets. The delivery of products by firms themselves therefore becomes a strategic way to promote sales and sustain market share.

This strategy was massively deployed in the year 2017 following three important happenings. First, the year witnessed a major downslide in flour sales because of the spin-off from the protracted economic recession in the country. Following the downturn, the average purchasing power of consumers crashed, joined with the inability of many governments to pay their workers' salaries. The combined effects of these forced the firms to push hard into the markets to secure and sustain patronage for their products. Second, there was a major effort by some of the previously failed flour mills to return to the market.[2] In effect, the firms intensified efforts to retain their market share holding and capacity utilization. Osborne and Pitchik (1983, 1986, 1987), Allen et al (2000), Roller and Sickles (2000) and Ma (2005) have noted the strategic role of capacity utilization for firm competitiveness. Flour mills are built to operate with some idle capacities such that when demand surges, production can be increased to match demand. If any firm allows its capacity utilization to slide beyond some thresholds, sustaining production at such levels may imply a heavy cost burden and loss of competitiveness. Third, the investment of the flour mills into haulage and distribution is seen as an attempt by the firms to curtail the rising fees charged by the outside haulage firms, which implies increased cost for the products.

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[1] This is usually between January and July of every year

[2] For instance, Diamond Flourmill began a skeletal operation towards the end of the year and as a result made some grappling efforts to secure a market share.

Going by the tempo of the competition, one can see why price and quantity are not being heavily used in recent times. The use of price competition in the flour industry was leveraged by the price fixing power of the cartel, Flour Mills Association of Nigeria (FMAN), which required all the firms to set their prices collusively. As a result, firms rarely compete with prices except by manipulating their rebate structures[3]. On the other side, there seems to be a general drive for quality improvement among the firms which has narrowed down the quality differentials among the flour brands in the market in terms of productivity and yield. In view of these developments, possession of quick and good distribution capacity has become a major factor for building competitiveness in the industry. Flour mills are known to build their transportation facility to capture the immediate environment before penetration into the distant markets. Looking at the trends, one will observe the impeccable link between the distribution strategy adopted by the firms and their market shareholdership. For long distance markets, ownership of a transport system can give a firm the advantage to discriminate prices in markets where own products are not the leading brand and leverage prices across the market regions in the country.

This study examined the competitiveness of company delivery in the Nigerian flour industry. The rest of this paper is structured as follows. In the next section, the gain from firms delivering their products by themselves is explored. This is followed by a discussion of the results and findings while the conclusion ends the study.

Company Delivery and the Gains

A number of gains are responsible for companies indulging in self delivery. Firms that deliver the greater part of their products with own vehicles are more likely to penetrate and cover larger markets than ones with no such capability. This belief has been a major motivation for the huge investments that flour firms have made in the haulage industry. In addition, it affords the firms the opportunity to sustain the quality of their products and minimize opportunity for adulteration or contamination which is common with the

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[3] All the flour mills have a rebate structure which they offer their customers. Usually, the prices of flour converge to the extent that these rates are similar. The FMAN behave collusively to restrict price variation among its members.

use of public transport. Given that flour delivery needs special handling, it gives the firms control to preserve and maintain the quality of their product while being transported.[4] This strategy is very attractive for new and/or emerging firms whose major challenge is market penetration. Coming with a good delivery system, satisfying the supply deficits of other firms becomes their major drive. Housing a transport facility gives a firm the opportunity to immediately match orders with supply and reduce delays.[5] This is important because customers rarely overstock flour owing to its short shelf life.

Regular and quick supply is important in ensuring that products do not become scarce in the market. Given the competitive nature of the market, firms use their transport capability to sustain products in the market and preclude customers from demanding another's product. Where customers are allowed to taste the competitor's products as a result of being stocked out, the chances are that some may be lost. Since no reasonable firm will want to take this risk, it is only wise to preclude the occurrence by being in charge of its own delivery system. Viewed from another perspective, a firm can use its transport fare as an instrument of competition by charging less than what the outside transport companies are charging. Looking at the Nigerian flour industry, one will observe that none of the firms produce at full capacity for the greater part of the year (see table 1). Company delivery can be a major factor in increasing sales and boosting production capacity.

The possession of huge idle capacities across the firms implies that there is a large potential market to be exploited, and company delivery is a means to achieve this. This is joined with the fact that none of the firms can boast of a strong monopolistic influence in terms of revenue share. The fact that the very small firms are still able to make profit despite their size implies that price competition in the industry may not be very stiff. In effect, the smaller firms leverage on their size to offer quicker delivery to their

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[4] This is very important during the rainy season as flour trucks are built to be water tight to preserve the quality of the product, unlike outside trucks which may have leaking roofs or damaged tarpaulin. It is difficult to control the damage that this negligence may cause when the vehicles are not company owned.

[5] In all the flour mills, company vehicles are given preference and priority at loading over outside trucks. This ensures that delivery to customers using the company's vehicle is not delayed.

customers and sustain their product presence in the market. Despite being the market leader, Flour Mills of Nigeria (FMN) does not deliver up to 50 percent of its total sales with its vehicles compared to regional firms such as Life and Valleumbra that are able to deliver over 85 percent of their sales with their vehicles. It can only be imagined the market share likely to be accessed if the firms make their distributions with their company vehicles.

Table 1: Market shares and delivery share compared

Flour firms (brands in bracket)	Market share as % of industry	Market Share by Revenue (%)	Capacity Utilization
Flour Mills of Nigeria (Golden Penny flour)	43	32	75
Honeywell Flour Mills (Honeywell flour)	13	12	78
Dangote Flour mill (Dangote Flour)	17	8	60
Crown Flour Mills (Mama Gold/ Mix and Bake flour)	21	14	65
Life/Valleumbra	4	5	63

Source: Author's estimations (2017).

Table 2: Company delivery as percentage of sales compared

Flour firms (brands in bracket)	Company delivery as % of sales
Flour Mills of Nigeria (Golden Penny flour)	35
Honeywell Flour Mills (Honeywell flour)	45
Dangote Flour mill (Dangote flour)	75
Crown Flour Mills (Mama Gold/ Mix and Bake flour)	23
Life/Valleumbra	92

Source: Author's estimations (2017).

* included contracted third party vehicles

At the peak of the flour sales season (February–July), firms with strong delivery facility exploit the advantage to maximize their market share. For this reason, the leading products are scarcely seen in the market during this time. However, during the off-peak period, the same products saturate the market. This reality is the reason why flour firms raise their rebates during this period to sustain sales. For a firm with strong distribution capacity, the off-peak period represents a time to maximize the gains from haulage by conveying own goods for customers. Life and Valleumbra Flour Mills Plc have a well developed transport system which they have built over the years to facilitate quick delivery of their products and claim new markets. In view of the short shelf life of flour, firms rarely overproduce. As a result, only a few firms are able to meet the sudden surge in demand whenever it arises. A firm with large idle capacity and good transport system would be able to always exploit the demand surge to capture new markets and increase market share. Flour Mills of Nigeria (FMN) is the largest in the industry. As a result, most of its distribution is done by private transport arrangements. As the firms grow, they tend to concentrate their energy on growing their production rather than their haulage capacity. The option of exploring the haulage opportunity arises when the firms have become well established.

In an attempt to mitigate the challenge of reaching out to a very large portion of the customers by the big firms, the option of contracting out the haulage of products to a third party firm is often adopted. This action on its own has some advantages. First, apart from allowing the firms to concentrate on production, it also gives them the time to grow and develop their capacity and competitiveness. For a small firm, the requisite huge capital required for the operation of a haulage outlet is saved and concentrated on milling. Partnering with a haulage firm therefore becomes an essential relief. Second, it saves firms from the huge risks inherent in haulage activities. In effect, firms then concentrate on the greater long-run benefits that are derivable from growing production capacity rather than haulage activities. The major challenge with this option is that the agents may be bought over by other firms to deliver own products. On the whole, the general outlook suggests that while established firms tend to focus on expanding production capacities, the small and new firms tend to concentrate on market capture by using transport delivery service as a strategy to reach the markets. Apart from the distributive strategies, selling on cash/credit and sales promotion are used to boost market competition. Across the industry, flour sale and delivery is generally cash based. However, Crown Flour Mills (CFM) developed a selling strategy to its key distributors to undercut market shares of other firms. It first identifies the key distributors in the major markets of targeted interest. Then, it proceeds to allow credit sales to them, thereby flooding the market with its products through the outlets. By using this strategy, CFM was able to reduce the market share of FMN in Oyo State from over 85 percent, through after the annexation of Eagle Flour Mill in 2014, to less than 60 percent as at end of June 2017. The major challenge CFM faces is its loading challenges unlike HFM which seems to have the fastest loading time of all the firms. For FMN, it adds other products it produces, such as sugar and margarine to every 30-tonne truck loaded, as a means of promotion. Even though its sales are mainly cash based, its wide deployment of sales promotional strategies have been a means of holding sway in the market. Honeywell Flour Mills has always matched the strategies played by FMN.

Data and Methodology

In order to estimate the impact of company delivery on the competitiveness of the flour firms, data on sales over an 18-month period was obtained for each of the firms. The data spanned January 2016 to June 2017 and was observed for Flour Mills of Nigeria (producing Golden Penny brand), Dangote Flour Mills (Dangote Flour), Honeywell Flour Mills (Honeywell Superfine Flour), Crown Flour Mills (Mama Gold and Mix and Bake brands), Valleumbra Flour Mills (Pure Flour) and Life Flour Mills (Life Flour). A major trend observed across the flour mills is the strategic use of the transportation facility to promote sales. In the main, all the flour mills deliver at least some percentage of their total sales to their customers with their trucks. For all the flour mills, none delivers the total sales with own vehicles. Within each of the firms, third-party transport firms are contracted to augment delivery. For instance, over 50 percent and 70 percent of the transport facilities under the control of FMN and HFM respectively are third party owned. In analysing the data collected, an attempt was made to examine how delivery capacity is related to market revenue and market share. For this, the cross correlation for each of the firms was computed.

Result and Findings

It would be expected that firms with huge market share and production capacity will also be the ones to house the highest distributive capacity to earn the highest revenue. Evidence from tables 1 and 2 show that ownership of a strong distributive capacity does not guarantee the highest level of profitability. For instance, while Life (including Valleumbra) and Dangote flour mills have the largest distributive capacities among the firms, they ranked among the lowest in terms of revenue share in the industry. While housing a strong distributive capacity strongly correlates with market shareholdership, firms with lesser delivery capacities (for instance, FMN) still had larger revenue share. There is therefore the need for an optimal transport capacity that individual firms need to posses to maximize their market share and revenue.

A look at the Nigerian industrial space shows that freight and transportation logistics have been a strategic factor firms exploit for survival and competitiveness. For instance, Dangote, Lafarge and Bua Groups have used their transportation architecture to sustain competitiveness, price uniformity and availability of cement and sugar products across the country through the years. This feat would have been difficult were the firms to rely on outside transportation. For the flour firms, own transportation facilities help to retain, capture and flood the markets with products. Table 3 shows the cross correlations between the inherent capacity utilization of the flour firms, the market and revenue shares. In the south-south and south-eastern regions of Nigeria, Life and Valleumbra had their strongest market share in the region primarily because of efficient transportation structure and Dangote Flour to the north-east and north central for the same reason. Because of their small size, Life and Valleumbra were able to supply over 90 percent of their sales with own vehicles and as a result had the strongest of correlations with market share and revenue among all the firms.

Table 3: Market and revenue shares and delivery capacities compared

Flour mills	Cross correlation between delivery capacity and market share	Cross correlation between delivery capacity and Revenue share
Flour Mills of Nigeria	58	65
Honeywell Flour Mills	55	32
Dangote Flour Mills	63	35
Crown Flour Mills	47	33
Life/Valleumbra	78	68

Source: Computed.

Owning a transport subsidiary implies that a flour firm will acquire a large parking space for its operation or may be impeded by the congestion and queues that will occur eventually as the trucks move in and out to load along with outside transport trucks. This is joined with the fact that the average loading time in the larger firms will be longer than that of the smaller flour mills. For instance, FMN has the largest plant size and as a result the queues and other build up to the point of loading constitute a major impediment to the speed of their loading operations. With the concentration of most of the flour mills around Apapa area in Lagos (except for Life and Valleumbra), securing a large space of land to house a transport operation can be a major challenge. The huge monetary commitment to securing a very large transport (and parking) space in the area may be the reason why the flour firms do not graduate their transport capacity alongside their production. The main channel through which ownership of a transport facility helps competitiveness is when it is able to reduce the selling price to the consumers. In such situation, the firms will have to charge lower transport fares such that it would become an indirect source of competition. Whether the buyers see transport rebate as a form of price reduction and how it impacts on sales is subject for another study.

Conclusion

A look at the distributive strategies of the flour mills reveals that the firms choose their strategies carefully. The investment by the firms in acquiring delivery capacity is driven by the need to maximize sales and annex new markets. In the main, firms with the strongest distributive capacities do not eventually become the most profitable nor competitive. This paper examined competitiveness in the use of company vehicles to deliver goods to customers. Using data from sales orders for 6 flour mills made over an 18-month period between January 2016 and June 2017, the evidence indicates that company delivery does not have the same effect among all the flour mills in terms of promoting sales. Dangote, Life and Valleumbra flour mills delivered most of their sales with own vehicles in the last one decade. In spite of this, their market shares in terms of sales and revenue have remained less than 20 percent over the years. The relevance of this strategy seems to decline as the firms grow in size and deploy more resources to compete with price and quantity. Since the impact of competitiveness is transmitted through improvement in sales, a flour firm seeking to be competitive cannot rely only on its delivery capacity. Acquisition of delivery capacity confers an advantage to new and emerging firms in accessing new markets.

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