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MAN 400  
BUSINESS POLICY AND GRADUATION PROJECT

MEDKIN

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## **INTRODUCTION**

The following study will be an attempt to make an analysis of a local company called Medkin. The report will start with the background of the company. The second part will be about the financial analysis of the company. In part three we will look into the market share of the company and competition environment. After listing the existing problems of the company the fifth part will be suggestions for solutions. The report will end with a conclusion and a recommendation.

Information about the company was gathered from the managers and owners of the company as well as personnel and competitors.

### **Vision**

The vision of Medkin is to be the biggest importer and distributor in the wholesale food and related marketing in TRNC:

### **Mission**

Mission of the Medkin is to supply the food needs of the consumers to the retail outlets.

- To be the number one in food wholesale
- To become a different and a special market place appropriate for Turkish Cypriot culture
- To provide a wide range of products at reasonable prices.
- To start operations at all the main residential towns,
- To use the most up-to-date technology
- To produce and market as many products as possible,
- To be superior in quality and services against the competitors,
- To establish a good communication with the consumers and adjust themselves according to the consumer needs.



## Activities

Medkin is distributor of food products. There are three areas of activities in Medkin. First there is import activity. Then there is storage activity. Finally there is distribution activity.

## Subject of the Topic

The project is about the wholesale distributor company called Medkin. After the general analysis of the company the specific focus is on the introduction of a new product for the markets. After analysis the report suggests ways to successfully launch a new beer product to the market.

# **I. HISTORICAL BACKGROUND OF THE MEDKIN**

## **I.1 Establishment of the Medkin**

Medkin was established in 1992 just after the owners Mehmet Hatay and Metin Yeşilada returned back from their education in Turkey and finished their military services. At this time there were some large organizations in food business and the competition was not so fierce. The market conditions were good with good income of people. It was good time to start such a business.<sup>1</sup>

## **I.2 Founders of the Medkin**

Medkin was established by two very close friends Metin Yeşilada and Mehmet Hatay. These two friends graduated from the university and completed their military service and started the business. They were only in their mid twenties when they established their business. Both have a well known families. Mehmet's father is a well known journalist Özer Hatay and Metin's father is a well known retired bureaucrat.

## **I.3 Purpose of Medkin**

Medkin was established as a wholesale food distribution company. They were aiming to import food products and distribute these to the local stores. Founders of the company found some shortcomings in this sector. The existing companies were grown too big and became slow and inefficient. They also lacked the necessary marketing skills. As new graduates the owners believed that they could apply their academic learning and set up an efficient wholesale distribution channels.

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<sup>1</sup> Hatay M. Director, Medkin, Interview, September 2001

#### **I.4 How was the Business Established**

The Medkin was set up as a partnership company. The form of the company is LTD. Compnay. The company is set up according to the company Act 113. The Companies Act authorizes three classes of companies; companies limited by shares, companies limited by guarantee, and unlimited companies. Companies limited by shares are the commonest class. Medkin is established as this. In companies of this sort the liability of shareholders for the corporate debts is expressed in the memorandum of association to be limited, and is limited, to the amount, if any, unpaid on their shares. The capital of such companies may consist of different classes of shares. The rights of ordinary shareholders are not fixed but depend for dividend upon such part of the profits of the company as is set aside by the directors for distribution, and, for the return of capital, upon what assets are available when the liabilities of the company have been met. The Act also permits the formation of "private" companies: like other companies. These may be registered with limited liability. They are endowed with special advantages, but they are also subject to certain restrictions-for example, their total membership must not generally exceed fifty persons, no invitation must be issued to the general public to take shares in them, and the right to transfer shares in them must be restricted.

The directors Metin and Mehmet are the people responsible for the general control and management of the company's affairs: they are, as has sometimes been said, the "head and brains" of its artificial personality, and through them the more important of its activities are carried on.<sup>2</sup>

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<sup>2</sup> Yeşilada M. Director, Medkin, Interview, October 2001



## II: FINANCIAL ANALYSIS OF THE COMPANY

### II.1. Balance Sheet

Table below shows the balance sheets of Medkin for the fiscal years ending December 31, 2000, and December 31, 1999. The assets are listed in the upper panel according to their relative degree of liquidity (that is, their closeness to cash). Cash and cash equivalents are the most liquid of assets, and they appear first. The further an asset is removed from cash, the less liquid it is. Accounts receivable are one step from cash, while inventories are two steps.

The product must first be sold and a receivable generated before it can go the next step and be converted into cash. Since fixed assets, long-term investment, and other long term assets are the least liquid, they appear last.

The bottom panel of the table shows the liabilities and shareholders' equity of the company. These items are ordered according to the nearness with which they are likely to be paid. All current liabilities are payable within one year, while the long term debt is payable beyond one year. Shareholders' equity will be "paid" only through regular cash dividends and, perhaps, a final liquidation dividend. Shareholders' equity, or net worth as it is sometimes called, consists of several sub categories. Common stock (at par) and additional paid-in capital, together, represent the total amount of money paid into the company in exchange for shares of common stock.<sup>3</sup>

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<sup>3</sup> Medkin, Financial Reports, 2001



## BALANCE SHEET

	2000	1999
	Million TL	Million TL
<b>ASSETS</b>		
Cash and balances at banks	2,085,845	1,112,450
Government bonds and treasury bills	620,575	253,922
Balances with banks	10,905,792	6,751,274
Investments	552,012	235,731
Loans and advances to customers	2,886,527	1,464,999
Other assets	68,864	30,746
Prepayments and accrued income	699,742	271,170
Tangible fixed assets	1,048,509	578,293
<b>TOTAL ASSETS</b>	<b>18,867,866</b>	<b>10,698,585</b>
<b>LIABILITIES</b>		
Customer accounts	14,251,901	7,196,182
Deposits to banks	1,933,022	1,942,830
Other liabilities	106,423	133,740
Taxation	115,188	49,616
Accruals and deferred income	453,802	283,658
Minority interest	193,325	97,584
Paid up share capital	500,009	200,003
Reserves	1,314,196	794,972
Shareholders' Funds	1,814,205	994,975
<b>TOTAL LIABILITIES</b>	<b>18 867 866</b>	<b>10,698,585</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
Guarantees and acceptances	585,020	239,530
Documentary credits	866,929	360,509

1451949 600 039

The Consolidated profit and loss account statement in the below table shows Medkin's revenues, expenses, and net profits for the two fiscal years under discussion. The cost of services as personnel expenses, operating expenses and depreciation.

For a wholesale company, as in this case, depreciation expense is generally considered one component of the cost of services and thus becomes part of the cost of services.

**Consolidated profit and loss account**

	2000	1999
	Million TL	Million TL
Sales and commission income	3,417,752	1,960,331
Sales and commission expense	2,174,980	1,326,378
	1,242,772	633,953
Other income	83,881	58,201
	1,326,653	692,154
Staff expenses	332,921	168,975
Operating expenses	424,702	234,542
Depreciation	71,013	15,915
	828,636	419,432
Net profit before taxation	498,017	272,722
Taxation	126,593	72,542
Net profit after taxation	371,424	200,180
Minority interests	36,363	21,444
Profit attributable to the shareholders of		

Medkin Ltd.	335,061	178,736
Profit retained for the year	292,560	51,234
Transfer to statutory reserve	40,386	29,488
Transfer to reserves	33,864	11,068
	74,250	40,556
Transfer to reserves	218,310	10,678



### III. MARKET SHARE OF MEDKIN

At the moment the Medkin is one of many food wholesale distribution companies in TRNC. The competitors and the approximate market share of these companies are listed below:

Company	Market Share %
Arden Gıda	20
Levent Gıda	13
Lanor	9
Gıda Ltd	8
Medkin	8
N. Manyera	7
Medkin	6
Kerembey	4
Others	25

As a relatively new organization the Medkin has a good market share. What is more important is that the share of the Medkin is continuously growing. It is expected to be one of the leading businesses in the country in the near future. As young and dynamic management increase the number of products that they import they will increase their market share. It is reported already that the company imports many food products from the Europe especially from Holland. Their product range includes, cheese, corned beef, canned food, soft drinks and so on. They are aiming at the moment to increase the imports of soft drinks and they are also aiming to import beer.<sup>4</sup>

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<sup>4</sup> Burjan J. Interview, Cyprus Turkish Chamber of Commerce, November 2001

## **IV. EVALUATION OF THE PRESENT SITUATION**

Medkin is a small import company which is rapidly growing. Presently they are trying to add a new product for their imports in order of their strategy for diversification, the Oranjeboom beers of Holland. Cyprus is a small country with a large consumption of all kinds of alcoholic drinks. Most popular of the drinks are the beers and spirits. Beer consumption is almost same as the soft drinks.

The most popular beer in TRNC is the Efes Pilsen which is imported from Turkey. This beer is even popular amongst the foreigners who live in TRNC. There has been few attempts to introduce Oranjeboom beers in TRNC, but whoever imported them have failed to establish themselves in the market. Each importer either lost money or did not make any profit. The marketing of Oranjeboom in TRNC is a story of failure.

### **IV.1 PEST ANALYSIS**

#### **IV.1.1 Political Situation**

TRNC is a relatively new state and with its small population there are number of problems and difficulties in the economy. TRNC faces similar problems as the other islands. The major difficulty or disadvantage being the transport. In addition to this, extra difficulties arising from the political situation effects the economy in a negative way.

The political situation, non-recognition of TRNC is one of the most important problems encountered by the TRNC economy. When we look at the general situation, the second biggest problem is the size of the state. Another major problem is the management or



mismanagement. There are also sectoral problems which we will look into.<sup>5</sup>

#### **IV.1.2 Economic Situation**

Cyprus is an island and the usual disadvantages of being an island is one of the major problems. Transport to and from an island is only possible by boats and planes. These forms of transport are more expensive than land transportation by trucks and trains. This means that there is an extra cost of transport in terms of export products and also tourism. To be successful in the island economies the transport problem must be solved. Through incentives and subsidies, the cost of transport must be reduced to the level of the continental states. Transport in tourism is also very important. More than the price, the quality of transport is important in tourism. From the point of departure from their native country, tourist like to have fun and enjoy themselves. So the transport quality must be such that the tourist must enjoy themselves.

Cyprus has always been in problems. Since 1963 there has always been fights between the two communities, and the Turkish Cypriot community had always suffered from difficulties. Some members had to refuge to other countries for the sole reason of making a living. Today there is a Turkish Cypriot community in United Kingdom almost as big as the community in TRNC. To avoid or minimize the refuge, the authorities since 1963, had made their objectives to employ as many people as possible as state. Until 1974 there were hardly any private sector and the sole employers were the state. After 1974 the state was more capable to employ more people.

Authorities miscalculated the effects of excessive state employment. Instead of supporting the private sector to flourish and

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<sup>5</sup> ibit



employ more people, they preferred for political reasons to continue to employ. The salaries and the retirement conditions had always been better at the state and this led to a pressure by the community over the politicians, to attain a job at the state.

Today, the state is so big that the salaries are paid with many difficulties and in some months salaries are paid at a later date than the beginning of the month.

Involvement of the state in the economy is also big. There are many state owned enterprises in the island, which are burden on the economy. A serious privatization program must be implemented and the state owned enterprises must be turned over to the private sector.

Another major problem in TRNC is the management. There is almost no training programs and efficiency efforts in TRNC. "The right man for the right job" philosophy is far forgotten in TRNC. Efficiency and quality of services in TRNC, compared with the excessive number of employed, is far too low in quality.

Inflation is a major problem in the economies of the developing countries. Israel had inflation of more than 100 percent a year in the early 1980s, meaning that the cost of living more than doubled every year. In Argentina inflation was greater than 400 percent in 1975 and averaged more than 100 percent each year from 1976 to 1982.

There are certain factors that effect the economy and are also related to inflation. These are issuing money, interest rates and devaluation. These are all interrelated with inflation and each other.

#### **IV.1.3 Social Conditions**

Although the TRNC island is a small country there are different dialects. There are minority groups such as maronites and Greeks living in Karpaz. There are also people from South Turkey who prefer to speak in Arabic. Cyprus can be considered as problem

free in social conditions. With easy work conditions and majority of people earning money from the state, people have a lot of free time to relax and spend for enjoyment. In summer, when the working hours are shorter and work time ends at 14.00 people have the whole afternoon off and the two weekend days. More free time means more consumption.

#### **IV.1.4 Technological Conditions**

The availability of the high technology instruments and devices is not high in TRNC. However Medkin uses modern refrigeration and storing equipment to gain competitive advantage against the competitors. The shelves and refrigeration systems are most modern ones. The company also uses computer systems for their accounting, stock keeping and bank accounts.

#### **IV.2 Marketing environment**

There are various sized companies that are active in import and wholesale distribution. Most of the products of the Medkin can easily compete with the competitors since they are well known brands. But as the business expands new products are introduced to the market. Oranjeboom beers are the new products that are going to be introduced to the market this summer. Oranjeboom is a relatively new product in the TRNC market. It is at the entry stage at the product life cycle. The product is expected to penetrate 3% of the total market. TRNC market for its size has a good market for beers. In 1996, \$1,493,283 worth of beer was consumed by the Turkish Cypriots.<sup>6</sup>

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<sup>6</sup> State Planning Institute, Statistics, 1999



## IMPORTS TO TRNC

COUNTRY	QUANTITY(\$)
AUSTRALIA	2,435
GERMANY	36,400
ENGLAND	47,449
HOLLAND	40,266
TURKEY	1,366,733
TOTAL	<u>1,493,283</u>

### IV.3 Target Market analysis

The aim should be the higher end of the market. The hope is to sell almost everywhere, but with an eye to the "quality" and "brand" aware people. There will be competition with the wine and quality beer products. Quality outlets are brand aware and once entered the product will stay there. Since the product is expected to be a drink of special occasions and with food, the market must be the food serving places as well as quality pubs.

At present wine is increasingly consumed at such places. According to the statistics, there is a clear drop in beer consumption in 1995, with respect to 1994, and increase in wine consumption.

### IV.4 Problems In The Sector

Currently, the markets faces two significant challenges that have the potential to reduce even further the number of producers in the industry: Saturation and changing consumer attitudes. Between 1995 and 2000, the soft drinks industry expanded at an annual rate of approximately 4%, but in 2000 the growth rate was less than 1 %.

Two basic problems are clearly stated in the case, the first is the saturation and the second is the changing consumer attitude.

The saturation problem has led many brewers to diversify. The beer suppliers should enter markets such as food products, industrial products and entertainment. Additionally, large suppliers must become more vertically and horizontally integrated. According



to some, the beer market sales volume has been, and will remain flat.

#### **IV.5 Position of Our Organization**

Before a plan is made, there is a need to know where the firm stands. And the best way to do that is to run a SWOT analysis.

##### **Strengths**

- Strong, well known company
- established business
- quality products
- traditional values
- good distribution network
- many other types can be introduced when ready

##### **Weaknesses**

- Brand name is not well known in TRNC market
- mother company is in a hurry to reach a volume
- inadequate incentive scheme
- no long term strategic planning as yet
- low distribution

##### **Opportunities**

There is a change in the consumption attitude of the community. Since 1980, there is a steady decrease in beer consumption, while there is an increase in wine consumption. The wine has more alcohol content, and is drunk mainly with meals. Oranjeboom with a higher alcohol level will be alternative for both beer and wine drinkers. With its characteristics it will take its place between the wine and quality beer.

### Threats

Placing a product to the upper end of the market takes time. The hurry by the producer company may danger the marketing activities.

## V. SUGGESTED SOLUTIONS

### V.1 Marketing Objectives

There are two objectives. First is to make profit and the second is to increase the market share. Two complement each other.

Target Market share (KL)					
Year	2001	2002	2003	2004	2005
Product					
Blonde	1,200	2,000	4,000	8,000	20,000
Triple		1,000	1,500	2,500	4,000

To increase the market share, a modest increase can be suggested initially and then a take-off after 2002. I suggest that the second brand Oranjeboom Triple is introduced into the market.

### V.2 Growth Opportunities

We can use the Ansoff Matrix to evaluate the growth opportunities for Oranjeboom. Ansoff Matrix, Ansoff's product-market matrix is a classic analysis of the choice of strategic product-market direction given by H. Igor Ansoff. His matrix suggests that there are five main alternative product-market strategies.

PRODUCT MARKET	EXISTING PRODUCT		NEW PRODUCT
	Consolidat ion	Market penetration	PRODUCT DEVELOPMENT
NEW MARKETS	MARKET DEVELOPMENT		DIVERSIFICATION

Oranjeboom is not yet a popular brand in TRNC. We have to use our existing product and try to penetrate the present market more effectively, and also go into market development activities.

### V.3 Marketing Mix Strategy

#### V.3.1 Product

Unless there is a very big demand it is not likely that the product will be changed in respect of the contents, that is beer. The flavor must be traditional and not varying in a product like beer. Packaging and the shape of the product can vary according to the consumption trends. While consumers may prefer to by individual bottles at one stage, packs of two or four bottles may be preferred at others.<sup>7</sup>

#### V.3.2 Pricing

There are two important factors determining the pricing of any product. One is the marketing conditions and the other is the cost. For a profitable business no product can be priced under the cost. And marketing conditions are the limiting factors in pricing.

<sup>7</sup> D'amico Zikmund, MARKETING, FOURTH EDITION, WEST, 1993



In our case we are aiming at the upper end of the market, so our price must match our image. We should adapt image pricing system, and price our products higher than ordinary beers and at the same level as the competing beers. We may aim to price our product to gain advantage over wine. Less price Per alcohol by volume.

### **V.3.3 Distribution**

Distribution is very important in marketing. At present the Medkin has distribution through 130 on trade outlets. This is a very low penetration. One problem with the distribution is that the channels of distribution are not yet defined. The question here is whether the beer will be distributed with the present network or the company will start a new distribution system just for beers.

Although we are aiming at the higher end of the market, we also want to reach a certain volume targets. To reach our objectives we should first make our decision about the channels.

Wholesale distribution is one of the best ways of distribution but we do not have much control over the product. This should be considered only after our product is established in the market.

### **V.4 Strategic Promotional Plan**

Strategic promotional planning is most important part of a business plan.

Advertising, personal selling and promotional activities such as posters, coupons, publicity materials and similar activities are part of communication mix. There are many blends of activities which make the communication mix.

The aim with promotional plan is to increase the awareness for our brand and make it the consumer choice.

## V.5 Proposed Market Position

Oranjeboom beers are unique in a few ways. They are already established as supreme beers in Europe. The alcohol content is also higher than ordinary beer. There are two ways to approach in beer market. The first is to work for volume, which will mean low prices and undermine the quality, or the second is to work for product image and place our product to a superior place in the market.

My proposition would be to place Oranjeboom at a special position as follows:

### In respect of Product

#### High Price

Premier Beer Oranjeboom	Quality Wines
Ordinary Beer	Wine

#### Low price.

### In respect of Consumers

#### High Price

Brand aware Oranjeboom	Low brand awareness
Cheaper brands	CASUAL

As it can be seen from the two diagrams, Oranjeboom should be placed in the top left corner of the matrix. And this means that we are aiming at the upper end of the market. We will challenge the quality wines, and aim at the people who know what to drink.

As explained in the case wine is consumed more and more in the final years. Wine is drunk usually with food. There are people who not only select the color of wine but also selects the brand as to the food they are eating.

## **V.6. Competition Environment**

While they are unique in some imported items the Medkin faces many competitions. Arden, Levent, Lanor and Kerembey are considered to be the biggest rivals. We will use the five forces model in order to evaluate the competition environment of the business.

### **V.6.1 New Entries**

Astro is a supermarket that started their own importing business. They are also aiming to make wholesale distribution. Food related businesses are considered to be one of the easier business types that one can be started. Investment amount is relatively. Another rival is the Kerembey. Kerembey is in the same line of business with the Medkin.

### **V.6.2 Substitutes**

There are various organizations that attempt to produce similar items that the Medkin imports. In the case of the beer for example the local company has started a local brewery and makes beers called Gold Fassel. Although this is not as quality as the Oranjeboom they are tried to be positioned as alternative beers.



There is also increasing amount of wine consumption lately and wine can be a substitute.

### **V.6.3 Power of Suppliers**

Due to problems in the economy in TRNC there is a high concentration in the food business. There are many organizations who import similar products and try to supply the market chains. The markets are very strong and they make reductions in prices and also they dictate the payment terms. We can simply say that the suppliers have no strength at all.

### **V.6.4 Power of Buyers**

There are more than enough markets and bakkals that the consumers can buy their needs. There even consumers that are aware of the prices at the different markets and they tend to buy things that are cheaper at one store and buy the rest from the other store. The markets that are buyer oriented are doing better in this business. The important thing is to give what the consumers want.

### **V.6.5 Rivalry**

Ever since from its establishment of Medkin Kerembey has been a rival to the them. However the Medkin is more successful and they lead the way.

## VI. CONCLUSION AND RECOMMENDATIONS

Medkin is a successfully managed company with active and dynamic manager. The sales volume and the market share of the company is growing steadily. The company started with a few product lines but steadily increased the number of items on distribution. As a new line of business they are aiming to import a new series of beers. The brand is well known in the Europe although it is not well known in TRNC. The company has two alternatives in distributing this new product in the markets. The first alternative is to distribute it along with the other products. This will be economic since there will be no need for new vehicles. The second alternative is to establish a totally new distribution channel. I believe that the beer distribution needs individual attention and it should not be mixed with the other food. Apart from the grocery shops and markets the beer needs to be distributed to other outlets such as the bars, hotels, restaurants and so on. Therefore a totally different set up is needed. It is in fact advisable to Medkin that the different business units should be kept separately as strategic business units. This way they could easily know which unit is more profitable and hence they can select their growth strategy accordingly.

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