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ABSTRACT

This project recommends a focus strategy for Genesis Trading, a small private firm specializing in the importing and distribution of ethnic food products to Canada. Genesis Trading is struggling to increase its sales in a mature market and needs to increase its market share in order to remain competitive.

A comprehensive industry and competitive analysis offers an overview of the industry structure and the competition. This background provides a framework to analyze Genesis Trading’s key strategic issues and problems. Genesis Trading’s strategic alternatives are then presented and discussed. The attractiveness of each alternative is assessed against the industry’s key success factors and Genesis Trading’s internal capabilities. The overall goals of growth in market share and profits, ability to differentiate, and flexibility to voluntarily exit the industry are used as criteria against which alternatives are measured.

The project concludes by offering recommendations on the type of focus strategy Genesis Trading should implement and an action plan.
DEDICATION

To my wife Fanny, parents, and brother Tommy.

Thanks for the support that you given me over the past two years.
ACKNOWLEDGEMENTS

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1 DESCRIPTION OF THE ORGANIZATION

Genesis Trading Inc. is a small private firm specializing in the importing and distributing of ethnic food products to Canada. Genesis Trading imports between 200-300 different food products including rice, ethnic canned fruits, energy drinks, and others, all of which are primarily from Country A and Country B. The company has approximately 40% and 30% of the Western Canadian market for Country A and Country B food, respectively. However, its margins and market share are decreasing due to increased competition. Management believes that it must increase its share of the ethnic food market in order to remain competitive. The objective of this project is to develop and assess strategic alternatives that best guide the future efforts and resources of Genesis Trading. The alternatives are generated based on a review of the competitive environment, the industry’s driving forces, and an internal analysis of the company. The recommended strategy provides the most potential for Genesis Trading to resolve its main strategic issues and challenges.

1.1 Genesis Trading Background

Jimmy Smith started Genesis Trading in 1992 and has served as its president ever since. The company currently has eight employees: five executives and three delivery drivers. The executive team is responsible for all business activities including sales, marketing, finance, accounting, administration,
and procurement. Genesis Trading’s office and warehouse is located in Vancouver, British Columbia and serves customers in British Columbia, Alberta, and Manitoba.

Genesis Trading is a medium sized firm in the industry and has average annual revenues of $10 million dollars. This figure represents less than 5% of the total ethnic food market in Canada.

Throughout the history of the company, growth has been achieved largely though the individual efforts of the company’s president. It has only been in the past couple of years that the president has hired other family members to join the company and the executive team.

Genesis Trading’s management style is very entrepreneurial. The company does not enjoy conducting activities in a routine manner. In fact, Genesis Trading does not have many defined processes. Senior management tends to solve problems in an ad-hoc fashion and does not sit back and review projects after they are completed. Moreover, senior management is infamous for failing to communicate effectively to its customers and employees. This has led to many misunderstandings among key stakeholders (such as suppliers), high employee turnover, and even occasional clashes with some customers.

The management team is very industrious and own all of the equity in the company. They expect all employees in the company to work hard and get frustrated when employees fail to give their best effort. However, Genesis Trading is very egalitarian in nature and good ideas receive respect no matter who comes up with them. It is very common for upper management to give a
new employee a lot of support for a good idea. Genesis Trading is comfortable with change as long as it decided to implement the change. However, Genesis Trading will resist change when if it is forced by outside forces to change.

Genesis Trading regards rules merely as technicalities that are possible to overcome. This makes the organization somewhat creative in problem solving. For instance, it has consistently introduced many popular products, such as energy drinks, into the Canadian market each year before they become popular. However, Genesis Trading’s buccaneer attitude has limited its ability to engage in joint ventures with other companies as it likes to do things its own way.

The company is not customer-focused and does not target specific customer segments. In addition, Genesis Trading does not collect information on customer needs or devise strategies to serve customer needs. Information about customers is restricted to individual employees and not shared broadly among the company. This makes Genesis Trading vulnerable since the customers’ relationships are with individual employees. Although Genesis Trading is not very customer focused in terms of market segmentation and planning, it provides very good service to the customers that it serves and strives to improve its customer service levels.

Genesis Trading focuses its marketing efforts on word-of-mouth and referrals. Existing customers refer most of Genesis Trading’s new customer accounts. Genesis Trading does not advertise or participate in any trade associations.
1.2 Products and Services

As an importer and distributor, Genesis Trading offers two distinct functions: the sales of its ethnic products and the provision of services. Genesis Trading’s ethnic food products are from Country A and Country B and include products of various pack sizes and quality. Genesis Trading’s product portfolio includes items such as rice, ethnic canned fruits, instant noodles, coconut milk, and chilli sauce. However, most of Genesis Trading’s products are commodities and competitors import similar products. As a result, price is the basis for most of the competition in the industry. Although strong customer relationships may influence which distributor the customer buys from, all distributors have to offer prices close to the market price to remain competitive.

Genesis Trading also adds value to customers by providing additional services to the sales transactions. These services include providing logistical functions, new store opening services, and financing. By providing these services, Genesis Trading enables its customers to focus on their core business. Genesis Trading differentiates its services based on management’s expectation of the customer’s lifetime value. Genesis Trading provides financing to its customers by extending longer payment terms and by holding inventory until the customer is prepared to accept delivery.

Genesis Trading needs to manage a significant number of stock keeping units (SKUs) due to product line extensions. Importers, suppliers, and customers are constantly evaluating existing SKUs to control stock levels, inventory turns,
and related performance measures. At present, Genesis Trading manages approximately 300 SKUs.

Genesis Trading focuses its operations on importing and distribution. The company is an importing and distribution agent only for a select group of suppliers. These distribution agreements give Genesis Trading prestige by becoming official agents and offer it access to excellent ethnic food manufacturers. For the supplier, benefits include the ability to focus on manufacturing operations and access to Genesis Trading’s strong distribution network. The supplier also does not need to forward integrate and create an in-house sales or transportation department since Genesis Trading provides these services and resolves all product claims.

Exclusive rights to a product or brand give Genesis Trading a competitive advantage as it allows Genesis Trading to differentiate and compete on something other than price. Genesis Trading also benefits from exclusive rights since it helps increase the company’s market presence and allows it to gain new customers and bundle existing Genesis Trading products into sales transactions. As a result, Genesis Trading actively pursues opportunities to establish exclusive rights with suppliers.

Genesis Trading is very selective of the brands it carries. From a relationship building perspective, Genesis Trading prides itself in honouring its commitment to its suppliers in meeting the former’s volume requirements. This is the reason Genesis Trading does not carry many different brand names and is very selective of its suppliers.
Genesis Trading pays for all of its products in US dollars. As a result, fluctuations in exchange rates expose both Genesis Trading and its suppliers to significant risk. Suppliers usually issue price lists one year in advance and thus foreign exchange rate projections are important.

Genesis Trading has two main types of sales: direct sales and inventory sales. Direct sales constitute approximately 5% of Genesis Trading’s sales. Genesis Trading’s suppliers ship direct sales orders via container from their manufacturing facilities directly to Genesis Trading’s customers. These types of sales involve the least risk to price fluctuations for Genesis Trading since both the purchase and the sale happen simultaneously. Genesis Trading also knows product costs, shipping fees, and duties at the time of the transaction. Inventory sales make up over 95% of Genesis Trading’s sales. Genesis Trading ships these inventory sales orders from stock held at Genesis Trading’s warehouse in Vancouver, BC to its customers.

Occasionally the market prices for some of the products that Genesis Trading imports are lower than Genesis Trading’s costs. Since Genesis Trading needs to offer market prices to make a sale, this means the company sometimes incur losses on inventory sales. If Genesis Trading does not sell its products at the market price, it faces the threat of its products expiring and the opportunity cost of using the warehouse space for other products. Even though inventory sales are riskier and take up resources in inventory, Genesis Trading management team maintains that inventory must be stored in order to prevent customer out of stocks and to support customers that cannot order an entire
container of ethnic food at a time. Genesis Trading’s management also wants to become one of the industry’s most reliable suppliers by always having adequate inventory on hand to fulfill customer orders.

Genesis Trading’s management teams conduct sales calls with their regular set of customers on a daily basis. As distributors selling to business customers, Genesis Trading sells its products by the case. The minimum transaction is usually $500 and is shipped from Genesis Trading’s warehouse. This requires Genesis Trading to maintain a high level of working capital in inventory and accounts receivables even though its profit margins are thin.

Sales transactions are at arms-length instead of on a contract basis. Genesis Trading and its customers negotiate prices for each transaction. Payment terms are set during the first transaction and usually do not change for subsequent transactions.

Price is the basis for competition in the ethnic food distribution market. Genesis Trading establishes customer loyalty by establishing personal relationships with customers, providing important market information, offering a reliable supply of quality products, and delivering products on time. A loyal customer will give Genesis Trading the opportunity to match offers provided by the competition. This means that the customer will give Genesis Trading the sale if the price the competition offers the customers is equal or lower. Maintaining a good reputation is critical to long-term success since the negotiation for most sales take place in person or over the phone. All parties to the sales transaction expect each other to fulfill their commitments based on their verbal agreements.
Since each Genesis Trading executive is a family member, each executive has considerable authority to develop business and complete transactions. Executives can order inventory and sell products at any price point they deem appropriate.

1.3 Pricing

Suppliers do not provide importers/distributors with a suggested retail price. The market price for Genesis Trading's products reflects prices for similar items sold by the competition. This means that Genesis Trading is a price-taker and has no control on prices. Customers realize that Genesis Trading has this limitation and always seek a reduced price claiming they can get a better offer elsewhere. However, Genesis Trading maintains an internal price list that is not available to outside parties such as customers and suppliers. The internal price list allows the company's sales agents to categorize customers into their respective classes and to quote prices to customers based on what class they are in.

Customers usually buy more than one item from Genesis Trading at a time. Genesis Trading tallies all the items the customer orders and provides a quote with the total price of the products, including delivery and sales taxes. This allows customers to cherry pick and only purchase products from Genesis Trading that are cheaper than the competition.

Genesis Trading maintains various pricing hierarchies for each item it carries. Customer prices for each item are set based on a review of each
customer’s history in terms of payment, relationship, and volume. Customers that order in high volumes and within payment terms receive the lowest prices. Customers that order occasionally and pay late receive the highest prices.

Genesis Trading also sets its prices by reviewing competitor invoices from customers and by calling the competition for price quotes. This helps Genesis Trading decide the price range it should offer to its customers for specific products.

1.4 Customers

Genesis Trading sells to two types of customers: ethnic customers and mainstream customers. The T&T grocery store chain that caters almost exclusively to the immigrant Asian population typifies the ethnic customers. The mainstream customers include supermarket chains like Safeway, Wal-mart, and Loblaws. In terms of market share, ethnic customers have 75% of the market share and the mainstream customers have 25%. However, many industry experts predict that the mainstream market will have over 70% of market share within ten years due to the massive size of this market and the large increase of ethnic products selling in mainstream supermarkets.

The market also has four different types of sales channels: retail, club/wholesaler, food services, and convenience store. The costs Genesis Trading incurs to service and maintain each channel varies significantly. These costs include sales calls, overheads, and transportation costs.
The retail channel is comprised of grocery store chains similar to the ones described above. This is where Genesis Trading focuses most of its marketing and sales effort as most of its products fit into this sales channel. Retailers typically purchase products for resale to end consumers.

SAM’S Club and Costco are examples of customers in the club/wholesale channel. Interestingly, some of Genesis Trading’s customers in the club/wholesale channel are also its competitors as these companies also import similar products to those carried by Genesis Trading. However, Genesis Trading carefully manages its distribution channels to ensure that the products it sells to its customers in the wholesale channel are not resold to Genesis Trading’s current customers.

An example of a company in the food services channel is Sysco who caters to restaurants and other types of food service providers. Finally, the 7-11 and Circle K chains are examples of companies in the convenience store channel.

Genesis Trading does not create reports to identify its most profitable customers. Instead, management relies on intuition and experience to get a sense of these results.

Customers make their purchasing decisions based on a couple of factors. The most important are brand name, price, and relationships with distributors. Distributors can build their relationships with their customers by establishing strong personal relationships with them and maintaining a strong company reputation.
1.5 Information Technology Systems

Genesis Trading has four computers (PCs) – three are connected to a LAN and one is a standalone. All of the computers are running Microsoft’s Windows XP operating system and the networked PCs are connected to the Internet. Genesis Trading employees manage the requirements, configurations, and upgrades for hardware and software on each computer.

Genesis Trading currently has two primary software systems: Alpha Five for order management and Simply Accounting for accounting and payroll. The accounting system is installed on the standalone PC and is used exclusively by the two employees responsible for the accounting functions of the company. The order management system is used by the five-person management team. Both systems are managed by company employees, including daily backups.

Genesis Trading’s transaction processing system requires high volume processing in both sales and accounting. Over 1,000 invoices a month are generated from Genesis Trading’s order management system and each one has to be re-typed into the accounting system. This creates the possibility for errors and conflicting information on both systems. Accountants are also required to process over 1,000 accounts payables and accounts receivables transactions to mirror the entries in the Alpha Five system.

Additionally, Genesis Trading has a website with three web pages. Its primary purpose is to provide contact and location information about the company. The product page has limited functionality and is not intended as a means of ordering products from the company. Although management would
like to expand the capabilities of its website, it is not a priority of the company at this time because all product orders are handled by telephone and fax. However, management realizes that continuous improvement of its information systems will improve customer service and provide it with a competitive advantage over competitors with obsolete information systems.

1.6 Distribution Network

Genesis Trading office and warehouse is located in Vancouver, British Columbia. The warehouse is approximately 30,000 square feet and serves customers in British Columbia, Alberta, and Manitoba. Genesis Trading does not ship to other Canadian provinces as its suppliers have exclusive distribution agreements with other Canadian importers for those provinces.

Genesis Trading places orders with suppliers on a weekly basis and each order arrives in containers weekly. In order to maximize space, Genesis Trading unloads each order and stores all of its products on pallets. There is very limited space for unloading containers. As a result, shipping firms must make appointments with Genesis Trading to deliver and unload containers. Genesis Trading is also required to unload each container within a week of arriving at the port. Otherwise, the company faces the risk of incurring substantial demurrage charges.
1.7 Mission

Genesis Trading does not have a formal mission statement. However, its main goals are to fulfil current customer needs and constantly introduce new ethnic foods into the marketplace.

Genesis Trading strives to reduce its customers’ transaction costs by making the company a one-stop shop for Country A and Country B ethnic foods. Genesis Trading also adds value to its customers by delivering its products on time, offering competitive prices, and providing flexible credit terms.

The only customer group Genesis Trading serves is businesses that resell ethnic products in Western Canada.\(^1\) Genesis Trading adds value to this group by offering a variety of products and services. These include maintaining healthy inventory positions to ensure adequate supply for customers, financing, possessing expert market and product knowledge, anticipating emerging trends, being familiar with how to meet the country’s health and packaging requirements, and staying atop the most efficient logistical modes.

1.8 Strategic Challenges

Genesis Trading faces several strategic issues that arise from both external and internal forces. From an internal perspective, Genesis Trading does not have a formal strategy to direct its employees and resources. This is due to lack of strategic planning by Genesis Trading’s management team. Genesis Trading is also experiencing stagnant revenues and losing business to

\(^1\) Genesis Trading does not sell to end-consumers.
the competition due to inferior internal capabilities. Genesis Trading must re-evaluate its internal capabilities and develop a strategy to leverage them.

The company also needs to transition from its family-based and entrepreneurial style of management to one that is more corporate and professional. This will require hiring outside executives that have a more objective and strategic view of the company’s internal and external challenges.

From an external perspective, the expected growth in the ethnic food market has increased competition in the marketplace and consolidation in the industry. Distributors are becoming larger and more sophisticated. This has resulted in customers demanding more sophisticated products and services from distributors. Customers are rationalizing their supply chain and developing strategic partnerships with only a select group of preferred vendors. This increase in competition and customer demands requires Genesis Trading to reassess the competitive framework, review its internal capabilities and strategic alternatives. Finally, Genesis Trading must weigh its alternatives and devise a strategy to ensure future growth and profitability.
2 INDUSTRY ANALYSIS

2.1 Processed Food Importation and Wholesaling Industry

The industry that best defines Genesis Trading’s market is the importing and wholesaling of processed foods. This industry has increased dramatically on the strength of the Canadian dollar, a recovering Canadian economy, and an increase in immigration to Canada. This growth trend started since 1995 extending a trend that began at the end of the 1990 to 1991 Canadian recession.

Suppliers outside of North America usually ship food products to importers/wholesalers via shipping containers. The volume unit of measurement used in the industry is twenty-foot equivalents (TEUs). One TEU represents a measure of containerized cargo capacity equal to one standard 20 foot (length) × 8 foot (width) × 8 foot 6 inch (height) container. Prices for food products are quoted by the case. However, the minimum order quantity for a wholesaler is one TEU.

Wholesaler firms generally operate from their own warehoused inventory or arrange for products to be shipped directly from the supplier to the customer. Wholesalers provide value to both suppliers and customers by offering services related to the sale and delivery of products.

 Suppliers that rely on wholesalers to market and distribute their products can focus on research and development and manufacturing since the wholesaler will provide access to logistical, financial, and marketing services. Wholesalers
provide suppliers with logistical services such as arranging for transportation, customs clearance, warehousing, and delivering less than truckload (LTL) shipments directly to customers. Wholesalers provide financing services by paying suppliers on short credit terms (sometimes even before receipt of products) and extending longer credit terms to customers. Wholesalers also reduce transaction costs for suppliers and customers by disseminating information and providing access to wider geographical markets. For instance, wholesalers indirectly connect buyers with a wide range of products from various suppliers.

The traditional value chain model in the processed food importing and wholesaling industry is illustrated below in Figure 1.

**Figure 1: Traditional Value Chain Model in the Processed Food Importing and Wholesaling Industry**

Source: Author

Although the industry is consolidating, wholesalers usually purchase products from food processing manufacturers and sell the products to supermarkets, convenience stores, and restaurants.
2.2 Market Size

According to Statistics Canada, Canadian food imports increased from $8.1 billion in 1995 to $12.6 billion in 2002, a 57 percent increase. The largest increases in food imports were from the United States, which rose by $3.2 billion (67 percent) between 1995 and 2002.

This project will focus mainly on imported processed food from Country A. Between 1995 and 2002, Canada increased the amount of processed food imports from Country A by 46 percent or $139 million dollars. (http://www.statcan.ca/english/freepub/15-515-XIE/2004001/export.htm)

Western Canada is expected to be 30 percent of the Canadian market for Country A processed foods or approximately $41.7 million dollars. The market for wholesalers is smaller since some suppliers bypass wholesalers and ship directly to retailers. It is difficult to assess this volume precisely but industry analysts estimate that wholesalers are involved in 40 to 50 percent of all imported food sold. Based on this estimate, the market for Western Canada’s Country A importers is approximately $16.68 to $20.85 million dollars.

The scope of the competitive rivalry for this project is confined to wholesalers primarily in Western Canada as these companies compete for the same group of customers and must possess similar competencies in order to remain competitive. Occasionally, wholesalers from other US states and other Canadian provinces sell similar food products in Western Canada. However, since the volume of products these out of province wholesalers sell into Western Canada are low, these firms will be regarded as competing in one large market.
The wholesale market in Western Canada is mature and highly developed. The way transactions occur among suppliers, wholesalers, and distributors have changed over time. However, the basis of business transactions is still founded on well-established relationships between the players in the market.

There are approximately 30 wholesalers in the market for Country A processed food in Western Canada. The firms vary in size, financial stability, distribution capabilities, and degree of diversification. Most of the firms operate out of small wholesale offices with less than 5 employees. On the other hand, some firms are vertically integrated enterprises that have operations in many countries, carry many different product lines, and have enormous distribution capabilities.

Although the market for Country A food products is projected to grow, this does not necessarily mean that independent wholesalers will grow as fast as the market. The reason is that retailers are beginning to backward integrate and manufacturer their own Country A products. Moreover, suppliers are also establishing stronger relationships with retailers and shipping to retailers directly. These trends mean that independent wholesalers may lose market share as retailers start purchasing products directly from suppliers.

Most of the largest wholesalers in the industry have gained their market share either by being a sole distributor of popular ethnic brands or vertically integrating along the value chain. For example, Dan-D Pak has successfully built the Dan-D Pak brand of salted snacks by outsourcing its production to Country A. The company has recently acquired some of its producers and now also controls
production. Other suppliers have also set up independent wholesale divisions that sell products that the supplier produces.

A majority of the independent wholesalers are privately held, owner-managed and small in size. Some of these companies have exclusive distribution agreements with primary suppliers to market some of their top brands. However, these agreements are decreasing and becoming less popular with suppliers. Most of the deals are conducted under standard terms and conditions established by industry norms and practices.

Wholesalers usually contact their customers and suppliers by telephone although the use of electronic mail is becoming more common. Contact can be initiated by any of the three parties. Suppliers might want to provide quotes on products they wish to sell. Customers might solicit quotes for certain products. Wholesalers sometimes will bring a supplier together with a customer and expect a commission for any future trades between these two parties.

Individual wholesale firms must adapt quickly to a fast changing market environment and new imposed government regulations. The adoption rate for new information systems is slow as most firms feel that the status quo is adequate. Most of the larger wholesalers have sophisticated information systems for procurement and internal reporting. Smaller wholesalers use less automated systems and sometimes employ manual systems. Although some wholesalers have corporate websites, most of these websites are used to provide information rather than to conduct transactions.
Many of the wholesalers are family run businesses and have been slow to employ professional managers. Formal planning and processes for identifying new opportunities for more value-added services or for measuring customer satisfaction and profitability are not common.

Both the products and services offered by competitors are very similar. The reason products are largely undifferentiated is a rival firm can source similar products from suppliers throughout the world. One of the opportunities for wholesalers to differentiate themselves from the competition is to sign exclusive distribution agreements for a certain brand of ethnic food or create their own brands.

Wholesalers have the potential to start competing more on services and differentiate themselves based on service levels. Wholesalers can extend their credit terms, carry larger inventories to minimize out of stocks, offer a wider range of products, increase their geographical coverage, and offer lower prices due to large volume purchases from their suppliers. However, wholesalers need to conduct their due diligence to see what types of value added services will lead to higher profit margins.

Price is the basis for most of the competition in the industry. The price for a product is based on the product’s supply and demand at the time of the transaction. Wholesalers are frequently trying to undercut the competition by offering low prices. Wholesalers attempt to support their low price strategy by ordering large quantities from suppliers in hopes of becoming the supplier’s “preferred” wholesaler. When the economy is weak, wholesalers that are able to
order in large volumes attract suppliers who need to move products quickly in order to keep their products fresh.

Larger wholesalers have a better opportunity than smaller wholesalers to achieve economies of scale in logistics and marketing. Large volume wholesalers can gain economies of scale in logistics if they can negotiate good freight rates with carriers in exchange for guaranteed volumes. Moreover, wholesale firms can achieve economies of scale in transaction processing and administration via more efficient knowledge dissemination within the firm.

The learning effect within the industry is not a major factor. Establishing solid long-term relationships with customers and suppliers are necessary for wholesalers to remain competitive. Experienced wholesalers recognize which new products to import and understand the most cost-effective ways to distribute them. The experience of well-established wholesalers and their strong network of customers and suppliers allow them to capitalize on industry trends and add to their firm’s long-term profitability.

The financing requirements and the ease of entry and exit into the industry depend on a couple of factors. Wholesalers that do not carry inventory only need to raise enough capital to buy products from suppliers and do not have many exit barriers. On the other hand, wholesalers that carry inventory will need financing from banks and enough capital to acquire a warehouse. These wholesalers do not need to own the warehouse but they will most likely have to sign lengthy leases which increase exit costs. Wholesalers with the most significant exit costs are those that have backward integrated and that own manufacturing facilities.
Regardless of the degree of vertical integration and business models of individual companies, wholesalers that exit the industry typically need to find a buyer for their operations or liquidate their assets. Moreover, these firms need to collect their accounts receivables and pay off their creditors.

Financial performance varies significantly in the industry due to the diversity of factors that contribute to the profitability of individual firms. An estimate on the average profitability and return on assets for wholesalers is difficult to obtain since most of the firms are family owned and privately held. However, it is clear that financial performance in the industry varies widely given that many firms enter and exit the industry regularly and certain firms get bigger while others get smaller.

### 2.3 Industry Structure

This section uses Porter’s Five Forces model to review the competitive environment and assess the strength of each of the competitive forces.2

#### 2.3.1 Rivalry among wholesalers in the industry

Competition in the industry is based on many factors: price, strategies, products and services offered, and switching costs.

The main basis for competition in the industry is price. Wholesalers in the industry sell commodities that are largely undifferentiated and offer very similar

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services. As a result of the inability of wholesalers to differentiate their products and services, competition is mainly based on price.

Each wholesaler in the industry has their own unique strategy that collectively affects industry rivalry. This means that, at any given time, competing firms will have different costs, goals, inventory positions, and pricing strategies.

Wholesalers usually adopt either a high volume strategy or a margin maximization strategy. Firms that take the former approach generate profits by generating high sales volumes at the expense of earning low margins. On the other hand, firms who adopt the latter approach attempt to maximize profit margins by minimizing the role of sales volumes and focusing on adding value via services such as category management.

The recent trend of consolidation among suppliers and customers has resulted in increased rivalry and smaller market share for smaller independent wholesalers. These smaller independent wholesalers are now competing to serve fewer suppliers and customers and need to offer price concessions to maintain competitive and gain new customers.

Customers have low switching costs since many of the products in the industry are undifferentiated and can be purchased from a variety of wholesalers. The larger customers in the industry are starting to purchase directly from overseas producers. This has resulted in wholesalers competing with their own suppliers and has increased rivalry.
Although products in the industry are largely undifferentiated, there are still major opportunities for wholesalers to grow. For instance, there are still a lot of niche markets that have yet to be developed and that offer excellent growth potential. Niche markets means wholesalers have fewer competitors and a better opportunity to grow based on strong market knowledge and first movers advantage. Wholesalers that successfully sell into niche markets have also been known to lead to increase their profit margins and increase customer switching costs. The Mr. Noodle Brand has successfully been able to tap into the market of health-conscious consumers with their preservative free line of instant noodles.

Small wholesalers have low fixed costs and exit barriers. As a result, they will most likely exit the industry than stay in the industry if they are not earning high profits. Larger firms may have a harder time exiting the industry since they have large fixed costs such as long term contracts and building leases.

The rivalry in the industry is high. The only factors that mitigate the intensity of rivalry are low fixed costs and exit barriers. However, firms can still generate large profits if they successfully exploit niche markets.

2.3.2 Barriers to Entry

Barriers to entry are low to moderate. Although obtaining an importing license is easy and raising the amount of required start-up capital is not hard, it is difficult to establish distribution networks. Moreover, creating brand awareness for new products is not easy since there are already many brands on the marketplace with a strong presence. New entrants can import brands that are
already in the market. However, these brands are not very profitable since anyone can import them. As a result, some of the product offerings on the market are similar and companies end up destroying profit margins by competing on price.

New entrants typically struggle to obtain distribution and marketing agreements with quality suppliers. Since only the top suppliers have the certifications and manufacturing expertise to pass the strict governmental regulations, new entrants usually have problems importing products into the country. Moreover, new entrants usually struggle to penetrate distribution channels that are dominated by existing wholesalers. In addition, the increased consolidation in the industry requires new entrants to have large pools of funds and working capital available to compete effectively against well-established wholesalers.

Although barriers to entry in the industry are low, the threat of potential entry by new competitors is moderate as the industry’s growth and profit potential is not attractive. The increasing trend of consolidation in the industry is decreasing the number of niche markets and increasing the scale of operations necessary to remain competitive.

2.3.3 Threat of Substitutes

The threat of substitutes is high as products are commodities. As immigration and the acceptance of different types of foods increase, the threat of substitutes will become a larger factor. For instance, Asian immigrants are
starting to use ketchup instead of sweet and sour spring roll sauce for their spring rolls. Substitution is also occurring among ethnic foods. Kimchi, a Korean side dish or relish made of fermented vegetables, has grown massively in popularity and is now one of the biggest substitutes for sour mustard as an appetizer.

Suppliers are the main substitute for the services that wholesalers provide as they are increasingly bypassing the wholesale channel and selling directly to retailers. As suppliers consolidate and continue to grow, they gain economies of scale and use their own sales and distribution personnel to sell directly to large retailers and other distributors. This trend of suppliers selling directly to retailers negatively impacts wholesalers because it means less product is being sold via the wholesale channel and that there are not as many large customers for wholesalers to sell to.

The impact of substitutes is moderate to high for wholesaler services. Supplier growth, consolidation, and the increased ability of retailers to purchase directly from suppliers in large quantities will strengthen the impact of substitutes.

2.3.4 Supplier Power

The main suppliers for the ethnic food wholesalers are the food manufacturers who provide products, financial institutions who provide financing, third party logistic suppliers who provide transportation, custom brokerages who provide services and employees who work at the firm.

The power of food manufacturers is high. The biggest ten suppliers of ethnic foods represent over 90% of the products in the industry. These suppliers
all have manufacturing scale, quality, and brand recognition. Moreover, only a couple suppliers have the certifications and manufacturing expertise to pass the strict governmental regulations.

In terms of distribution, most food manufacturers have multiple distributing agents while some have a sole distributor. Food manufacturers expect their distributors to meet their volume requirements and be able to grow the brand equity of their products.

Financial institutions such as banks have moderate power since switching costs are high for wholesalers. The power that financial institutions have over wholesalers depends on the wholesaler’s financial strength and credit worthiness. Wholesalers that have a strong managerial team and good record of accomplishment will be able to influence some of the terms and conditions that financial institutions offer. The reason is that these wholesalers can get credit from other credit suppliers if the previous financial institution terms of credit are not attractive.

Third party logistics providers and custom brokers have little bargaining power since their services are undifferentiated and available from many other sources.

Ethnic food wholesale employees include management, marketing personnel, the sales force, general administration, and logistical personnel. Employees play a large role in helping wholesalers differentiate their products and services from competitors. Employees also are a key part of sustaining strong relationships with both suppliers and customers. Hence, employees wield
a considerable amount of power and can influence the terms of their employment with the wholesaler. There are few substitutes for experienced and skilled employees and many firms compete for such talent.

In summary, the bargaining power of food manufacturers and employees are high, financial institutions is moderate, and third party logistics providers and customs brokers are low.

2.3.5 Buyer Power

Buyers of ethnic food product and services include distributors, retailers, and end consumers. Factors that increase buyer bargaining power include making large volume purchases, and low differentiation of products and services by wholesale companies. Competitive pricing, strong relationships with buyers, and strong branding can mitigate buyer power.

There are many ethnic wholesalers competing for the buyers' business thus giving buyers a lot of power. In addition, large customers are starting to import their own brands and brands that existing importers carry. The buyers' ability to backward integrate has increased their power substantially. In general, larger customers have considerable influence due to their ability to purchase in large volumes and their large market share.

Smaller customers possess less influence since they purchase in smaller volumes and have restricted access to purchase directly from suppliers due to

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3 Branding is a key success factor in the industry. However, the importer should ensure that it has a sole distribution contract or registered a trademark for a brand if it decides to invest a lot of money branding it.
either high transaction costs or financial constraints. New customers and customers with bad credit have the least bargaining power because they do not have credibility and wholesalers tend to think that these types of customers are risky.

End consumers are consumers that buy ethnic foods at a retail outlet such as Safeway. End consumers make their purchasing decisions based on price, quality, and brand. They have a lot of power due to the abundance of choice on the market. Consumers consume all different types of food from relatively low priced food (like Kraft Dinner) to exotic and expensive seafood such as abalone.

Overall, large buyers and end-consumers have a lot of power and small buyers possess moderate power.

2.3.6 Summary of Five Forces

Rivalry among competing wholesalers in the industry is high. The threat of new entrants is low because the industry growth and profitability is moderate. The threat of substitutes and the influence of both suppliers and customers depend on their resources and scale.

Large suppliers are a major threat since they have the capability and resources to compete directly with wholesalers. Moreover, most large suppliers own the rights to popular ethnic food brands that are in demand and have the option to sell to numerous wholesalers.

Unilaterally, smaller suppliers and customers have minimal bargaining power because they do not have economies of scale and have higher transaction
costs than most wholesalers. Smaller suppliers and customers are also dependent on many of the services and expertise that wholesalers provide.

Industry consolidations will even the playing field as competitors and suppliers become equal in size and capabilities. Each wholesaler needs to consider each of the five forces and decide where to focus their resources and further develop their capabilities. Wholesalers have an opportunity to service larger customers and gain economies of scale and scope by acquiring or collaborating with other wholesalers. Wholesalers also have the option of growing by servicing niche markets and adding value via additional services such as category management of retail shelves.

2.4 General Industry Business Models and Strategies

Individual wholesaler companies differentiate themselves from the competition based on a couple characteristics. These include their geographical coverage, the depth of their product lines, relationships with customers and producers, whether they hold inventory or focus on only direct shipments, their risk profile, and their degree of vertical integration.

The combination of these characteristics leads to different strategies. This section addresses commonly used business models and discusses potential strategic moves of firms that adopt these business models. The business models include industry giants, large national wholesalers, and small wholesalers.
2.4.1 Industry Giants

Industry giants are big and vertically integrated corporations that own production facilities, wholesale offices, warehouses, and distribution rights for popular ethnic brands. These firms have professional managers, highly diversified businesses, and compete in a global market.

Within the ethnic foods wholesale sector, industry giants have their own distribution networks and sell their products and services to other wholesalers and directly to retailers. These firms actively seek out new acquisitions and have the capital to consolidate firms on both the supply and demand side of the industry.

Industry giants will most likely conduct more acquisitions and form closer partnerships with large customers by providing services such as category management and vendor managed inventories. Industry giants will also seek further acquisitions in sectors where there is potential for greater synergies and economies of scale with existing business units (i.e., a national advertising firm).

2.4.2 Large National Wholesalers

Large national wholesalers usually own their own warehouses and are distribution agents for many different manufacturers. Large national wholesalers store and distribute products such as rice, noodles, and canned food at their warehouses in return for sole distribution rights for these products. These companies make yearly volume commitments to suppliers and design joint marketing and promotional efforts.
Large national wholesales will seek to expand their geographical coverage and further extend their produce lines. These companies will also seek longer-term contracts with their customers and move away from one-time arms-lengths transactions with customers. Large national wholesalers will also adopt new enterprise resource planning (ERP) systems that will allow customers to track shipments, view inventory at their supplier and customers’ facilities, and even link ordering and procurement electronically with both suppliers and customers. They will also consider forming partnerships with other wholesalers or acquire other companies to expand their geographical coverage and sales.

2.4.3 Small Wholesalers

Small wholesalers have few employees, are usually family run, and do not have much inventory. They typically work with a limited number of suppliers and customers and keep overhead costs low.

These types of firms have limited resources and do not seek dramatic growth. They tend to be slow in adopting new technologies and remain isolated in their activities. Small wholesalers also have a small distribution network and are unable to fill large orders.

2.5 Key Success Factors (KSF)

2.5.1 Current KSFs

The KSF for ethnic wholesalers in this industry are relationships, brand, price, distribution, and replenishment. Table 1 below displays the relative importance of each KSF based on a ten-point scale.
Table 1: Weighting of Key Success Factors

<table>
<thead>
<tr>
<th>INDICATORS</th>
<th>WT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationships</td>
<td>10</td>
</tr>
<tr>
<td>Price</td>
<td>10</td>
</tr>
<tr>
<td>Brand</td>
<td>9</td>
</tr>
<tr>
<td>Distribution</td>
<td>8</td>
</tr>
<tr>
<td>Replenishment</td>
<td>8</td>
</tr>
</tbody>
</table>

*Relationships* – One of the most important KSFs is *relationships*. Wholesalers must ensure that they have strong *relationships* with suppliers and customers. Maintaining a solid relationship with suppliers is important for a wholesaler as suppliers can adversely affect a wholesaler’s business if they decide to hold shipments or sell their products to the competition. Wholesalers also have to maintain good relationships with customers since customers have a lot of power in the industry, their switching costs are low, and they usually make their purchases based on relationships.\(^4\) Suppliers and customers prefer to conduct business with wholesalers that they have a strong personal relationship versus a wholesaler that they do not like. Wholesalers can develop strong relationships with their customers and suppliers by demonstrating strong performance and fulfilling their commitments and obligations.

\(^4\) Another reason relationships are important is the products offered in this industry are similar in quality and price. Hence, most customers base their purchase on relationships.
Price – Price is another very important KSF since margins are low and product offerings are very similar. Current market prices are public information. Wholesalers must constantly monitor market prices and keep costs under control. Other than brands, price tends to be the main differentiator from a customer’s perspective. Thus, it is important for importers to keep their cost structure low in order to offer their customers the best price possible.

Brand – Brands allow importers to differentiate themselves from the competition. Moreover, most customers have limited shelf space and will only purchase brands that are in demand. These customers would also prefer carrying a popular brand versus an unpopular brand even if the latter was cheaper because popular brands are a lot easier to sell. Hence, wholesalers need to excel in marketing their brands.

Distribution – Wholesalers that do not have strong distribution capability will inevitably fail since they will be unable to meet customer demand and volume requirements from suppliers. This will clearly dampen both customer and supplier relationships and could put a wholesaler out of business. Distribution is also vital for creating greater brand awareness and facilitating inventory turns which helps clear up valuable warehouse space.

Replenishment – One of the key differentiators between a top-notch importer and an average importer is replenishment. Importers that can replenish efficiently will have products to sell to their customers and will be less likely to miss a sales opportunity due to out of stocks. Moreover, importers must also ensure that they do not order too much product. Otherwise, they will have overstocks and may
have to obtain costly outside storage or sell products at big discounts to free up warehouse space. Hence, importers must replenishment efficiently to reduce out of stocks and overstock situations.

2.5.2 Future KSFs

In the future, wholesalers will need to increase their competencies in information systems, customer knowledge, and long-term strategic planning in order to compete effectively and remain a going concern. Wholesalers will need these KSFs in the future since customers and competitors are becoming larger and more sophisticated.

Wholesalers need to be able to communicate with customers and suppliers using a variety of mediums and cater to firms on different technological platforms. This means that wholesale employees at all levels will constantly need to upgrade their technological skills to keep abreast of technology. Wholesale organization will also need to develop integrated information systems that can interact with both customers and suppliers on any technological platform.

As competition in the industry increases, wholesalers will earn lower profits and need to be more selective about which markets they compete in and how they will compete. Wholesalers need to conduct more customer analysis and understand where they can add more value to their customers.

Wholesalers must develop solid long-term strategies and maintain lean operations to adjust to changing economic conditions. Since wholesalers will be unable to compete effectively in all ethnic food categories, they must conduct an
internal analysis to determine which categories they have a chance to be most profitable. For instance, a wholesaler that is strong in the frozen seafood category may want to focus mainly on frozen seafood and stay away from dry groceries.

2.6 Immigration Rate to Vancouver

The rate of immigration helps assess the demand for wholesale ethnic foods. In general, the higher the immigration rate and the higher the growth rate of wholesale merchant sales, the higher the demand for ethnic foods.\(^5\)

In terms of Canadian immigration, there have been two major events in over the last several decades. The first occurred in 1967 when the Canadian Government abolished its preferential access for persons from European countries. The second change was a sharp increase in the level of immigration starting in the second half of the 1980s and continuing to this day.\(^6\) This has led to a major surge in immigration from Asia that in turn has led to an increase in demand for Asian food.\(^7\)

In 2001, for example, there were 189,700 residents of Vancouver who had landed in Canada between 1996 and 2001. The most common country of birth for these immigrants was China, accounting for 20 percent of very recent immigrants (29 percent if persons born in Hong Kong are included), followed by Taiwan, which supplied 13 percent of very recent immigrants. Six of the ten most

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\(^5\) The author had difficulty locating statistics for ethnic wholesale sales and had to compromise with wholesale merchant sales.


\(^7\) This project will focus on immigration to Vancouver versus overall Canadian immigration as Thai United’s operations are based out of Vancouver.
common countries of birth were in East and Southeast Asia: China, Taiwan, India, Hong Kong, Philippines and South Korea. These countries combined accounted for 65% of very recent immigrants. The large share of recent and very recent immigrants from this part of the world is unique to Vancouver. Other cities, including Toronto, have greater diversity in the countries of birth of recent immigrants.\(^8\)

Vancouver's immigrant population has grown at a faster pace than the immigrant population in British Columbia and in Canada. To take the most recent five-year period as an example, between 1996 and 2001 the number of immigrants in Vancouver increased by 104,900, or 17 percent. By comparison, the total number of immigrants living in Canada increased by 477,400 or 10% during the same five years.\(^9\) This growth in Asian immigrants to Vancouver is encouraging for local ethnic food wholesalers such as Genesis Trading whose headquarters is in Vancouver.

### 2.7 Wholesale Food Sales

The amount of wholesale food sales is a key indicator about the health of the wholesale food industry. From 2002 to 2006, wholesale merchant sales of food products in Canada increased from 76,873.3 million dollars to 82,974.7 million dollars or 8 percent.\(^10\) This indicates that the wholesales food sector is growing at a health rate.


\(^10\) [http://www40.statcan.ca/l01/cst01/trad20a.htm](http://www40.statcan.ca/l01/cst01/trad20a.htm). Reliable data for wholesale ethnic food sales is not available. Hence, this project will use wholesale merchant sales for food products.
2.8 Industry Attractiveness

Although the rate of immigration and amount of wholesale food sales is increasing, the potential for growth in the wholesale ethnic foods industry is not very attractive. Increasing consolidation will strengthen the competitive forces and limit the opportunities for growth. The industry is already experiencing an increase in competition and growth in substitute products.

Wholesalers that do not have the resources to address their developmental needs with respect to the KSFs will not stay in business. The wholesalers that will remain a going concern are those that seek to expand their product lines and that offer value-added services to their customers and suppliers. The surviving wholesalers will be those that are large, have longstanding contracts with both customers and suppliers, and are able to capitalize on their strengths and their competitors’ weaknesses. Given this assessment, new entrants may decide that the potential for profitability is slim and will not enter the industry.
3 INTERNAL ANALYSIS

This chapter provides a comprehensive internal analysis and discusses Genesis Trading's current strategy. Key financial ratios are used to analyze the company’s financial performance over the past five years (2002-2005). The company’s strengths, weaknesses, opportunities and threats are discussed in terms of the industry’s key success factors. Genesis Trading’s strategic issues and its key competencies are also highlighted at the end of the chapter.

3.1 Review of Current Strategy

Genesis Trading has not developed a formal strategy that its management team reviews. Hence, this chapter will discuss the firm's strategy in terms of how Genesis Trading allocates its limited resources and which markets it competes in. This approach will provide valuable information on what the firm values and deems important.

Working capital makes up approximately 90 percent of Genesis Trading's financial resources with 40 percent in accounts receivables and 50 percent in inventory. Fixed assets represent about 1 percent of expenses. Genesis Trading management has decided not to invest in real estate and has leased all office space, warehouse space, vehicles, and warehouse equipment. The company’s low fixed cost structure allows it to react quickly to market changes and test certain products before launching them on a large scale.
Genesis Trading’s large investment in accounts receivable stems from its flexible credit terms and service it provides to its customers. Genesis Trading’s liberal credit policy and high accounts receivables are very risky. An economic slowdown can lead to customer bankruptcies and then cause cash flow problems. The company attempts to mitigate this risk by constantly monitoring customer accounts and market activities. However, this causes the company to be very short-run focused at the expense of concentrating on long-run trends.

Most of the firm’s annual profits are reinvested into the company. This practice increases the owners’ exit costs and prepares the firm for unfavourable economic conditions. The reinvestment of annual profits also allows the firm to invest in capital assets and new products.

The company’s key performance indicators are gross profits, net sales, and number of containers sold. The company measures these indicators monthly and compares results with previous months and years. Profits are earned based on the amount of cases sold. The value added services the firm provides are bundled into the delivered prices quoted to customers.

Management does not hold regular meetings nor produce marketing plans. The company also does not conduct sophisticated financial analysis and market research. Instead, management depends on its sales and marketing staff to collect market information by talking to suppliers and customers. Figure 2 shows the names of all the managers at Genesis Trading along with their respective areas of expertise.
Figure 2: Management Expertise

<table>
<thead>
<tr>
<th>Management Subject</th>
<th>Title</th>
<th>Expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jimmy Smith</td>
<td>Chief Executive Officer</td>
<td>- Replenishment&lt;br&gt;- Relationship building with suppliers &amp; customers&lt;br&gt;- Distribution&lt;br&gt;- Raising Capital&lt;br&gt;- Product Sourcing</td>
</tr>
<tr>
<td>Robert Smith</td>
<td>Marketing Director</td>
<td>- Marketing&lt;br&gt;- Product Development&lt;br&gt;- Market Entry&lt;br&gt;- Distribution&lt;br&gt;- Information Technology</td>
</tr>
<tr>
<td>Sam Smith</td>
<td>Sales Director</td>
<td>- Sales Planning&lt;br&gt;- Relationship building with customers&lt;br&gt;- Warehouse Management</td>
</tr>
<tr>
<td>Jenn Smith</td>
<td>Operations Manager</td>
<td>- Inventory Management&lt;br&gt;- Warehouse Management</td>
</tr>
<tr>
<td>Christine Brown</td>
<td>Chief Financial Officer</td>
<td>- Financial Management&lt;br&gt;- Accounting</td>
</tr>
</tbody>
</table>

Source: Author

The company relies on a relatively small number of suppliers for its products. Genesis Trading’s reliance on its suppliers will likely increase as larger suppliers gain greater economies of scale and consolidate. Genesis Trading is aware of its dependency on its suppliers and treats them with much respect. Management visits its suppliers every six months in hopes of maintaining a good relationship.
Most of the products that Genesis Trading sells are commodities. It differentiates itself from the competition based on its value added services such as guaranteed next day delivery and consulting.

3.2 Financial Evaluation

Genesis Trading is a privately held family owned business and is financed internally through trade credit and retained earnings. A $3,000,000 line of credit with a major Canadian bank is in place although it is infrequently used. For income tax purposes, net earnings remain in the company as shareholder loans and a portion of each year’s net income is paid as bonuses to the owners. However, the owners do not always draw from these loans as they want to ensure that adequate capital remains within the company at all times.

This chapter analyses the financial position of Genesis Trading by reviewing key financial ratios for the past five years. Since it is difficult to obtain financial information on other companies in the industry, industry benchmarks are unavailable.

3.2.1 Gross Margin

Table 2 below indicates that the gross margins for the past five years range from 22.3 percent to 28.5 percent with a steady increase each year. The gross margins are estimated to be higher than the industry average as overtime hours put in by family members are not accounted for.
Table 2: Gross Margin

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margin</td>
<td>22.3%</td>
<td>24.9%</td>
<td>26.0%</td>
<td>27.3%</td>
<td>28.5%</td>
</tr>
</tbody>
</table>

Source: Author

3.2.2 Operating Margin

Genesis Trading’s operating margin is shown below in table 3.

Table 3: Operating Margin

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margin</td>
<td>2.3%</td>
<td>3.7%</td>
<td>4.1%</td>
<td>4.5%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

Source: Author

The operating margin is a measure of operating efficiency because it looks at the profitability of the company before interest, taxes, depreciation, and amortization. The operating margin for Genesis Trading has been relatively low but increasing each year. For 2002 to 2006, the company’s operating margin ranged from 2.3 percent to 5.2 percent.

3.2.3 Profit Margin

Genesis Trading’s profit margin is shown below in table 4.

Table 4: Profit Margin

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Margin</td>
<td>1.4%</td>
<td>1.6%</td>
<td>1.9%</td>
<td>2.1%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Source: Author
The profit margin measures each dollar of sales that turns into profits. This ratio is important as it reflects the company’s ability to control operating costs and its pricing strategy. Genesis Trading’s profit margin has been low for the past five years. The margin ranges from 1.4 percent to 2.3 percent.

3.2.4 Return on Assets

Genesis Trading’s return on assets is shown below in table 5.

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>-1.2%</td>
</tr>
<tr>
<td>2003</td>
<td>1.7%</td>
</tr>
<tr>
<td>2004</td>
<td>1.4%</td>
</tr>
<tr>
<td>2005</td>
<td>1.6%</td>
</tr>
<tr>
<td>2006</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Source: Author

The return on assets ratio measures how effective the assets of the company are being used. The company’s return on assets ratio ranges from -1.2 percent to 1.8 percent. Since the interest paid on the company’s line of credit exceeds these percentages, the company’s profit does not cover the interest on its debt to acquire these assets.

3.2.5 Return on Equity

Genesis Trading’s return on equity is shown below in table 6.
Return on equity measures how efficiently a company employs owners' capital by calculating the earnings per dollar of invested equity capital. Genesis Trading's return on equity for the past five years ranges from 15.5 percent to 19.9 percent.

3.2.6 Inventory Turnover

Genesis Trading's inventory turnover is shown below in table 7.

<table>
<thead>
<tr>
<th>Inventory Turnover</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.13</td>
<td>12.51</td>
<td>12.32</td>
<td>12.62</td>
<td>12.95</td>
<td></td>
</tr>
</tbody>
</table>

| Inventory Conversion Period (days) | 30.09 | 29.18 | 29.63 | 28.92 | 28.19 |

Inventory turnover is an important ratio that is monitored by the management team. Excess inventory creates storage problems, cash flow issues, and increases warehousing costs. However, part of the company's strategy is to maintain sufficient levels of inventory to sustain its reputation as a reliable supplier in terms of selection and quantities.

An inventory turn of 12.13 means that items in Genesis Trading's inventory turn over 12.13 times per year on average. In other words, the typical
food item sits in inventory for about 30 days before being sold (365 days/12.13 times = 30.09 days). It is encouraging to see that the company's inventory turns have shown signs of improvement over the five-year period. The industry average is not available but is expected to be approximately 40 days.

3.2.7 Accounts Receivable Turnover

Genesis Trading's account receivable turnover is shown below in table 8.

<table>
<thead>
<tr>
<th>Accounts Receivable Turnover</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.38</td>
<td>9.59</td>
<td>9.01</td>
<td>8.56</td>
<td>8.23</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author

The accounts receivable turnover rate has decreased over the five-year period from 32.08 in 2002 to 44.35 in 2006. The primary reason for this decrease is that upper management has decided to offer their customers more flexible credit terms even though standard terms in the industry are 30 days net payment. Sales have probably increased due to the company's liberal credit policies. However, the company can encounter cash flow issues if its accounts payables are due before it collects its accounts receivables.

3.2.8 Accounts Payable Turnover

Genesis Trading's accounts payable turnover is shown below in table 9.
Table 9: Accounts Payable Turnover

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable Turnover</td>
<td>11.48</td>
<td>8.58</td>
<td>8.26</td>
<td>6.43</td>
<td>5.70</td>
</tr>
<tr>
<td>Accounts Payable Collection Period (days)</td>
<td>31.79</td>
<td>42.53</td>
<td>44.17</td>
<td>56.75</td>
<td>64.02</td>
</tr>
</tbody>
</table>

Source: Author

The company's accounts payable turnover rate has decreased over the years as Genesis Trading has gained greater credibility with its suppliers. As a result, the company’s suppliers have been willing to extend its credit terms to Genesis Trading. The accounts payable collection period was 31.79 days in 2002 and increased to 64.02 in 2006.

3.3 Summary of Financial Position

Genesis Trading has been increasing its profitability and improving its financial performance over the past five-years. The company does not need to take many drastic measures to restructure its operations to increase financial performance. There is adequate capital to finance growth and sufficient earnings to take on debt in the future if required. Management, however, needs to assess how resources are allocated and compare potential opportunities for investment against expected returns from other investments.

These financial results are highly confidential and are not shared with non-family members.
3.4 SWOT Analysis and Key Success Factors

3.4.1 SWOT Analysis

The management team of Genesis Trading was brought together to discuss the internal strengths and weaknesses of the firm and future opportunities and threats that it may face in the next five years. The following is a review and analysis of this discussion.

Genesis Trading has the following strengths:

Reputation: Genesis Trading has developed a solid reputation in the industry and with its customers for delivering on time, being responsive and behaving honestly. The company also has strong relationships with its suppliers based on its ability to stay true to its commitments and pay on time.

Size: Genesis Trading has adequate resources to service wider geographical areas than smaller firms do. The company is also flexible enough to adapt quickly to internal and external changes.

Marketing: One of Genesis Trading’s core competencies and strengths is marketing. The company is able to bundle products and services and price discriminate very effectively. This leads to high margins and gives the firm a huge competitive advantage. Genesis Trading understands their customers and has a grasp of how much they are willing to pay for its products and services.

The company is also skilful at analyzing the marketplace and identifying future trends. For instance, Genesis Trading was the first company to introduce frozen Country A dinners into the marketplace. The company’s ability to innovate
is intriguing given that management relies mainly on intuition and not market research to prove their predictions.

**Corporate Culture:** The culture at Genesis Trading can best be described as a sales and marketing culture. Most of the company's focus and resources are allocated to these areas. Other functional areas such as Accounting and IT are viewed as necessary but would not exist without marketing and sales. This part of Genesis Trading's culture comes from the founder and his family members and is difficult to change. However, profitability is the key measure for the owners and not purely sales.

The company's sales driven culture is supported by a policy of zero backorders. Genesis Trading carries extensive inventory of its SKUs to support this policy. When a particular SKU is not available, the company will recommend a similar product that is either cheaper or more expensive. The company is also willing to fulfill a customer's order by buying an out of stock product from a competitor and delivering it to the customer. Genesis Trading goes out of its way to support its zero back order policy in order to earn favour with the customer from a service perspective. Management recognizes that Genesis Trading is a service company more than it is a product company.

The hierarchy at Genesis Trading is very flat and the management style is informal. Employees at all levels have personal relationships with the managers and owners and are welcome to raise any concerns and provide feedback. Decisions can be made very quickly but employees usually require final approval
from upper management. This is frustrating to lower level employees and often results in numerous steps to authorize small and insignificant items.

Many informal norms exist at Genesis Trading. For instance, employees are expected to provide their best efforts when they are at work. Employees who shirk or do not try their best will receive subtle comments from their colleagues and upper management. Employees that are constantly late or sick will receive enormous implicit pressure to improve their tardiness and attendance. If the individual exceeds the maximum days allowed by management to be late or show up, the employee needs to make up the miss time, lose pay, or leave the company.

Management openly shares experiences and provides coaching to subordinates in hopes of clarifying the company’s expectations. All employees must meet or exceed these expectations in order to advance their position within the company.

Genesis Trading has the following weaknesses:

*Sales Staff:* Genesis Trading has struggled to develop a strong salesperson outside of the family. It has experienced significant turnover with over 90% of its sales people hired in the past five years leaving. This has made it very difficult for the company to acquire new customers because there are not enough salespeople to service new accounts. The main reason salespeople leave the company is that they feel that their financial compensation is inadequate and that they cannot move up in the company.
The company has also been unable to attract any salespeople from the competition. Management at Genesis Trading believe the reason for this is twofold. First, Genesis Trading does not have a commission structure for its salespeople. Salespeople only receive a salary and do not earn any commission from their sales. Since sales commissions motivate most salespeople, not many salespeople stay at Genesis Trading. Second, successful salespeople in the industry tend to stay with their companies because the amount of differentiation in terms of sales is minimal. Hence, there is no incentive for salespeople in the industry to switch companies unless they receive better compensation somewhere else.

Another weakness Genesis Trading has in terms of its sales team is most of its sales staff is not fluent in English. The current sales team mainly speaks Chinese. However, Genesis Trading has a Marketing Manager and a couple other employees whose first language is English.

The company’s inability to attract and retain a strong sales force will hinder its ability to achieve satisfactory growth in the future.

*Short-term focus:* Management does not engage in continuous long-term planning and does not have a formal strategy, mission, or vision. Further, the company does not produce any operational or capital budgets. This has occasionally resulted in cash flow problems and an inability to make large volume purchases when suppliers are offering big discounts. The company will probably benefit by adopting a longer-term perspective and make more concrete plans for the future.
**Staffing:** Genesis Trading is vulnerable to key staff leaving and absences because the company has done little to ensure that more than one individual is capable of performing critical tasks. When there is an absence, work is either not done or performed at a poor level.

The lack of adequate staffing in some key areas has resulted in employees feeling stressed and overworked. Company management is struggling to fix this situation because it needs to stay lean and cut costs to compete effectively.

**Obsolete Warehouse Equipment and Information Systems:** Genesis Trading has not invested in new warehouse equipment or information systems in the past five years. The reason is the company does not budget for major capital expenditures and it does not have the expertise to manage large projects in areas such as information technology. These reasons result in a reluctance to allocate the necessary resources to achieve significant improvements in this area.

**Unclear Strategic Direction:** Management does not disclose what direction the firm is moving in, what is the basis for decision making, and what the company’s values are. This has lead to low morale and lack of motivation among the staff.

**Lack of Succession Planning:** The founder and president announced that he plans to retire in the next five years. However, he has not announced who will take his place and assume responsibilities for the entire organization. The implied intention is that one of his sons will take over. However, the president
has not spent much time training any of his sons to assume his responsibilities and has not delegated much of his authority.

**Inefficient Standard Operating Procedures:** Poor communication between departments has caused many errors and delays in shipments. Some staff members feel that they are missing information to perform a certain task while others are performing tasks without the optimal amount of information. This has led to confusion among employees, suppliers, and customers.

Genesis Trading has the following opportunities:

**Expand into the Mainstream market:** The mainstream market is comprised of mainly Caucasian consumers and Western based corporations such as Walmart and Safeway. The mainstream market is projected to grow at a faster rate than the traditional ethnic market that Genesis Trading currently sells to. Genesis Trading currently sells to a couple mainstream customers but it has an opportunity to make the mainstream market a larger portion of its business.

Genesis Trading also requires a marketing team that can develop a strong value proposition for each of its products. The marketing team also needs to build a solid marketing plan that positions Genesis Trading’s brands for success in the mainstream market. This means that marketing must ensure that the packaging for Genesis Trading’s products are Westernized and that Genesis Trading’s products do not come across as too foreign. Otherwise, the average mainstream customer will stay away from Genesis Trading’s products and consume other products that are more familiar. Moreover, Genesis Trading’s marketing team needs to be skilled in new market entry and new product
launches since it will be targeting a new group of customers that have never really sold ethnic foods. Finally, the marketing team will need to build a solid distribution network that sells to most of the mainstream distributors and customers.

*Expand into other geographical markets:* Genesis Trading has the potential to expand into other geographical markets such as other provinces and countries. This does not necessarily mean that it has to set up offices in new geographical areas. The company can still ship to other geographical markets from head office but it will need to send out sales representatives to make sales calls.

*Diversification:* Genesis Trading can pursue diversification in product lines, services offered, and new brands. The availability of financial and other resources will determine the feasibility and magnitude of potential diversification. Successful diversification will enable the company to achieve growth in market share and revenues.

*Weaker firms exiting the industry:* As the competition in the industry increases, many weaker firms will go out of business. Genesis Trading can capitalize on weaker firms exiting the industry by purchasing any assets that it needs from these firms at a discount and hire talented employees from these companies.

Genesis Trading has the following threats:
Limited Growth with current portfolio of products: Most of Genesis Trading products are commodities that are not differentiate in any way. This may result in market share loss due to competitors introducing substitute products or cheaper foreign imports.

Emergence of Large Sophisticated Competitors: As the larger firms in the industry continue to grow, they will become more sophisticated in terms of their marketing, distribution, and services. Genesis Trading may lose business with customers that prefer to deal with larger and more sophisticated firms.

A Large Number of Suppliers will sell direct: Some suppliers are already starting to bypass the wholesale channel and are selling directly to customers. These types of sales do not constitute a significant share of the market but this is projected to change. Larger customers such as Wal-mart and Safeway are expected to import more ethnic food products directly from suppliers. Genesis Trading needs to come up with a strategy to mitigate this threat and profit from this new trend.

The following threats for Genesis Trading are listed below but are not discussed in detail for the sake of brevity:

- Loss of major customer account or supplier
- Ongoing customer-side consolidation
- Ongoing supplier-side consolidation
- Emergence of lower-cost rivals selling via the Internet
3.4.2 Assessment of Key Success Factors

The previous chapter identified four current and three future key success factors for the industry. Key success factors help assess whether a company has the capabilities to compete effectively in the industry. The table below analyzes Genesis Trading's capabilities against these key success factors.

Figure 3: Assessment of Key Success Factors

<table>
<thead>
<tr>
<th>CURRENT KEY SUCCESS FACTORS</th>
<th>GENESIS TRADING HAS THIS SKILL (YES/NO)</th>
<th>SKILL LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand</td>
<td>Yes</td>
<td>High</td>
</tr>
<tr>
<td>Price</td>
<td>Yes</td>
<td>High</td>
</tr>
<tr>
<td>Distribution</td>
<td>Yes</td>
<td>Low</td>
</tr>
<tr>
<td>Replenishment</td>
<td>Yes</td>
<td>Low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FUTURE KEY SUCCESS FACTORS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Systems</td>
<td>No</td>
<td>None</td>
</tr>
<tr>
<td>Customer Knowledge</td>
<td>Yes</td>
<td>Medium</td>
</tr>
<tr>
<td>Long-term Planning</td>
<td>No</td>
<td>None</td>
</tr>
</tbody>
</table>
3.5 Key Strategic Issue and Challenges

The analysis of the industry, competitive environment, and Genesis Trading’s main competencies illustrates a couple key strategic issues and challenges that Genesis Trading faces. The firm must address and overcome these challenges in order to remain competitive over the long term.

Genesis Trading must work on improving its profit margins and accounts receivables balance as the firm’s ranking on these two ratios are below the industry’s standards. The company’s financial performance has been satisfactory with profitability achieved each year. However, overall profitability is vulnerable to market volatility, aging account receivables, and customer financial problems. Genesis Trading must manage its risks in terms of accounts receivables and monitor its profit margin to ensure that it is getting a solid return on its assets. The company competes in a high volume, low margin environment and faces dire consequences if substantial unexpected losses occur. Increasing consolidation on the supply and demand side will minimize opportunities to earn long run profits by exploiting niche markets. This consolidation trend may also reduce the availability of larger accounts for Genesis Trading to serve. Genesis Trading may be forced to sell to customers that larger competitors or suppliers view as risky or unattractive.

Genesis Trading needs to develop competitive advantages that differentiate itself from the competition. The company is not large enough to service all potential customers and it is unlikely that it will ever gain the
economies of scale to do so. This implies that the company needs to segment and target a specific group of customers and form closer relationships with the top suppliers. As transaction costs fall, customers will likely seek efficiencies by conducting most of their business with preferred vendors. Clearly, this means that Genesis Trading needs to target a specific group of customers and position itself as their preferred vendor. Management will also need to hire additional salespeople to service its customers as it cannot expect the founder's family members to conduct all sales calls.

Genesis Trading's market share is expected to drop due to industry-wide consolidation, emergence of large sophisticated competitors, slow growth in its current portfolio of products, and increased competition from substitutes and new imports. The company has earned low profit margins over the past five years and needs to pursue activities that will help it generate higher profit margins. For instance, the company can increase the brands in its product portfolio, divest brands that are unprofitable, and acquire smaller firms with higher profit margins.

Genesis Trading must develop the internal capabilities to compete on the key success factors identified as necessary for future success. Information technology and long term planning are two key competencies that the company must develop in the future. Given the amount of resources needed to develop these capabilities, Genesis Trading must consider the costs and benefits of the required investments to develop these capabilities and the potential benefits.

The company must be able to attract, develop, and retain talent given that there will be a projected shortage of talented employees. Although Genesis
Trading can recruit talent from weaker firms that exit the industry and has the experience to develop talent, management does not have the required mentality to do so. Management focuses too much emphasize on training the family members and needs to delegate authority to outside members.

Finally, management needs to objectively assess whether it wants to remain in this mature industry or invest its assets in another industry. Is management willing to make the investments required to develop the necessary key success factors? Also, are the founder’s children capable of running the company or will they need to hire an outsider for the job? Even though the company has achieved financial success and profitability in the past, the uncertainty surrounding the future competitive environment and the increasing strength of the competitive forces makes future profitability less certain.
4 STRATEGIC ALTERNATIVES AND RECOMMENDATIONS

The preceding analysis presented information on Genesis Trading’s key strategic issues and the competitive environment. The analysis also presented the strengths and weaknesses of the company indicating that Genesis Trading needs to rectify key tactical issues and develop a long term strategic plan. Otherwise, the firm will struggle to improve profitability and remain competitive. This section evaluates long-term strategic alternatives available to the firm and how well they address its strategic issues and challenges.

Any successful alternative should be able to meet Genesis Trading’s most critical needs:

- Growth in market share and profits
- Development of a competitive advantage to differentiate the company from competitors
- Flexibility to voluntarily exit the industry if necessary

4.1 Status Quo

The status quo will be described as the current state of affairs. This alternative suggests that Genesis Trading operate business as usual and does not make any significant modifications in its operations and activities. Genesis Trading’s current strengths and strategy have allowed it to successfully
participate in the industry and earn profits. However, continuing with the status quo does not adequately protect Genesis Trading from competitive forces or address its primary concerns. The emergence of large sophisticated competitors and new distribution channels may also negate Genesis Trading’s current capabilities and strengths. Further, without a proactive strategy, Genesis Trading puts itself in a reactionary mode. However, an analysis of the status quo will provide perspective on specific areas where this alternative meets or fails to address the company’s current needs.

The company competes in a market where the products and services are essentially undifferentiated. This type of market environment makes it very difficult for firms to obtain a competitive advantage and offer unique solutions. Genesis Trading has an opportunity to differentiate itself and gain a competitive advantage based on its strong relationship with its customers and exclusive distribution agreements with a few suppliers. However, the competition also has similar distribution agreements with other suppliers and established relationships with customers, which offsets any clear advantage. This implies that Genesis Trading can only gain a limited competitive advantage by leveraging its current capabilities.

As the previous chapters suggest, the status quo means Genesis Trading will remain vulnerable to substantial losses from inventory risk and accounts receivables. Profit margins are expected to fall as the industry matures, consolidation increases in all sectors of the industry, and the competition
becomes more sophisticated. These trends indicate that Genesis Trading's profits and market share will fall if it continues with the status quo.

The status quo alternative does allow Genesis Trading to voluntarily exit the industry. The company's current strategy, short-term focus, and limited long-term liabilities make liquating its assets and exiting the industry simple. Migration to an entirely different type of business is not feasible as the company lacks the diversification to do so and does not have the capabilities to compete in a new industry. The company could exit the industry via an acquisition by another company. This is a viable option as the company is an attractive acquisition target. Genesis Trading owns the distribution rights for some popular ethnic brands and has a strong distribution network.

4.2 Expand Into Other Geographical Markets

4.2.1 Expanding Into Eastern Canada and the USA

Distribution is a key success factor in the ethnic food wholesale industry. In order for Genesis Trading to compete effectively, the company must continuously expand its distribution network. By selling into new geographical markets, Genesis Trading will accomplish two primary objectives. First, the company will increase its sales volume by gaining access to a larger customer base. This will increase Genesis Trading's ability to negotiate with their suppliers. Moreover, it will be increasingly difficult for the company's suppliers to bypass Genesis Trading if it has more customers in different geographical areas. The suppliers will need to contact many more customers and understand their
individual needs in order to displace Genesis Trading's business. Second, expanding into new geographical markets will reduce the buying power of Genesis Trading's customers. A larger customer bases means Genesis Trading will not be as reliant on select customers that it makes poor business decisions to protect its share of the market.

In evaluating opportunities for new geographical markets, Genesis Trading should evaluate the potential of expanding to Eastern Canada and/or the United States of America. Eastern Canada and the USA provide a big market for the company to exploit, as the population density in these areas is huge. However, these markets are also mature and any new entrant such as Genesis Trading will only obtain market share at the expense of existing ethnic food wholesalers and retailers. Therefore, it is very likely that Genesis Trading will face intense price competition and possible retaliation by competitors in this area whereby they increase their presence in Genesis Trading's home market. Genesis Trading needs to conduct its due diligence and plan its expansion strategy in order to assess whether it can meet the new challenges in any new geographical market.

Given that Genesis Trading is a small company, opportunities for employees to advance within the firm are limited and are dependent on the company's growth. Expansion into new markets will provide these opportunities, however it must be at a rate that is manageable with the firm's logistical and financial capabilities. Expansion and growth is important to the firm's long-term success and profitability. The potential drawback of this strategy is the company can lose its focus on its established markets.
The company has occasionally made sales calls outside of its home market in Western Canada but they have been infrequent and minimal. This limited experience in Eastern Canada and the USA illustrates that the company needs to increase its competence in local competition, business practices, logistics, and local laws. In addition, the firm must add qualified employees in key functions such as marketing and sales because its current team of employees have limited capacity and experience. Fortunately, Genesis Trading is very experienced with the wholesale market and can make informed decisions on pricing, distribution, promotional activities, and product selection. The company’s strong relationships with suppliers in the industry, experience in importing, and strong brand recognition open many doors for the firm. Moreover, existing warehouse facilities and resources can be used to store and ship products.

4.2.2 Merger and Acquisition

Genesis Trading can enter new markets by horizontally integrating via a merger or acquisition with another firm. In Western Canada, this would mean purchasing existing small-regionalized competitors that serve specific channels such as food services or convenience stores. In Eastern Canada and the USA, Genesis Trading can bypass a significant experience curve by merging with a firm that is experienced in the location purchased. It is important that company retain key employees in the target firm after any merger to ensure that their knowledge and skills transfer over to Genesis Trading. This approach will provide a fast impact against current competitors as the company’s scale and
geographical reach will increase significantly. This option will also address the problems and challenges associated with establishing a new sales force and building market share.

Genesis Trading has the financial capability of pursuing a merger. Suppliers will also become more dependent on Genesis Trading within a short time frame as the company increases its volume and market share. Hence, suppliers may retreat on their strategy of selling directly to some of Genesis Trading’s customers if they become increasingly dependent on Genesis Trading. However, this strategy within the Western market alone will not be sufficient to provide suppliers with the volume and market share to become very dependent on Genesis Trading. Finally, this strategy addresses many of Genesis Trading’s primary challenges and thus is a viable and persuasive option.

4.3 Diversification

The diversification alternative can be pursued in many different ways. For instance, Genesis Trading can diversify its product portfolio and services offered. The feasibility restraints on the type and degree of diversification are determined by the availability of resources and the firm’s capabilities.

Genesis Trading can diversify its product portfolio by creating its own private label of ethnic foods. This will allow Genesis Trading to differentiate itself based on the brand equity of its private label. If the quality and price of its private label are inferior to its competitors, Genesis Trading will not have much room for differentiation. Hence, it is vital that Genesis Trading collaborate with a supplier
that can produce quality private label products at competitive prices if Genesis Trading decides to create a private label. A successful private label launch will allow Genesis Trading to differentiate itself and have complete control over how its private label is marketed.

Genesis Trading can also pursue diversification by increasing the services it offers. One option available to the firm is to increase its competency in category management and manage ethnic food categories for retailers. This requires the firm to develop market research competencies and understand which products and brands are the most profitable in the ethnic foods category.

These suggested forms of diversification require a long-term perspective to develop the required expertise and significant investment of resources to understand and then gain competitive advantages. Some of these diversification options are within Genesis Trading’s current capabilities and resources. However, any significant diversification investment must not threaten or constrain the company’s current operations since it will most likely take a longer period to realize the returns from these investments.

Diversification means the company will need to develop new capabilities and new relationships. Genesis Trading must ensure that company management and any firms that it collaborates with in any diversification efforts maintain a long-term perspective and not expect immediate financial success. This is difficult since most managers and firms expect immediate results and do not have the patience to wait years in order to develop new competencies.
Hence, the company may struggle to develop new competencies in attempts to diversify.

If Genesis Trading decides to diversify, the company should pursue areas that increase its profitability or compliment its current operations. This implies that Genesis Trading needs to pursue products, services or markets that are relatively specialized and have potential for long-term growth. Otherwise, the company will be unable to realize a satisfactory return on investment.

Successful diversification will help Genesis Trading achieve growth in profitability and market share. The amount of growth will ultimately depend on the type of diversification pursued. If the company is very successful in its diversification efforts, it may choose to focus more exclusively on its new area of specialization and either reduce its participation in its current business or exit the industry altogether.

### 4.4 Focus on the Mainstream Market

The focus on the mainstream market alternative allows Genesis Trading to concentrate most of its efforts in selling to Western customers such as Safeway and Wal-mart. Industry analysts predict that the mainstream market will grow at a much faster rate than the ethnic market that Genesis Trading conducts most of its business. Mainstream customers have many resources, are very sophisticated companies, and have excellent marketing and retailing capabilities. Mainstream customers are also rationalizing their vendors and prefer to deal with a limited number of preferred vendors. Hence, Genesis Trading is in a position
to become a preferred vendor of the large mainstream chains if it can start building its credibility with these customers by focusing on this market. Being a leader in the mainstream ethnic foods market could potentially be a source of advantage for Genesis Trading.

Genesis Trading owns the distribution rights of many popular brands that it can sell to the growing group of mainstream customers. Of all the key success factors (KSF) discussed earlier in this project, mainstream customers value brands the most. Genesis Trading has a better chance to succeed in the mainstream market compared to its competitors because of its advantage on the brands KSF. Finally, Genesis Trading can also work with mainstream customers to develop new brands of ethnic food catered to mainstream consumers (such as Country A TV dinners).

Genesis Trading’s can implement its focus strategy in a couple different ways: instantly, incrementally, based on product line, based on group of customers.

*Instantly* – Genesis Trading has the option of immediately implementing its focus strategy and start selling exclusively to the mainstream market. This option requires it to stop servicing other markets and focus all of its efforts on selling to the mainstream market.

*Gradually* - Genesis Trading can also start increasing its business with the mainstream market gradually. This option means that Genesis Trading will start increasing its focus on the mainstream market gradually and eventually the mainstream market will make up the majority of its sales.
**Product Line** – Genesis Trading has the option of only selling certain product lines (ie canned fruit) to the mainstream market and not its other product lines that it deems is unsuitable for the mainstream market.

**Group of Customers** – Genesis Trading has the options of only distributing to select mainstream customers while continuing to sell to its current group of ethnic customers. For instance, Genesis Trading can concentrate on distributing to a select group of mainstream retailers or a certain group of mainstream food service providers such as Sysco Foods.

Genesis Trading will require resources in sales, marketing, operations, finance, and human resources to implement its focus strategy.

Genesis Trading will need a sales team that is fluent in English and strong in sales to execute its focus strategy. Sales personnel must be able to effectively develop solid relationships with customers and sell the benefits of Genesis Trading’s ethnic brands. They must also be able to up-sell and cross-sell products instead of just order taking.

The company’s marketing team needs to be able to develop a strong value proposition for each of its products. The marketing team also needs to build a solid marketing plan that positions Genesis Trading’s brands for success in the mainstream market. This means that marketing must ensure that the packaging for Genesis Trading’s products are Westernized and that Genesis Trading’s products do not come across as too foreign. Otherwise, the average mainstream customer will stay away from Genesis Trading products and consume other products that are more familiar. Moreover, Genesis Trading’s
marketing team needs to be skilled in new market entry and new product launches since it will be targeting a new group of customers that have never really sold ethnic foods. Finally, the marketing team will need to build a solid distribution network that sells to most of the mainstream distributors and customers.

Genesis Trading’s operations will also play a critical role in executing its focus strategy. Its operations team must continue to maintain solid relationships with its current group of suppliers and build relationships with new suppliers as relationships with suppliers is a KSF. Genesis Trading will also need to have information technology (IT) systems that integrate with its mainstream customers as these customers usually place orders and make payments via electronic data exchange (EDI). Genesis Trading also requires a strong IT system for efficient replenishment and managing on time deliveries. Mainstream customers clearly state that they will switch suppliers if a distributor is frequently out of stock or delivering products late.\footnote{Most Asian grocery stores are more lenient when a distributor is out of stock or delivers products late.}

Genesis Trading also needs to have strong financial performance and stable cash flow to execute its focus strategy. Approximately $250,000 is required to support marketing initiatives, IT system upgrades, and hiring of new talent such as additional sales and marketing staff.

Genesis Trading also requires human resources skills to design a competitive compensation package for its staff. This includes attractive bonus
systems for employees, promising career paths, and promotional opportunities for all employees. Human resource skills will also be necessary to develop a culture that is compatible with its focus strategy.

Genesis Trading has minor resource gaps in all the key resource areas required to execute its focus strategy except for finance. Nonetheless, Genesis Trading does have the capability to close its resource gaps given one to two years.

If Genesis Trading’s management team decides to pursue the focus alternative, it should adopt a focus strategy gradually rather than instantly because it has many resource gaps to close. Moreover, Genesis Trading should implement its focus strategy by product line since some of its products do not have Westernized packaging and it will take Genesis Trading awhile to resolve this issue. Genesis Trading should also implement its focus strategy only on the retail level given all of its resource gaps and that Genesis Trading has experience servicing the retail channel. In summary, Genesis Trading should gradually implement its focus strategy by product line and via the retail channel if it decides to pursue the focus strategy.

4.5 Exit

Genesis Trading has a couple potential exit alternatives. First, the company can exit the industry by liquidating its operations and assets. Second, the company can reassign its resources and focus to another industry. Third, the company can sell its business to another company.
The president's recent announcement of his intention to retire creates new problems and opportunities for the firm. The president has hinted during family dinners that the heir apparent to the company is, Robert Smith, the founder's youngest son. Both Robert and Jimmy are aware of the distinct challenges that the company faces are committed to taking any actions required to overcome these issues. Hence, an immediate exit strategy is not evaluated any further except in regards to the analysis of other strategic alternatives.

The option of transferring the focus of the company's operations to a new industry was highlighted in the previous diversification alternative. In order to successfully exit the company's current industry and move to a new one, Genesis Trading needs to develop new capabilities and invest a large amount of resources for a longer period than it feels comfortable.

Genesis Trading can also position itself as an attractive acquisition target and make strategic moves that enhance its value in the eyes of potential acquirers. This particular exit strategy includes all the strategic alternatives previously discussed except the voluntary liquidation alternative. However, the voluntary liquidation alternative is dismissed based on the premise that company management plans to take all actions to overcome the firm's strategic challenges. At present, there have been no offers to purchase Genesis Trading. There will not likely be any offers soon since it will take a couple years to successfully implement any of the strategic alternatives and increase Genesis Trading's value as an acquisition target.
4.6 Assessment of Strategic Alternatives

This analysis has exposed some serious concerns for Genesis Trading and a recommendation that corrective action be taken now while the company is financially stable will be put forward.Delaying strategic decisions or adopting the status quo invites suppliers and competitors to continue encroaching on Genesis Trading's market. Genesis Trading must develop a strategy to defend its position from suppliers forward integrating and from competitors encroaching on its market share, as well as plan for growth. A focus on long-term planning and being proactive instead of reactive are essential for Genesis Trading to remain competitive.

The table below (table 10) evaluates each strategic alternative presented based on how it meets and resolves Genesis Trading's current issues. Each of the three criteria listed at the beginning of this chapter is assigned a weight based on the relative importance Genesis Trading places on the successful resolution of the issue.

Each alternative is measured on a scale from 1 through 10. A score of 10 indicates that the successful implementation of that particular alternative will definitely meet that specific criterion. A score of 5 is neutral in the sense that a particular alternative neither detracts nor contributes to the fulfilment of a criterion. The alternative named “Exit by acquisition” receives a score of 5 (neutral) as the effect of this alternative on each criterion depends on how Genesis Trading achieves its exit via acquisition. The odds of Genesis Trading being acquired is not likely within the status quo alternative and more likely if Genesis Trading
adopts its other strategic alternatives. Hence, the full evaluation of the company's exit alternative is based on the choice of its antecedent strategy.

It is important to note that this table (table 10) is not intended to be predictive. Instead, it is designed to be descriptive, and provide a relative indication of risk and an explanation for the recommendations.

Table 10: Assessment of Strategic Alternatives

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
<th>Status Quo</th>
<th>Expansion into New Geographical Areas</th>
<th>Diversification</th>
<th>Focus on Mainstream Market</th>
<th>Exit By Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>45</td>
<td>4</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>50</td>
<td>5</td>
<td>7</td>
<td>9</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Flexibility to Exit</td>
<td>5</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>5.67</td>
<td>7.67</td>
<td>8.33</td>
<td>8.67</td>
<td>5.00</td>
</tr>
</tbody>
</table>

Source: Author
5 RECOMMENDATIONS

According to Table 10, the “focus on mainstream market” alternative most comprehensively addressed the key strategic issues and challenges Genesis Trading faces. The implementation of the specific recommendations will help the company grow its profits, increase its market share, and give it a competitive advantage.

By adopting the focus strategy, Genesis Trading will be able to increase its profits and market share in a rapidly growing mainstream market instead of competing for profits in its traditional ethnic market which is oversaturated. The volume the company is projected to sell in the mainstream market is enormous if it can execute.

The company definitely is capable of executing this strategy. Genesis Trading currently has strong brands, knowledgeable employees, strong relationships with key suppliers, and a solid reputation. The company has the ability to quickly gain competency in information technology, customer segmentation, and selling to Westerners.

The successful overcoming of key challenges will depend on how well Genesis Trading implements and executes the recommended strategy. Only high level recommendations are provided to guide the company through key components of the proposed strategy as implementation issues are outside the scope of this project.
5.1 Action Plan

Initiative I – Establish Succession Plan

After the president announced his plans to retire, there is some uncertainty as to the direction of the company and who will be leading it. The president needs to develop a succession plan, clearly establishing the future leadership of the firm and communicating the direction to the organization and its key suppliers.

Initiative II – Create a Focused Marketing Strategy and Target Key Suppliers

Genesis Trading should design a marketing plan that outlines its value proposition in terms of its services and products offered to mainstream customers. The firm should identify key suppliers and have one person focus on distribution agreements and active business development projects. Business development projects can include developing new product lines to sell to mainstream customers.

Initiative III – Obtain Exclusivity of Product Lines For Distribution

Genesis Trading should work with its key suppliers identified above to gain more exclusive distribution rights to the products that its plans to sell to mainstream customers. The company needs these distribution rights in order to differentiate themselves and reduce the opportunity of a competitor offering the same product to mainstream customers at a lower price. Genesis Trading should be able to convince its suppliers to give them these distribution rights
since it has really strong relationships with them. Moreover, suppliers are mainly concerned with three things: 1) Their brands are well-marketed 2) They are earning fair profits 3) Their sales volumes are maximized. Genesis Trading can argue that if it is the sole distribution agent dealing with mainstream customers, it can satisfy all three of these objectives and avoid confusing the mainstream customers with multiple distribution agents sending different messages.

**Initiative IV - Hire an Experienced Human Resources Manager**

Genesis Trading needs to hire an experienced human resources manager to design a competitive compensation package for its staff, develop a culture that is compatible with its focus strategy, and hire the necessary people to implement the strategy. In addition, management at Genesis Trading needs to empower employees outside of the family more and give them an opportunity to reach the ranks of management. This will be difficult given that most of the current management team is unwilling to promote outside employees to the management level. The management team will have to work closely with the new human resources manager to ensure that the right people are hired and that all key resource gaps in terms of employees are closed.

**Initiative V - Implement Enterprise Resource Planning System (ERP)**

Genesis Trading should implement an ERP system in order to improve its weaknesses in warehouse management and be able to communicate with the mainstream customers’ IT systems.
5.3 Conclusion

Genesis Trading is a company that is at the crossroads. It has many key competencies that will enable it to be a successful player in the ethnic foods industry. However, it does not have the direction to leverage these capabilities and implement a successful strategy. If the company successfully addresses the strategically challenges outlined in this analysis and adopts the recommendations above, the future of the company is bright.
REFERENCE LIST


<http://www40.statcan.ca/101/cst01/trad20a.htm>