1. What opportunities and threats did Ice-Fili face at the time of the case? Use each of the external analysis tools introduced in Chapter 2 to justify your answer.

Six Segments of the General External Environment:

The general external environment can be broken into six segments and used to evaluate the surroundings of an individual firm. These segments are specific international events, technological changes, demographic trends, legal/ political conditions, economic climate, and cultural trends. Many events or trends from each of these segments are discussed in the text. However, for the purpose of this evaluation, only the legal and political conditions and cultural trends will be discussed.

The legal/ political climate majorly shifted after the end of the Soviet Union in 1991. This change brought an end to communism is Russia and a renewal of the economic environment through capitalism. Capitalism opens the door to immense economic growth and opportunity for Ice-Fili. It also dramatically increased the number of competitors in the ice cream market. Many new foreign competitors such as Ben & Jerry's entered the market and brought more product differentiation and marketing tactics into the industry. The new free market presented many opportunities and threats to Ice-Fili.

Another legal/ political event that affects Ice-Fili is the introduction of value added tax. This tax can dramatically reduce revenue in the industry by pushing up the price of ice cream and forcing companies except smaller profit margins. It can be assumed that the market is very elastic when one takes into consideration the amount of product substitutes discussed in the text. The value added tax was later narrowed to exclude dairy based ice creams. This tax and its later alteration can have dramatic impacts on Ice-Fili.

Culturally, it is noted in the text that Russian citizens prefer traditional Russian ice cream that has more fat and less preservatives. This is how Ice-Fili traditionally makes their ice cream and has exploited this trend throughout their existence. However, cultural shift is also noted in the text. As US companies bring their ice creams into the market, it is seen that Russian citizens enjoy the foreign flavor combinations that US companies have to offer.

Model of Environmental Threats (Porter's 5 & Complementors):

Next, we will evaluate the external environment using the model of environmental threats. With this tool, we will look at the potential threat level of new and existing competition, buyer influence, supplier leverage, substitute products and complement products.

The threat level from new competitors is high due to a reduction in the barrios of entry. During the Soviet Union, the company was backed by the government. The communist economic and political structure blocked all other producers from entering the market. With the collapse of the Soviet Union and the re-establishment of free commers in Russia, powerful international producers are no longer barred from entering the market.

The threat of existing competitors began with this huge economic change as well. For example, Nestle has the longest relationship with Russia compared to other foreign competitors. This competitor became deeply rooted in the market through investing in storage facilities and distribution networks. Other companies have gained market share in the Russian ice cream industry by selling exotic flavors.

The threat of substitutes products is also high in the ice cream industry. As previously discussed, Russian culture mostly views ice cream as a quick, on the go snack. With this, multiple substitutes arise such as yogurt, bear, soda and many others. The text even suggests that bear may be preferred over ice cream in some demographics.

On the other hand, buyer influence is very low in the ice cream industry. There are many individual buyers in the ice cream industry. This keeps their influence low and prevents any one buyer from gaining too much leverage over Ice-Fili. Some buyers such as supper markets buy in larger quantities but do not have enough market share to have potential leverage over Ice-Fili.

Supplier leverage is moderate is Ice-Fili's operations. Most of Ice-Fili's suppliers do not have high influence because they provide products such as sugar and milk that can easily be obtained from different sources. This prevents any one supplier from gaining leverage. However, one ice cream ingredient, sweet cream butter from New Zealand, is very important to the flavor of the ice cream. This specialized product gives the New Zealand company leverage that they could use over Ice-Fili and raises the threat level for supplier leverage.

Finally, there is moderate amount of opportunity in complementary goods. These goods add value to the ice cream market by increasing sales. For example, Ice-Fili pared with a pizza establishment to increase sales through the utilization of a complementary good. Other goods such as ice cream cones, sprinkles and chocolate or caramel sauce can also be seen as complementary goods depending on consumer preference. All of these items have the potential to boost ice cream sales.

<u>Generic Industry Structures:</u>

Our final tool of evaluation is determining which industry structure the overall Russian ice cream industry fits best in. The structure could be emerging, mature or declining. The industry could also be determined to be fragmented in any of these other three stages of industry structure. Determining the industry structure will then allow one to determine a number of opportunities that may be available to Ice-Fili.

Through looking at the information given, the Russian ice cream industry is a mature industry. A mature industry structure is characterized by slowing growth in demand, technological standards, industry-wide profit decline, and the beginning of industry exit. A slowing growth in demand for ice cream can be seen in the increasing trend of corporations to export, instead of import ice cream products as seen in Exhibit 6 bellow. This trend indicates that the Russian public is demanding less ice cream causing the manufacturers to export more of their product. Technological standards for ice cream production in manufacturing, storage and distribution is discussed in the text. It is pointed out that Ice-Fili is well behind some foreign competitors in manufacturing technology, but their cold storage and distribution modes have been a large part of Ice-Fili's continued operations. There is also abundant increases in international competition as more foreign companies such as Ben & Jerry's, Baskin-Robbins and Nestle attempt to gain market share in this Russian industry. These facts and many more point to the Russian ice cream industry being a mature industry, and reveals the potential opportunities of refining current products, improving services, or process innovation.

Although there is a high trend of small kiosk distributors (49% of the market share), the industry cannot be characterized as fragmented because it has dominant firms, dominant technology and economies of scale. Ice-Fili and Nestle are dominate firms in the industry and are by themselves proof that the industry has moved out of fragmentation. Ice-Fili, as discussed in the text, is behind the industry standards for technology. They began on par with US manufacturers in the 1930s but all Russian standards fell behind from the 1960s to the 1970s. The industry standard set now by the US companies that have entered the Russian market shows that the industry is not fragmented. Economies of scale is a characteristic of any large manufacturing company and is especially exhibited in Ice-Fili's distribution system. They invested in their own refrigerators and trucks for distribution. This move naturally involves economies of scale. The more ice cream transported by this distribution system, the more fixed costs are spread between the units. These factors clearly exhibit that the Russian ice cream industry is not fragmented.

From looking at the external circumstances around Ice-Fili, several opportunities and threats have been identified. The six segments of the general external environment point out that the preferences of the Russian public, the shift to a free market and the value added tax have large potential implications for Ice-Fili. Through the lens of the model of environmental threats, it can be observed that new and existing competitors and substitute goods present the highest threat to Ice-Fili. Finally, by determining the industry structure, it can be seen that product development is a potential opportunity for Ice-Fili.

2. <u>What course of action would you recommend to Anatoliy Shamonov in order to improve Ice- Fili's performance? Why?</u>

After examining the external environment around Ice-Fili, it is recommended that the company work to expand their market share through product development coupled with strategic advertising. If implemented properly, these two elements could be used to make Ice-Fili and even more powerful competitor in the Russian ice cream market.

The mature industry structure indicates that product development is potentially a profitable opportunity for the Russian ice cream market. From evaluating the six segments of the general external environment, it was seen that Russian culture is an important factor in ice cream sales. Ice-Fili has maintained the traditional ice cream recipe through their higher fat content and lack of preservatives. It was also noted that the market also showed high favor for the flavors of US ice cream companies. Ice-Fili should work to couple their traditional ice cream recipe with the popular new flavors. This would appeal to both flavor preferences and potentially increased their market share. Ice-Fili should also focus the development of their products on dairy based ice creams to avoid the value added tax and the potential profit losses that the tax can cause.

Coupling this product development with increased advertising will help to combat their new and existing competitors and substitute products. The text states that bear, one of the more prevalent substitutes, advertises on TV dramatically more that the ice cream industry and especially Ice-Fili. Developing a better, more desirable product cannot boost profits at its full potential without advertising the changes and the Ice-Fili brand at the same time. Increased advertising would exhibit how Ice-Fili stands out from the other large competitors in the ice cream industry.