

Product policy of SC Electrecord S.A.

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Abstract: The global brand has the advantage of the scale economy, facilitates the company image and prestige and sometimes benefits even from its origin country effect. Its use is quite difficult (the semantic variations can impede the use of the same brand). The international brands act as a restriction against standardisation (the product should not be differentiated as there are internationally accepted and recognised brands). This paper makes an overview description of the general market environment, but also of the market environment of SC ELECTRECORD S.A.; it underlines the product characteristics as well as the commercial diagnosis within SC ELECTRECORD S.A.

Key words: product policy, global brand, market environment, product characteristics, commercial diagnosis.

1. Market environment

It mainly refers to the following components and key issues:

- legal regulations – exclusively politically oriented, they are meant to protect the internal branches or to respond to political pressures or they can be regulations regarding the protection of the environment, with a major impact on the product designing,

packaging and labelling.

- non-tariff barriers – the setting up of certain standards and procedures for product testing and checking, the subsidising of domestic products, the bureaucratic delays of some endorsements and approvals, all these register an ascendant trend.
- consumer's characteristics and preferences – if they are quite different

from one another, standardisation cannot apply.

- purchase and consumption patterns – purchasing frequency, miscellaneous uses of the product on different markets, various preparing methods.
- economic status of the potential user – the purchasing power influences both the product designing and packaging.

2. Analysis of the market environment of SC ELECTRECORD S.A.

The economic environment comprises all the economic factors influencing the company capacity to compete in its field of

activity, but also the consumers' possibility and willingness to purchase different goods and services.

The following are some of the key factors influencing the purchasing power: inflation rate, tendency of prices, population consumption patterns, unemployment rate, real income, wholesale trade structure, export and import of goods. These issues relating to the economic status of the area where S.C. ELECTRECORD S.A. is going to carry out its activity are directly or indirectly reflected in and determine the volume and structure of the supply of merchandise, the changes in prices and the competitors' level.

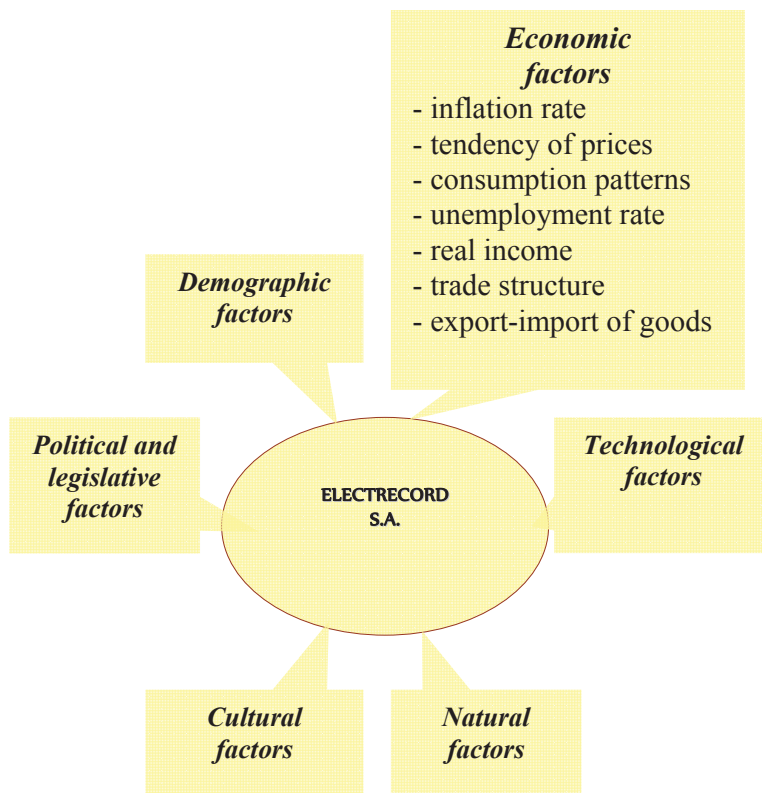


Figure 1. Key factors influencing the activity of S.C. ELECTRECORD S.A.

3. Product characteristics

These characteristics are closely related to the following:

- product components – the complexity of the product processing and the compliance with the legal regulations and religious customs.

- brand – the product image bearer and the most standardised product component. The company may use local, regional and global brands.

The global brand has the advantage of the scale economy, facilitates the company image and prestige and sometimes benefits even from its origin country effect. Its use is quite difficult (the semantic variations can impede the use of the same brand). The international brands act as a restriction against standardisation (the product should not be differentiated as there are internationally accepted and recognised brands).

- packaging – it is meant for the product protection and promotion; it varies for the same product depending on: the weather

conditions specific to the target foreign countries, the modality of transportation, the time needed for transportation and the labelling (bilingual information, choice of colours, package shape).

- functions, attributes, characteristics – they are broadly adapted for the products addressed to consumers (colours play an important role in this respect).

- use and operation methods – as for the electronic products, the deviations from the standard product are related to the differences existing between the voltage systems and the measurements systems.

- sustainability and quality – the competitive advantage in the international marketing management may be obtained not only by appealing to low prices, but also by providing high quality (standards ISO 9000).

- maintenance, after-sale services – more difficult the carrying out of these services, more technically justified the product standardisation, due to the particular importance of services.

Consumer's preferences	Use conditions	Purchasing capacity	Product line strategy
equal	equal	existent	extension
different	equal	existent	extension
equal	different	existent	adaptation
different equal	different	existent, low or none	adaptation, inventions (new products)
none	inadequate		removal

Table 1. Strategies regarding the product lines

4. Product characteristics at SC ELECTRECORD S.A.

The commercial diagnosis is oriented towards the establishment of the market and of the company position on this market.

The main object of activity of S.C. ELECTRECORD S.A. is in compliance with code CAEN 223 – reproduction of the recorded media.

Until 1989, this company was the only manufacturer of registered tapes and disks, holding the monopoly in the phonographic industry in Romania. Nowadays, even if the competition is increasing, S.C. ELECTRECORD S.A. remains the most important manufacturer of audio products in Romania.

The main products of the company are as follows:

- before 1989
 - audio tapes
 - analogue disks
- at present
 - audio tapes
 - compact disks

Evolution of the market over the last 30 years

In the nineteenth decade, the traditional audio records, on disks, have continued to decrease from 800 million copies in 1980 to less than 80 million copies in 1993.

The forecasts of 1980 – 1993 were indicating that around 2000, the sales of analogue

disks were about to reach the zero level. In exchange, the compact disks have registered a spectacular evolution.

Launched in 1982, they have exceeded the line of 1 billion copies in 1994, and in 1995 the CDs world production has reached the level of 1,4 billion copies.

Worldwide, the audio tapes, after their quite long run success during 1980 – 1990, have saturated the market and have entered their decline stage.

According to the forecasts of the „Tape One” magazine, the worldwide estimates for the product sales in 2005 were going to be about 47% more than those of 1995 (an impressive weight in this increase coming to the CDs production).

The Romanian market follows the evolution of the international market regarding the analogue disks and CDs, the first one disappearing while the CDs sales continuously increasing.

Evolution of the production of S.C. ELECTRECORD S.A.

The production of analogue disks, representing 104% of the capacity designed in 1989, has registered a continuously decreasing evolution, reaching today the level of 0%, thereby following the market trend.

The evolution of the production of tapes has been oscillatory. Thus, if in 1989, 107% of the designed capacity has been manufactured, in 1993, it has decreased to only 81%, evidencing an oscillatory evolution.

Product	2006	2007	2008
Audio tapes	344,833	198,152	255,312
CDs	83,618	92,890	120,318

Table 2. Evolution of the products sold by S.C. ELECTRECORD S.A. during 2006- 2008

Most products are sold on the domestic market, the end product export being insignificant.

Forecasts regarding the production of S.C. ELECTRECORD S.A.

Although continuously decreasing,

at the worldwide level, since 2005, the production of tapes has begun to increase, the demand for audio products registering nowadays an ascendant trend. On the Romanian market, due to the low purchasing power, the CDs cannot replace the audio tapes.

Product	2009	2010	2011	2012	2013
Audio tapes	280,000	300,000	300,000	300,000	300,000
CDs	144,000	172,000	189,000	245,000	257,000

The investment programme considered for the following period contains:

- 1) the creation of a new line of audio tape records (replacing the old one)
- 2) the creation of a new line for manufacturing cases – 150.000 pcs/year since 2010 (both for CDs and for tapes) and C0 tapes (empty tapes) – 100.000 pcs/year, the latter being currently brought by the company.

As for the publishing area, the activity of Electrecord record company will primarily focus during the following years on thematic programmes aiming to develop the catalogue of recorded compact disks and audio tapes, thus increasing the supply addressed to the musical market.

The drawing up of these programmes will be based on artistic value-related criteria able to increase the audience among the music loving public.

The thematic programmes will be accomplished considering that the company holds in its sound library an impressive number records of real artistic value being of great interest for the musical market. This is an important source of new titles, the valorisation of which, by transfer on modern supports, provides their restoring to circulation which

has ceased once the LPs (on vinyl support) have disappeared. This solution is useful for the company both musically and economically as it involves minimum manufacturing and trading costs.

5. Commercial diagnosis of SC ELECTRECORD S.A.

Supply

The compact disks and the cases for tapes and CDs are imported, as the related imported products are cheaper than the domestic ones, Romania being represented by only one CD manufacturing company.

The empty tapes are nowadays acquired from third parties.

The records on CDs are made in collaboration with foreign companies, the key filtering element being the delivery cost, the company itself being charged only with the domestic packaging (encasing – face printing– sealing).

The tape records are made within the company.

Deliveries and distribution

An important field of the economic reality is represented by the distribution of consumption goods, thus being

created the connection between production and consumption.

The circuit of distribution of S.C. ELECTRECORD S.A. gets the shape: „producer – retailer – consumer” and encompasses the following main channels:

- manufacturer – shopping centre – consumers
- manufacturer – bookstore – consumers
- manufacturer – store specialised in selling CDs and tapes – consumers, main domestic customer.

Normally, this form of distribution should be the optimum solution providing the cycle money – commodity – money with a quick and efficient rhythm. But, considering the period of transition to the market economy the whole Romanian society is facing, various short-circuits of the above-mentioned cycle may occur.

Nowadays, the physical distribution of products (transportation, storage, handling, packaging) is easily managed by the company. It is to be mentioned that the railway transportation of products significantly prevails.

Customers

S.C. ELECTRECORD S.A. mainly addresses to the domestic market and less to the foreign market.

The export weight is insignificant in relation to the yearly production of tapes undergone by S.C. ELECTRECORD S.A. This standing is correlated with the downward trend registered at the worldwide level as for the sale of such products, the demands of CDs substantially increasing instead.

In this regard, the new generation of compact disks has been generalised for several years, all the international manufacturers

transferring their catalogues on CDs.

Yet, the export of end products (CDs) has not reached an acceptable level, the revenue coming from other sources such as:

- sale of licences
- provision of services (records for other companies).

The main customers of the domestic market are: CARREFOUR, S.C. ANYEL S.R.L. București, S.C. BIG MEN S.R.L. București, S.C. GIMEX INTERNATIONAL S.R.L. București, S.C. MUSIKLAND București, S.C. LIBRIS DISTRIBUȚIE Brașov, S.C. TRASAL Cluj, S.C. ARTA S.R.L. Timișoara, S.C. LIBRI MARIS Constanța, S.C. DACIA TRAIANA Sibiu, S.C. INTERLOTUS Iași.

These customers, some of them having already turned into traditional customers, dealing themselves with the effects of the transition to the market economy, have become many times „slow payers”, thus generating a high level of receivables and a long waiting time for the invoice collection.

Geographically, there is no strict location for the product dispersion, the supply being oriented towards the areas where there is any potential demand.

Competition

After 1990, a series of companies having as object of activity the production of disks and tapes, recording and musical editing have emerged. At present, the most important companies in the matter are as follows: Transglobal Media, Alma Artex, Roton, Intercont, Nova, Media Services, Alfa Sound, Eurostar.

There is an ascendant trend; therefore new competitive companies are expected to be established in the near future. In fact, we deal with a phenomenon already manifested

in the countries with a market economy, encompassing one or two major companies dominating the market and holding the technical means necessary for accomplishing their production plan and a lot of "independent" companies, with relatively low turnovers, covering about 30-40% of the specific market. The latter do not benefit from the facilities necessary for the industrial production and resort to major companies or even to manufacturing companies, in both cases these representing services for the competition.

Considering the phonographic market, S.C. ELECTRECORD S.A. may be deemed as the only major company in the field.

The above-listed main competitors of the company cover at present about 50% of the specific market, especially the import related one.

The first important advantage of S.C. ELECTRECORD S.A. as compared to its competitors is the well known company brand and the management and use of its sound library with a catalogue with more than 5000 titles representing its permanent supply for the market. The competition works on a significantly low range - unit type - of titles.

The company catalogue renders a relatively complete image of the Romanian

musical landscape where the field of the cult music exclusively belongs to S.C. ELECTRECORD S.A.

A particularly annoying phenomenon occurring on the specific market is piracy. As there isn't any legal framework for the production and distribution of compact disks and tapes, the market is suffocated with pirate products conveying the latest products of the international repertory. These products are illegally traded, without acquiring licence, without paying for the rights of the composers and singers, etc.

The conclusions of the commercial diagnosis are the following:

- the relationships with the distribution network customers are quite sound despite the unpleasant phenomena occurred due to the financial blocking;
- S.C. ELECTRECORD S.A. holds a well known brand the prestige of which has been consolidated during its more than seventy years of activity in the matter;
- the world of singers and musical actors is closely related to S.C. ELECTRECORD S.A. which has served their interests for many years, launching itself and creating for them a discography, thus having substantially contributed to their popularisation and to their current market share.

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