



A Consulting Project for “Jahidoghlu” LLC

**Development Map of “Aghjabadi Bakery”**

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## **Abstract**

As the world is developing continuously, in parallel to this development the demands and requirements of consumers are also change and becomes complicated from day to day. To keep up with these developments, companies also need to amplify incessantly and apply all tangible and intangible innovations to the their businesses.

Within this consulting project, you will be able to analyze the current situation of a recently built bakery in Aghjabadi region and get informed about its organizational, operational, and financial situation. You will also be informed about the bakery market in the region and be acquainted with the customer purchasing behavior and options.

Here we will show our proposals on the way of solving the structural problems, diversifying the product ranges, and applying stimulant strategies for the short-term and long-term development of business.

## **Introduction**

Almost before and after the declaration of independence of Azerbaijan Republic, the main sources of income have been crude oil and oil products. It is an undeniable fact that, since 1991 the country has developed to a considerable extent in the result of those natural resources (oil and gas). However, in the developing world, high dependance in government budget from natural resources do not promise strong and bright future for the country in the long term. Therefore, for reducing this dependance within the budget and accelerating the development of private sector and economy, especially non-oil sector, the government has taken various private/business sector support programs, like financial funding, tax exemptions, custom exemptions, supply of business organizations with fully provided infrastructure and so on.

“National Fond of Supporting to the Entrepreneurs” under the supervision of Ministry of Economy is one of these supportive programs. Though the Fund being established in 1992, the active period has begun since 2002. Within the program, government supporting small and medium enterprises with supportive low interest credit amount (roughly 5 percent per year) and the realization of the program is to be calculated to the development of suburban regions, decrease of the unemployment rate in regions, apply of innovative technologies to the businesses and the financing of export operations. And finally, the government give the opportunity of 5 to 7 years of various types of tax and custom exemptions to businesses which are to be encouraged to make investment in selected areas by the government.

Taking this opportunity, “Jahidoghlu” LLC also applied to the program and the project – “Aghjabady Bakery” was positively evaluated by the Ministry of Economy. The construction of the Aghjabadi Bakery was founded in 2013 in Aghjabadi city. The total investment value of the project was 2.500.000 AZN and here, 1.360.000 AZN amounted financial support was done by

the Ministry of Economy within the program of “Entrepreneurship Support Fund” during and for the completion of the project. As the project was matching up with the requirements of the Ministry of Economy (because of the field of investment), company is provided with “the document of investment promotion” (“Investisiyaya Təşviq Sənədi”), which has let the company to import its production equipment and facilities without any custom duty. The project was completed in November 2017, and the opening ceremony of the bakery took place with the participation of the president of the country, minister of economy and other celebrities. This point itself was a considerably important moment in the life of company and play crucial role in the introduction of bakery to the consumers and the market.

The bakery was built in 6 ha area and the production areas hold roughly 2144 m<sup>2</sup> in total. There are two production areas within the bakery; one of them is for the production of round bread; the other one is for other types of bakery products, like milky, rye, batton, donar bread, different types of sweets and so on. Almost all production equipment within the bakery is modern and imported from Turkey, Russia and Czech Republic. The production process within the bakery is semi-automated and alleviate human labor as much as possible. With the aid of these innovative technologies, the company has become able to reduce its cost of production especially during the massive production. The production capacity of the bakery is 2,250 kg per hour, which means bakery can produce 40,5 tons product per day. This amount of production capacity let the company to fully supply three border cities like Aghjabadi, Zardab and Beylagan completely with the total population of approximately 250.000 persons.





Picture 1: Production area



Picture 2: Production area

Besides from modern production equipment, company also has seven specialized trucks which are especially prepared for bakery distribution. With the help of these trucks, it becomes able to distribute the products to the final destinations without distorting the quality and the appearance. Furthermore, as the trucks are isolated, the products can be served to customers freshly and in it is warm temperature.



Picture 3: Specialized vehicles

Today, bakery has 23 staff members in total and one production shift in one production area, which is able to produce 23000 pieces round bread per shift.

The organizational structure of the bakery is as follows:

<b>Position</b>	<b>Amount of worker</b>
Director	1
Bookkeeper-warehouse keeper	1
Production staff	14
Driver (sales representative)	6
Security guard	1
<b>Total</b>	<b>23</b>

Table 1: Organizational structure of the bakery

Aghjabadi is situating 263 km far from Baku, in the central Aran region of the country. According to information on statistics committee, in 2019 the population of the city was 135500 people. In compare to Baku, Ganja or other developed cities, bakery industry in Aghjabadi is stayed behind in the level of development. However, today in Aghjabadi, there is one round bread, three small kura bread and several micro tandir bread producers, which are distributing their products within the city and villages. It should also be noted that, until the launch of the “Aghjabadi Bakery”, the quality of bakery products in the region, especially in Aghjabadi, was not so satisfactory, which was the result of natural monopolism. Another problem which was sourced by the effects of monopolism is that, till that time, the former bakeries in the region had created weak business to business and business to client relationships, and so to speak, the producers had been dictating to the customers. So here, the arise of new bakery within the market has seemed like an opportunity for customers to escape from former suppliers. And as a result of these shortages in the market, the “Aghjabadi Bakery” has begun to enlarge its market share as fast as possible in a short period of time. Those dissatisfied customers turn to new supplier as fast as possible, which

has made the former supplier to change their strategy in the competitive market in the result of approximately 75% market loss.

In the data of “Food Balance of Azerbaijan” for 2020 published in statistic committee, the minimum daily consumption norm of bakery product in the country is 345-gram bakery and bakery products (by turning into flour) per day. According to this data we can say that the minimum daily bread consumption of Aghjabadi population is approximately 29.2 tonnes flour (46.7 tonnes dough) per day. And today, the daily production of Aghjabadi bakery is 6 tonnes per day, which constitutes roughly 20.54 % of total consumption. It should also be noted that the sales of bakery products can be fluctuated because of several reasons, like season, climate, day of the week, humidity, political, social and military situation of the country and so on.

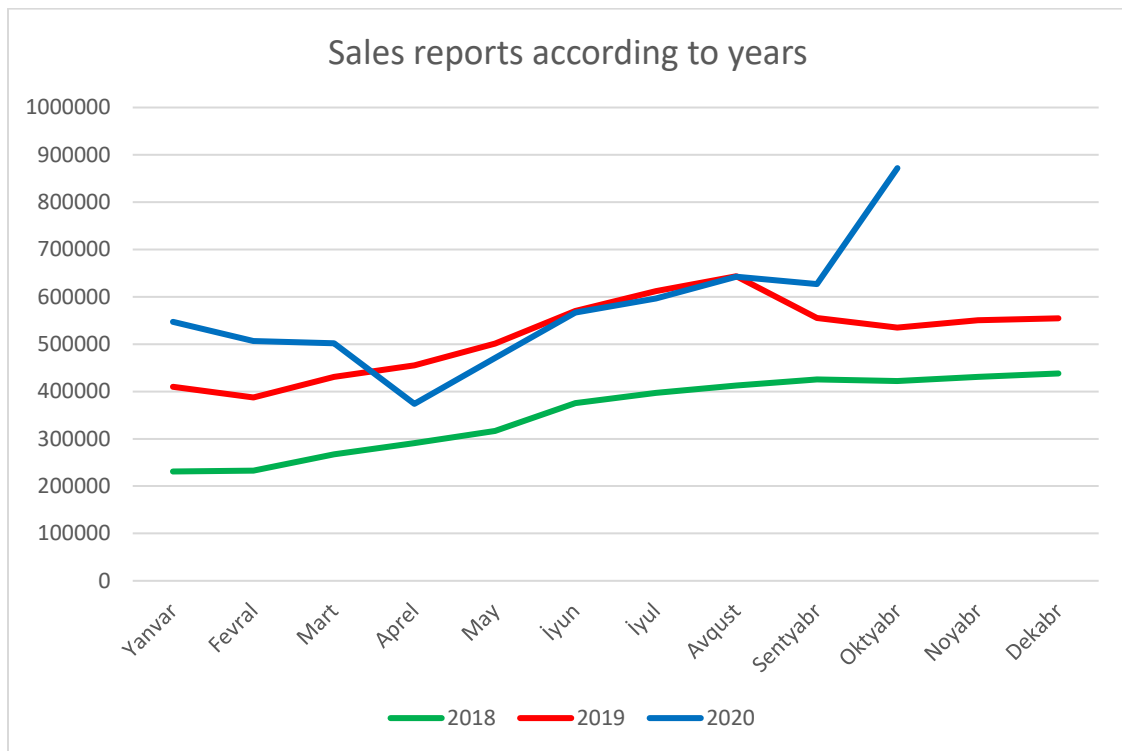


Table 2: Sales indexes

As the bakery just has begun its production in the last 3 years, the data range is not wide, however this data itself let us to observe the changes throughout the year.

While analyzing the sales indexes during 2019, we see a gradual increase in the sales indexes from February to the beginning of September, which is stemmed from the lifestyle of people in the suburban regions. Here, in different from big cities, people in suburban regions begin intensively to work in the fields and be busy with agriculture actively from spring to autumn months. While in autumn and winter months, those people spend their time more passively in the indoor. And naturally, the active human body demand much more consumption of nutrition in compare to passive one. For that reason, the sales turnover of bakery is being considerably high in spring and summer months especially.

You can also observe from the chart that, between 2018 and 2020 the sales indexes of the bakery was in an increasing temp. Unexpectedly, this tendency was interrupted in the beginnig of spring, in March with the intervention of global pandemy Covid-19 within the country. The confusion of fast spreading pandemy and active instruction of population by the government against Covid-19 virus make people to be careful and behave much more cautiously against their environs. In the result of this measures the sales index was dropped suddenly in a portion of 25%, however parallely to this decrease, the retail sale of flour has increased dramatically (which means people prefer to bake their daily bread consumption themselves). While the choppiness of the year had begun with the spread of Covid-19 pandemic, it had continued with the second Karabakh war which is prolonged from 27<sup>th</sup> of September to 8<sup>th</sup> November. During the second Karabakh war, the bakery had been comitted to supply the population, who are temporarily being moved from the battle zones (border villages of Aghjabadi and Aghdam) to the safe areas and military units. During

those times, the production index of bakery has increased dramatically up to 70% or 872.000 pieces bread per month.

## **Organisational Issues**

As the bakery has just launched its operation in recent years, it is possible that there are some organizational deficiencies within the company. During the first two years of its activity, Aghjabadi bakery has faced various objective and subjective difficulties which make the bakery to face with various challenges. Some of these difficulties were sourced from inexperience of bakery, nevertheless some of them had been as an artificial barrier for newly opened bakery. However, despite all these difficulties, bakery survived from those impediments and now continues its activity.

Today, bakery is producing two types of bakery products - round bread and rye bread which are being sold in Aghjabadi, Aghdam and surrounding villages. Whereas the competitors only supply the market with round bread which is the most preferable one within the market. As you see in the sales chart (between the years of 2018 and 2020) above, development temp of the bakery was rapid within the first two years, and the bakery reached to certain level of development, approximately 4,5 tons production capacity per day in a short period. But today, the speed of development of bakery is stagnating, and sometimes company even faces with several problems. Here, for solving the problem with the development of bakery we will analyze the problems and eliminate the deficiencies.

## Problems with the organizational structure

During the observation of the daily process in the company, it is noticed that the organizational structure of the staff is not set appropriately. The amenability and accountability between employees are not set appropriately and sometimes some positions are empty or unified over one employee, which leads to avoidance in the responsibility. In the following chart you can see the structure of the staff within the organization that contains twenty-three persons.

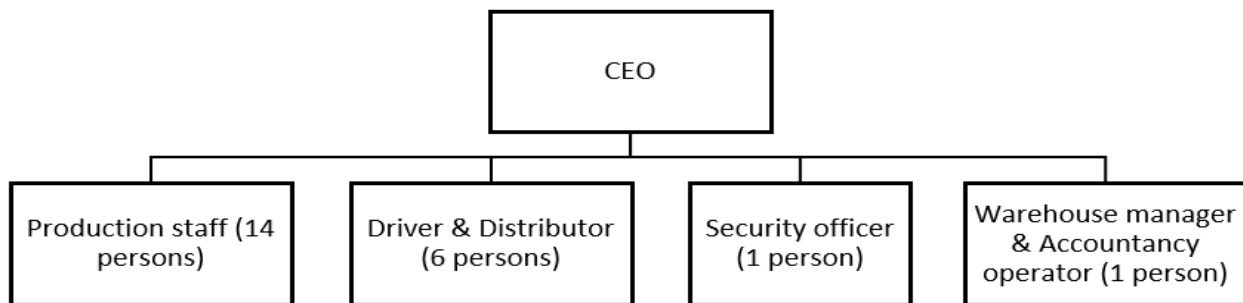


Table 3: Organizational structure of the bakery

*The CEO* is the founder of the bakery and the only person in the company who is making the decisions over all organizational issues and responsible for all activities. The CEO is generally being busy with decisions over the procurement of raw materials, recruitment of new applicants, relations with government and non-government agencies, issues related to problems in production, equipment, transport vehicles, sales and so on. If we take into consideration that the CEO of the bakery also has other business entity and he also pays attention to that business, it is not difficult to guess that because of overconcentration on micromanagement and overload, the CEO of the bakery is unable to focus on further development of the bakery effectively.

*The production staff* contains fourteen persons that who are performing their tasks during the production process. The problem within the production staff is that the members frequently change

their positions within the process and replace each other in different positions, like an universal employee that to be capable in all positions. Though this replacement is making the employees versed about all positions in the production process, nevertheless, it also decrease the level of responsibility of those employees. So that, as the employee change its place continuously, the responsibility of the employees decrease over time.

*The drivers* are six persons that they distribute the bakery products over city and suburban areas with specialized trucks. Realization of daily sales and giving daily sales report is the part of the duty of the driver. The problem with the drivers is that there is no reserve driver for substitution of drivers, no ongoing supervision over drivers and the drivers has no responsibilities for the car they drive.

*The warehouse manager* is responsible for the distribution of produced goods between drivers, placement and record of raw materials, keeping records of bakery boxes, accepting daily reports from drivers, enter these daily records into the program and keep records of daily turnover/cash. It should also be noted that because of intense workload, the manager is not able to perform its duties in full capacity and mainly these duties are not performed fully.

*The security officer* is responsible for the guarding of the bakery and also realizing the direct sales from the bakery. As there is only one security officer, the safety of the bakery is not provided 24 hours.

### **Problem with low sales and stagnating improvement**

Today, bakery is approximately using just one tenth of its total production ability, which is enough for bakery to get profit from the production, but it should be taken into consideration that bakery has credit obligation in front of the bank and government, and the current income level is not enough for paying back the credit amount fully in the short period of time and for the future consistent development. It should also be noted that as the fix costs of the bakery is high, in case of massive production the cost of production will go down and as a result, the profitability of the bakery will increase.

### **Sensitivity to price discounts within the consumers**

In compare to Aghjabadi, Aghdam market (the biggest and most active settlement – Guzanli) is much more sensitive to price discounts. In compare to other cities in Aran region, Aghdam and Barda are the most active cities, the economies of the cities are actively developed, and employment level is high. Though Aghdam is economically active, there is no bakery in the city, and the demand of the market to bakery products are met by border regions' bakeries, like Barda, Aghjabadi, Mingachevir and Yevlakh. Here, till today Barda has been the main player with two big and two small bakeries, Yevlakh with one and Mingachevir also supply the area with one bakery. The problem with the competition in this market is that these bakeries compete with each other by lowering the prices, even by sacrificing the quality and weight of the products. And unfortunately, sometimes customers of bakeries (owners of markets) prefer just small, even 0,01 AZN discounts in prices by sacrificing the quality of the product.



## **Identifying the research tools**

The research strategy of the proposal is beginning from gathering the information about the background and current operation of the business, its position in the market, the situation in the market, competitors and possible opportunities for the development of the business. In the data collection process, the sales data of the bakery will be the main index for us in analyzing the trends and the sensitivity of the sales temp to any changes in the market, society and economy.

## **Management structure**

As the development stage of business pass through various stages, the structure of management should also change parallely to this development.

Simple structure is mainly appropriate for small businesses, where the business owner is the only one that control and manage the business. Almost all businesses start its operation with the simple management structure. Here, one person realizes almost all operations, and there is no need for formal systems or organizational chart within the business. This type of organizational structure is the cheapest one and no need for additional staff members.

As the businesses develops, simple management structure become useless and need more developed form of structure, and here, the importance of functional structure arises. In functional structure, the duties and responsibilities are being distributed between divisions in the form of departments like marketing, management, human resource, production, sales etc. Each department is leaded by a department manager and the department managers themselves also reported to chief executive officers. The management principle in functional structure is hierarchical and appropriate for medium business entities.

Multidivisional structure is much complicated in compare to simple and functional structure. As the businesses grow, the product varieties can also increase. And in the massive production of those products, the sales markets grow, sometimes get over borders and reach different geographic regions. Here, the consumers also increase, and the current departments can have difficulties to manage product related and consumer related issues. For that reason, in this level of development, companies change their management structure to multidivisional structural system. Here, employees distributed between departments based on various products or product groups. The advantage of this type of management is that the separate divisions become able to act quickly in any situation, but it should also be noted that this strategy is much more costly in compare to previous ones.

Matrix structure is the developed form of structure where the staff members are distributed in different teams for maximizing the effectiveness, increasing the creativity and innovativeness of employees. In compare to other management structures, here team members communicate with each other vertically, which increase the flexibility of the entity and supporting teamwork. This approach helps the team members develop themselves as much as possible in a short time frame. However, there can be some difficulties also, because of multifaceted mixing.

World, technologies, lives and also businesses are developing from day to day, and for keeping up with these improvements and growths, businesses also need to develop with integrating new technologies, approaches and innovations. One of these innovations in the business is **Customer Relationship Management - CRM system**, which will let the business to build cooperation within internal departments, especially between sales, marketing, management and even production. The system will help to build and improve the relationship between customers and even potential customers and help you to make further decisions relating to this data. The business

will become much faster in response to customers with improving its customer service and be much more available to build appropriate and prospect decisions.

According to survey done by Salesforce.com in 2014-2016 among 10,500 customers, the use CRM systems in the business increase the revenue of the company by 25%, accelerate the decision-making process by 38%, increase the customer satisfaction by 35%, increase the sales productivity up to 35% and increase sales by 30% (Salesforce Relationship Survey conducted 2014-2016 among 10,500+ customers randomly selected. Response sizes per question vary. <https://www.salesforce.com/crm/what-is-crm/>). Which means, with the help of CRM systems we can also be available to identify the customers much easier, serve them better service and keep them happy.

As we noted above, bakery has launched its operation since 2017, December, which means that bakery has sales data since that time. So, here, for analyzing the previous data and making possible forecast for the future data, we will take the advantage of **regression analysis**. The regression analysis will help us to analyze level of influence of external factors to the level of sales, the dependance of sales from certain possible variables and again will help us in the planning process for further strategies.

**PEST (or PESTEL) analysis** is a model you can make an analysis if your company can be influenced by various external factors like political, economic, social and technological at a certain time frame. Pest analysis will let us to make appropriate business decisions with taking into consideration various environmental factors. Here, P (Political) explains the impact of government regulations, tax policies, employment law to business entity. E (Economic) explains the impact of economic growth, micro and macro-economic situation. S (Social) explains the impact of social

factors like customer segments, demographic situation and so on. And T (Technological) explains the impact of technological innovations and change to the businesses.

**SWOT analysis** is a technic to help businesses, managers to identify the strength, weaknesses, opportunities and threats within the business. This technic is helpful for managers for coming to a conclusion about the real situations of the businesses. In our case also, this technic will help us to identify the situation and in making appropriate decisions. Here, the strength will show the advantages of the company and special resources which will help the business to keep its preferences over its competitors. Weaknesses are the stumbling sides of the company which can be known, manageable or unmanageable and have the risk to cost the company any possible financial damages. Opportunities are chances or changes which are possible to be done from outside, or situations that possible to be changed in favor of the company. These opportunities should improve the financial situation of the company in the short or long term. Threats are changes in the market or anything that happened from outside that can influence the business in a negative way.

**Price sensitivity** is the level of effect on consumer purchasing power over products within scheduled price interval. On equal terms, price sensitivity is directly proportional with the elasticity of demand. If there are substitutes to certain product in the market and all of them are in the same quality, in that case any increase in the price of the product will decrease the demand to that product, vice versa any decrease in the price will increase the demand to that product again. However, if there is no substitute for the certain products and the product is unique, this will decrease the sensitivity to the price. This approach itself can also be influenced by various objective and subjective factors. As an objective factor, social or financial situation of consumers

can play a significant role in the decision making process. For example, if a consumer is belonging to a low income group and has some financial problems in life, in that case during the decision making process, consumer will probably prefer low priced products, without paying attention to the quality of the product. Here, the sensitivity of the consumer will be high to price changes. Vice versa, if the financial situation of the consumer is high and belongs to high income group, here, most probably the consumer will pay much more attention to the quality of the product and the consumer will be less sensitive to price. In this situation, the influential factor can also be nationalism, religion etc. depending on the situation or time.

The pricing strategy of businesses can also make the consumers less price sensitive. For example, we can see that some retail chains either make discount campaigns with combining two products, or in case of buying certain product another product will be given as a gift. In these types of situations, consumer tends to buy the products which are within the campaign without paying attention to the real price of the products, where the main purpose of consumer in that situation is to win from the campaign.

The price sensitivity of a consumer is beginning from the decision-making process. According to Kimberly Chulis, the head of Core Analytics Limited Liability Company, the decision-making process of the consumer passes from five steps. The first of them is the recognition of the product. While consumer meets the products and tries to make decision, the consumer will pay attention if he/she recognizes the product or not. In this phase of the decision-making process, the role of advertisement plays crucial role. The second step is getting information about the product. During decision making process, it is important for consumers to get as much as information about the product, its ingredients, producer, effects, results etc. The third step is the deliberation. After collecting the information about the product or service, consumer began analyzing the other

options and compare them. The price sensitivity itself is being created in this step also. The fourth step is the purchase of the product, where the consumer makes the final decision. And the fifth step is post-purchase period. Here, the consumer thought about any possible future possibilities or changes in decision or any possible dissatisfaction about the product. This step is important as much as previous steps because the attention given the consumer after purchase is the main phase where the company built its brand loyalty and customer support which decrease the price sensitivity of the consumer in the future purchases.

There are several steps for the business entities to do for decreasing the price sensitivity against their products or services. One of them is underlining the importance of the product or service for consumer, how the product can be profitable for the consumer, how it can solve the issues and contribute. While building its brand, entity should display the care, importance of consumer for the business. The quality of the product should be emphasized and customer service, care should prolong ongoingly. For building the brand, steady steps should be done for acquiring and keeping the consumer in hand. As it said in the phrase, until becoming a brand, entity should work for its brand name, after becoming a brand, the brand name will work for the entity.

## Methods

### Swot analysis

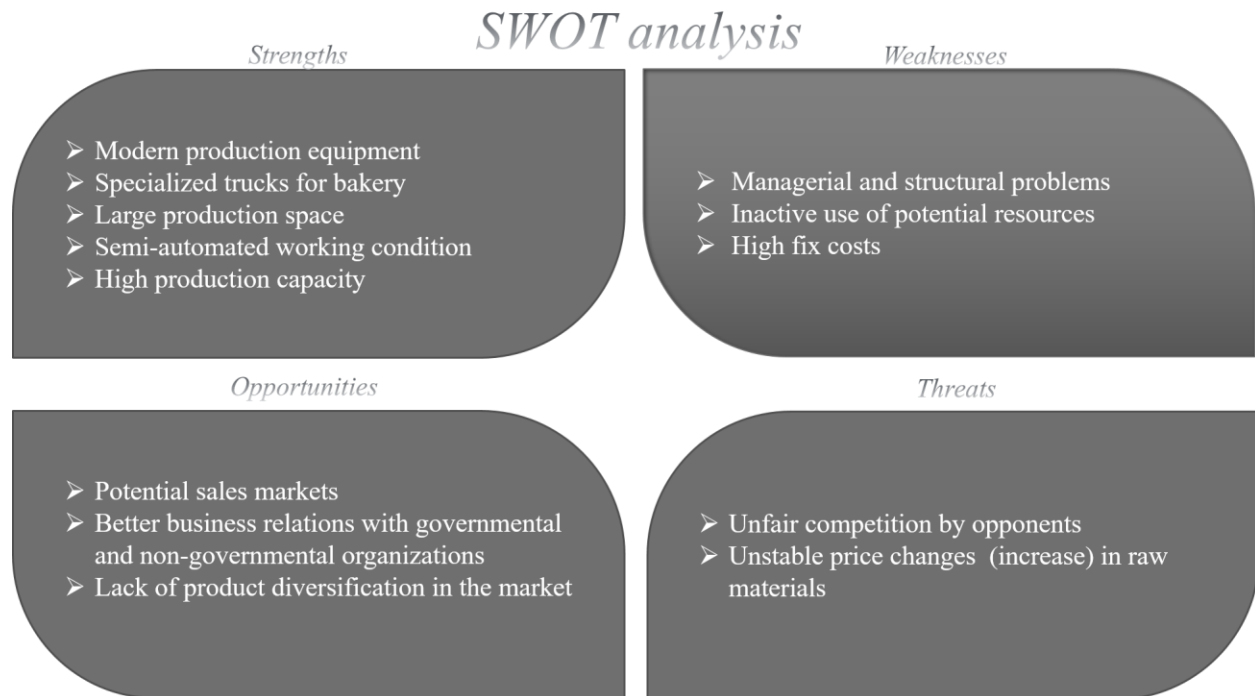


Table 4. Swot analysis of “Aghjabadi Bakery”

**Strength** – The quality of the bakery product is depending on two points. One of them is the right technological equipment and the other one is the correct baking technology. In our case, the production equipment of bakery was imported from Czech Republic, Turkey and Russia which allow the bakery to produce high quality products and alleviate the human labor significantly. Here, the automated system helps to keep the quality of the products stable during the production process and the process under control much more easily. Also, this system decreases the workload of production employees and reduce the employee dependance during the production process. In

addition to modern production equipment, specialized trucks also let the driver/distributor to sort the product easily, economically and keep the product fresh and untouchable until the last consumer.

**Weaknesses** – As we noted in the section of strength, the second condition for producing high quality bakery products is correct baking technology. Unfortunately, the founder of the bakery is not a baker and also has no background based on baking. Furthermore, it is not easy to find a experienced and professional baker easily, especially in Aghjabadi. So, in that case the lack of professionalism in baking technology is the weakness of “Aghjabadi Bakery”. Another important weakness of the bakery is ineffective management. Because of this discrepancy the effectiveness of employees goes down and the development of bakery stagnating. During the observation, it clearly seems that the distribution of duty and responsibilities within the staff are irregular, which is leading irresponsibility and avoidance of mutual responsibility. Indirectly, there is no responsibility between employees themselves. Even some positions are relied on unprofessional and inexperienced persons. In most times, one employee is involved to several positions which decrease the level of responsibility and effectivity of the employee. There is no incentive for employees, and the staff is not involving trainings systematically.

**Opportunities** – Bakery business today is a sensitive and strategic sector in the current economic situation of government, therefore the profit margin rate in bakery business is lower in compare to other business sectors. Today, bakeries in various regions hardly supply their products to far places because of high shipping costs. This gap in the sector can an opportunity for the “Aghjabadi Bakery” for increasing its distribution border and increase its profitability by increasing the sales index. So here, if we look to border regions of Aghjabadi, there is wide sales market in front of the company.



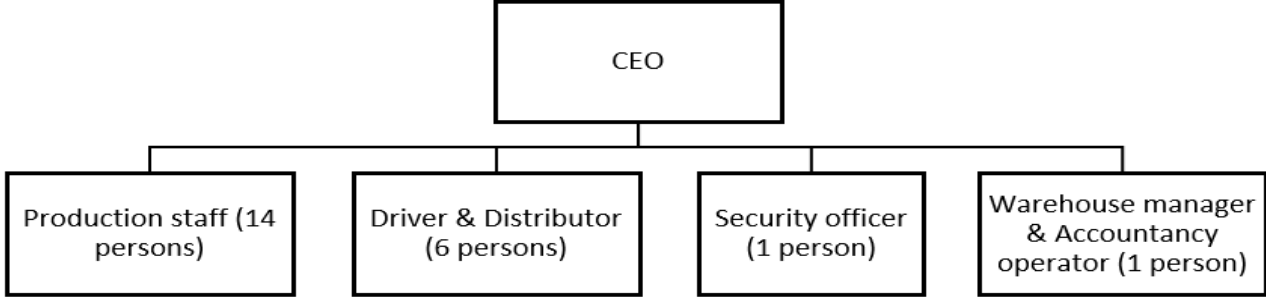
In compare to central cities, development in regions is based on price instead of marketing, product variety and quality of products. Therefore, it is much easier to compete with opponents in regions. In our case, the bakery has large production area, where it is possible to enlarge the variety of products and increase the production as much as possible. As we know, the bread production is a low margin business field, so, for increasing the profitability, increasing the product variety, especially the production of sweet will probably be significantly profitable business sector.

**Threats** – In parallel to opportunities, there are threats for bakery also. As we touched before, the level of development in regions is not so rapidly, therefore it is easy to overcome the opponents. But if the situation changes vice versa, and the opponent pressure to the market with modern, innovative tools and technology, in that case the competition could be hard for the bakery. Another threat for the company could be the unstable price of the raw materials, especially the price of the flour. As we see, because of climate change, fertility of grain can change from time to time and from here, it is possible that the situations can change at any time dramatically, the situation of drought in Central Asia can be a real example to this.

**Reorganizing the structure** of the bakery is the first step of setting the management system. In our case, it is visible that the business is developed in a certain level and in the transition phase of from small to medium enterprise. Which means that in current development situation of bakery, former simple management structure is not already effective. Therefore for solving the problem it is important to restructure the type of management into the multidivisional form. However, it should also be taken into consideration that, as the bakery is in the transition phase from small to medium enterprise, then the new multidivisional management system should be applied gradually.

If we look back the management problems of the bakery, we can see that there is excess workload on almost all positions, and for increasing the effectiveness and responsibility of employees the structure should be simplified and each employee should have defined duty and responsibilities.

Today, the staff members of the bakery contain 23 persons and the salary schedule is as follow:



<b>Name of position</b>	<b>Amount of position holder</b>	<b>Amount of salary</b>	<b>Total/AZN</b>
CEO	1	600	600
Warehouse manager & Accountancy operator	1	400	400
Production staff	14	300	4200
Driver	6	400	2400
Security officer	1	320	320
<b>Total</b>			<b>7920</b>

Table 5: Salary schedule

After the restructuring process, the number of employees and the cost of the total salary will increase in compare to previous one. However, it is should also be taken into consideration that while the effectiveness of employees is increasing, this will also increase the productivity of employees and parallelly, increase the income of the bakery in the next stages.

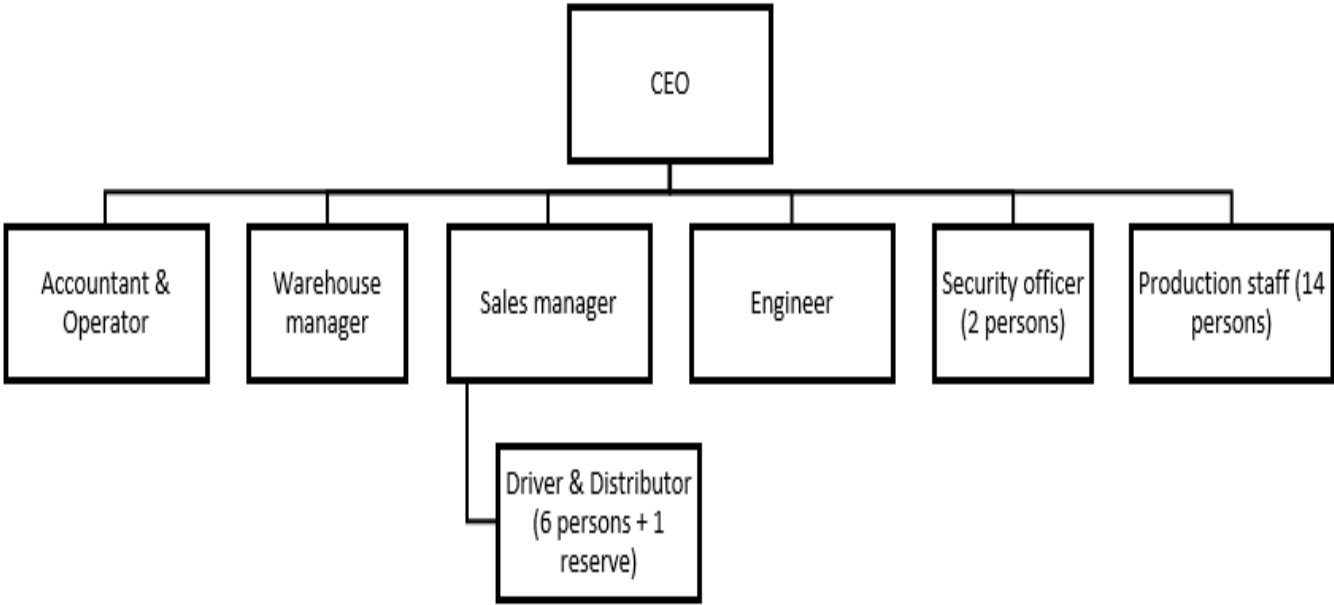


Table 6: Reorganized organizational structure

<b>Name of position</b>	<b>Amount of position holder</b>	<b>Amount of salary</b>	<b>Total/AZN</b>
CEO	1	600	600
Accountant & Operator	1	400	400
Warehouse manager	1	400	400
Sales manager	1	450	450
Engineer	1	450	450
Production staff	14	300	4200
Driver	7	400	2800
Security officer	2	300	600
<b>Total</b>			<b>9900</b>

Table 7: Reorganized salary schedule

As you can see from the chart above, the number of employees will increase from 23 to 29 and parallelly to this total expense of salary should have been increased up to 2000 AZN or 25 percent. For increasing the control over the sales, management, analyzing the data, applying new strategies the position of accountant separated from the position of warehouse manager. Here, warehouse manager also will be available in operating its duty and responsibilities. Furthermore, you can see that there are two new position like engineer and sales manager which one of them will be responsible for the electrical and technological issues within the bakery. The sales manager will work on increasing the sales indexes of the bakery, supervision of the sales of distributors and will play crucial role in development of quality of service and relations with consumers. The reserve

driver will help to reduce the workload of drivers and will always replace the drivers periodically. In terms of security of the organization, hiring the second security officer is important and this will provide at least 18 hours security of the bakery.

## **Market analysis**

For increasing the sales index of bakery we need to increase our efforts in the direction of horizontal and vertical development. In our situation also, we will use one of the production areas in the direction of horizontal development – massive production. This means that we should increase the amount of production as much as possible. For increasing its sales bakery can compete over various markets. First of them and the main of them is the local market - Aghjabadi. Because it is the market where the producer locates and the accessibility of market for the producer is the closest one, although the chance of outer players' participation in the market is low. Today, the population of Aghjabadi is more than 135.000 people in total and 30% (or 40.000 persons) of this people live in the city center, while the rest settle down in the villages. If we take into consideration that the daily consumption of bread of a person is approximately 345 gram in a day, with this calculation the bakery consumption of the Aghjabadi market is around 46.7 tons per day. The most preferable bakery product in our country and in Aghjabadi region is the round bread (named zavod choreyi) because of its saturation. Today daily production of the Aghjabadi bakery is around 5 tons per day, which make up approximately 10.7 % of total bakery market in Aghjabadi and held approximately 75% of the market in production of round bread (zavod choreyi) sold in the city. The main competitor of the company in the region is bakery "E" and it is representing approximately 3.2 % of total bakery consumption of the region and 25% of market in round bread

sold in the market with the daily production of 1.5-1.6 tons per day. And rest of the market is distributed between the tandir and kura bread producers with 0,4; 0,8; and 1 ton per day and some small portions over small tandir producers. It should also be noted that because mode of life and economic conditions, high portion of people in regions (in Aghjabadi also) prefer to bake their daily bakery products at home, and this index in Aghjabadi approximately 35-36 tons per day.

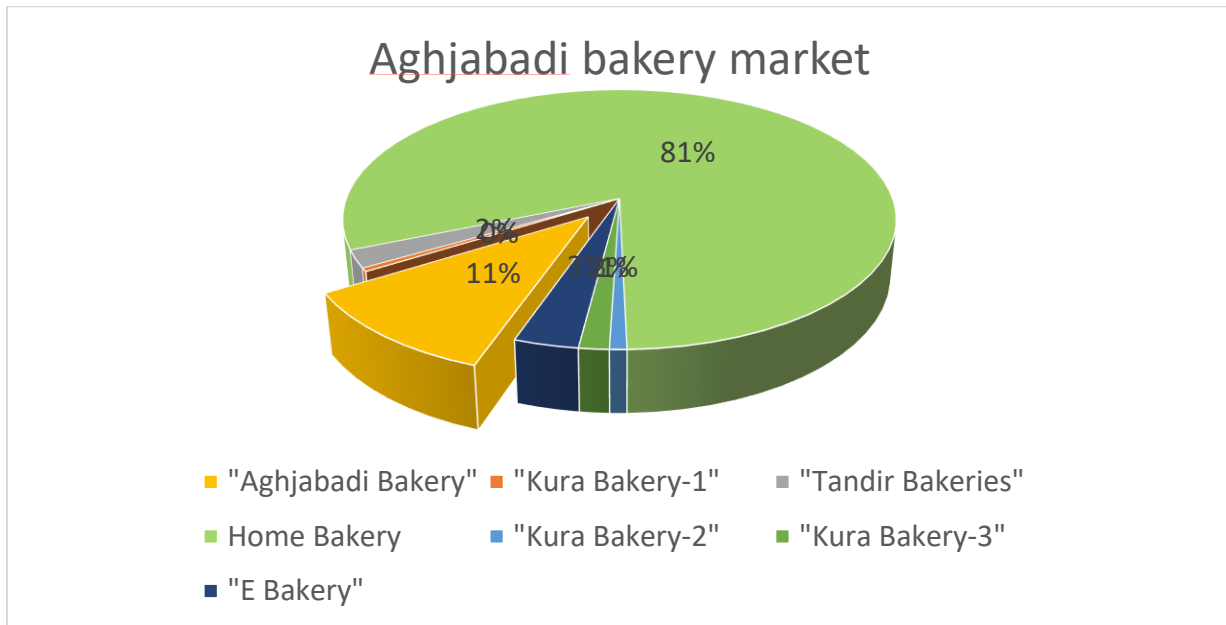


Table 8: Market share of products in the Aghjabadi market

Aghjabadi has 1 city and 44 villages, and according to statistical data 31.23 % percent of total population live in the city center, and the rest 68.76 % live in rural areas.



Picture 4: Map of Aghjabadi

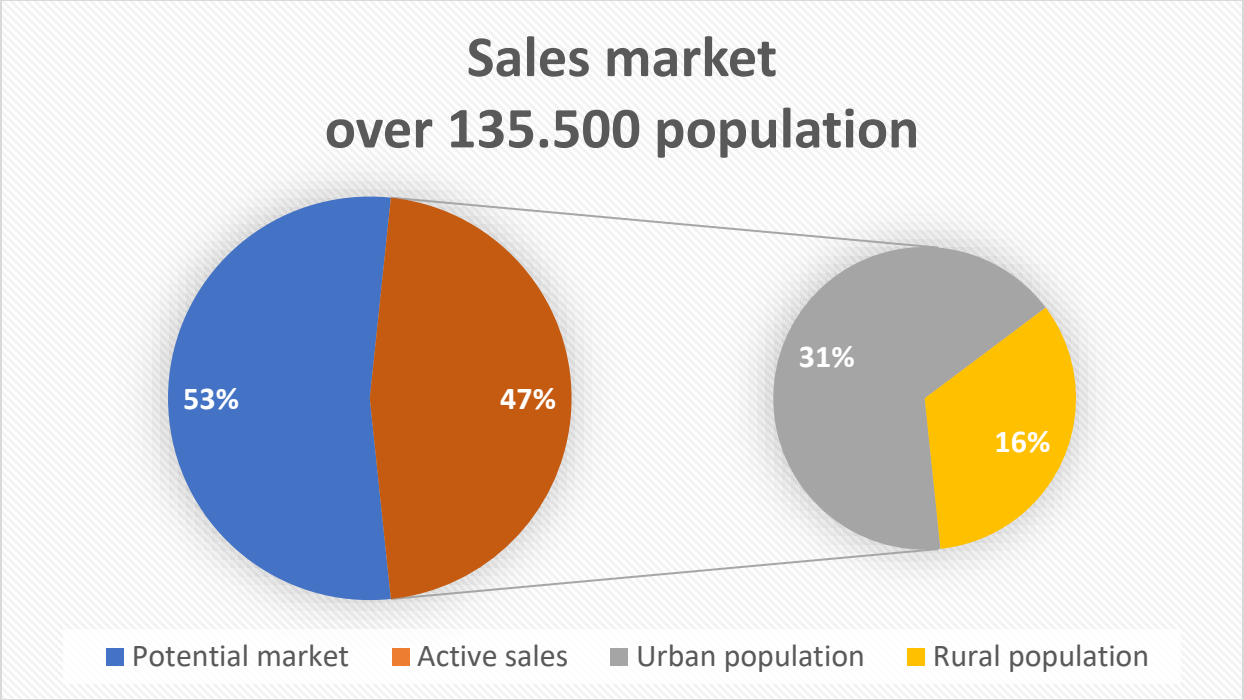


Table 9: Sales market of “Aghjabadi Bakery”

As you can see from the chart above, today “Aghjabadi Bakery” can set up its sales just 47% over the Aghjabadi market. And we can also see that while the bakery brings its products wholly over the city center, 53 % of Aghjabadi bakery market in the rural areas is empty. So, for increasing its sales index, bakery should firstly deliver its products over villages/rural areas, which has the capacity of roughly 72.000 people or 24.8 tonnes bakery sales per day.

It is undeniable fact that the shipping expense keep place considerable amount of money within the total cost. Therefore, it is not easy for competitor from outside regions to suggest their products in various further regions. So, for this reason, only border regions become able to suggest their products to their border markets. In our case, the border regions with Aghjabadi are Barda, Beylagan, Zardab and Aghdam and within these regions Zardab and Aghdam are the most poorly developed in the field of bakery.

If we look at Zardab region, there are two bakeries within the city which are not able to produce high quality products because of its technological conditions of equipments. Those bakeries are already outdated, and the financial situations of the entities is not sufficient to modernize the bakery again. As the quality of productions of those bakeries also are not satisfactory, the competition between bakeries is built on only with price. Considering all of this, we can say that at the 30 km distanced Zardab market will considerably convenient and easy for “Aghjabadi Bakery” to suggest its products. It should also be noted that the population of Zardab city is 58.800 persons and most of the population is distributed to villages. According to information of statistic committee 23 % (13.500 persons) of population live in the city center, while the rest 77 % (45.000 persons) live in rural areas and daily bakery consumption of the market is approximately 20.3 tons a day.

When it comes to Barda, we can say that the city is one of the ancient cities in Azerbaijan. Since ancient times Barda has been famous as a trading center. Today also, Barda has powerful economy among big cities. As the city and the economy is developed, business sectors as bakeries are also developed in the region. There are four bakery in the city and two of them are the main bakeries that provide the city with bakery products. The bakeries in Barda can also be considered the main competitor to the “Aghjabadi Bakery”. As bakeries in the Barda region are closer to Aghdam, almost all of them are trying to keep place in the competition of Aghdam market. Unfortunately, these small producers also try to compete against main producers with their discounts in price for keeping the market share, which endanger the profitability of the business sector.

It should also be noted that the only competitor that coming from outside the region is “N1 Bakery” which is the biggest bakery of the Caucasus with the production capacity of 168 tons per



day. The bakery is launched its operation in 2013 and the investment value of bakery is around 20 million AZN. Until 2019, the bakery is supplying only in Baku and surrounding areas in the country, however the bakery started to distribute its products to regions since 2019. The advantage of N1 Bakery is that it is distributing its products in a packaged form and therefore it is possible to keep and distribute it within two days. However, this advantage itself is a disadvantage in regions, because of that people in the regions is preferring to consume freshly hot or warm bakery products, which make the products of N1 bakery less competent in regions. Probably, it is the most important gap in the strategy of the bakery that local ones should use this gap as an advantage to realize their own counter strategy.

**PEST analysis** will let us to analyze the macro-environmental situation of the bakery and make better strategical decisions.

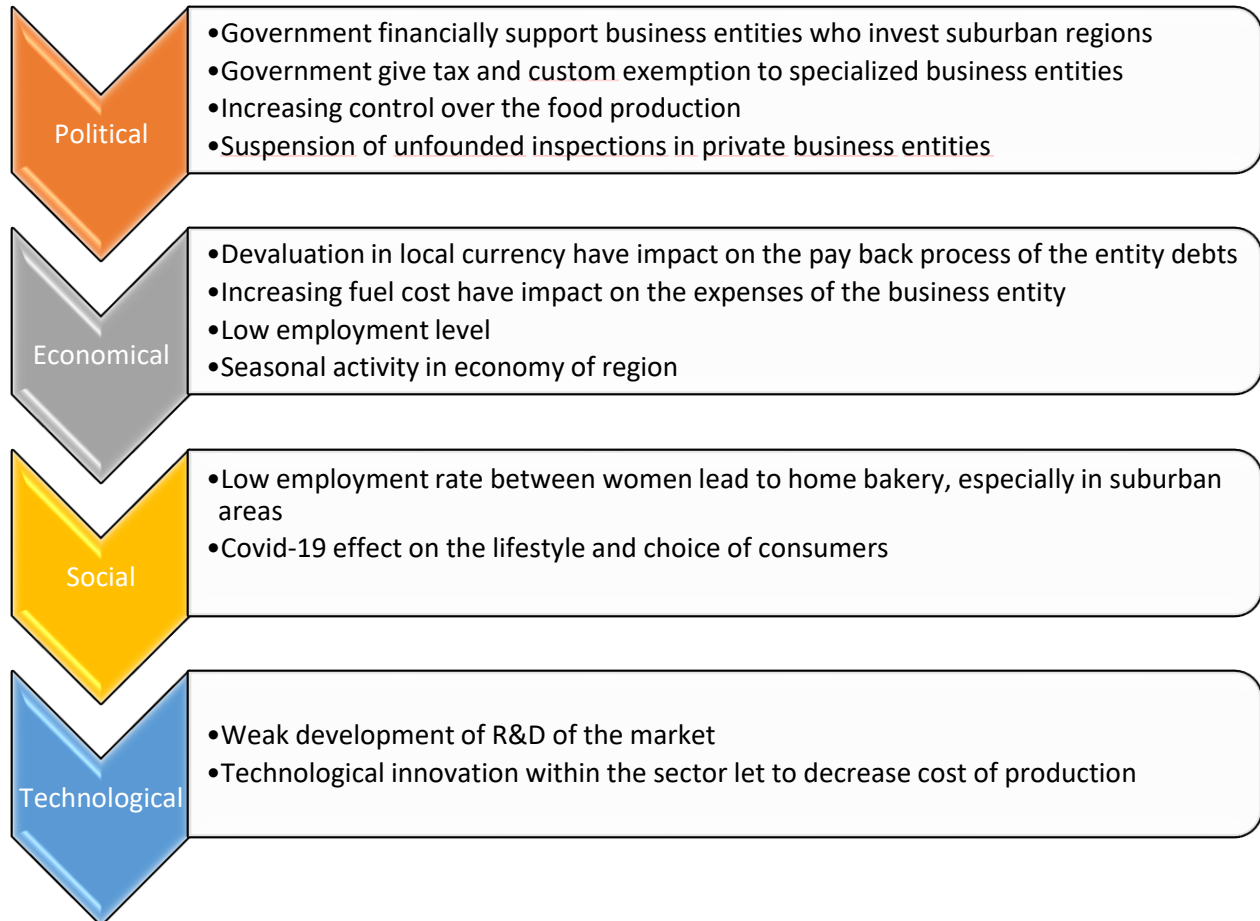


Table 10: Pest analysis

As we noted above, PEST analysis let us to analyze the business entity from four direction. First of them is **Political** situation of the entity. To ensure the food security of the country is one of the main purpose of the Azerbaijan government. For that reason the area of baking is included in the list of “priority areas of the development” of the government development plan. For that reason, government allocates low interest funds with the mediation of public and private organizations to those entities, additionally, exempt them from the tax of land, property and partially from the tax of profit during the first 7 years period of development. Furthermore, those

entities are also exempted from the custom duties that they should give for the imported technological equipment within those 7 years. In addition to all of this, according to the decision made on 20.10.2015 by the president of AR, unfounded inspections by governmental organizations have suspended from 01.11.2015 to 01.01.2022. This decision itself releases the business entities from the pressure of state control bodies. However, in parallel to these decisions, the institution of Food Safety Agency of The Republic of Azerbaijan (FSAA) ongoingly register and inspect the food production areas if these entities meet the governmental standards or not. In case of failure in meeting the standards, either the entities should stop its activity or continue its activity after making up the deficiencies.

The second direction is **Economical**. As we noted above, the bakery is given supportive credit amount in 2013 with the amount of 1.360.000 AZN. Unexpectedly, in 2015 and 2016 there were devaluations that the price of local currency was went down. The government, business entities and local population have felt the damages of those devaluation to a considerably extend. If we take into consideration that the credit amount of “Aghjabadi Bakery” was given in the currency of Azerbaijan manat in 2013, and the bakery will paid back the taken fund to the bank until 2023, then the value of the Money will not be same as when it was taken. Also, it should also be taken into consideration that all of the production equipments is imported from Turkey, Czech Republic and Russia, which means today the cost of those equipment is two times expensive than 2015, which means that the total value of bakery has doubled since 2015.

Another economic change is the increasing price of fuel, especially the price of diesel. In 2021, the price of diesel is increased 33.3%. Diesel is the alternative fuel type in the production process of “Aghjabadi Bakery” (in case of any interruption in the supply of gas or electric energy, the generator and oven will automatically use the alternative fuel type of diesel), furthermore, as the

trucks are mainly work with fuel of diesel, the cost of distribution is increasing as much as the price of diesel. It should also be noted that as the price of bread unofficially being controlled by the government, the bakeries is not able to increase the price of bread directly. In parallel to government control, the consumers are quite sensitive to the changes of the price of bread.

Employment level of population also have impact on the sales of bakery products. In compare to central cities like Baku, Sumgayit, Ganca or Mingachevir, in other cities the level of employment is low. So that, wide portion of population has no permanent job, and this point itself has impact on the purchasing power of population for bakery products. Overall, those people that has no permanent job, prefer to bake their daily bakery demand themselves. You can observe this reality by looking at to the sales data of flour and amount of flour used at bakeries in the city.

The third direction is **Social**. In compare to big cities, in other cities women are not actively involved to employment. In parallel to the general level of employment, the way of thinking in regions also play crucial role in this data. For that reason, unemployed segment of women highly involved to home bakery (included baking bakery products), and this point itself affect the sales of bakery products in suburban areas.

By looking at to the sales statistic of “Aghjabadi Bakery”, you can see that during the spread period of Covid-19 pandemic in our country (especially in the beginning of this spread), the sales index of bakery goes down substantially, and has not recovered fully yet.

And finally, the fourth direction is **Technological**. In Azerbaijan, bakery is one of the low-income business field. So that, the field is controlled by the government, the consumer group is sensitive to any changes in the market and the income margin is considerably low in compare to other

production areas. Mainly for that reason, no of the bakery entity is interested in investing money on research and development.

Technological developments and innovations are calculated to decrease manual labor and make human life much easier. In bakery sector also technological developments let the bakery use less human labor in the production process and is calculated for the increase of profitability. It should also be noted that this technological innovations itself also cost considerable amount of money, and therefore it is advantageous only in case of massive production.

Based on experience we can say that the sales index of bakery products is dependent on various external factors. For example, in our case, they are the price, purchasing power of consumers, distribution, culture, technology, social situation of the consumers and any other extraordinary social situation like Covid-19 and so on. As it is hard for us to measure the productivity/activity/power of purchase of consumers, we will use months of the year as a remedy to measure the purchasing power of people. As Aghjabadi and surrounding regions are agrarian regions, the main type of employment of local people here are agriculture and cattle-breeding. Therefore, the population of these areas are mainly being employed during the plantation and reaping times, indirectly in the hot months. Although if it is considering that we are unable to measure the rate of activity of the population according to months directly, we will use months of the year (when the people are busy with agriculture and cattle breeding) as our dependent variable.

So, in our regression analysis we will try to find if there is relationship between the variables or not. Here our X variables will be the sales data of “Aghjabadi Bakery” from 2018 January to 2020 January. And the independent Y variables will be months of the year. We should also take into consideration that the sales data of bakery has changed dramatically after February in 2020 because

of pandemic situation, and furthermore, the sales index had increased dramatically again during the second Karabakh war because of temporary settlement of population of border areas in Aghjabadi region. For that reason, the sales data after 2020 January is not included to the analysis.

#### SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,986353
R Square	0,972891
Adjusted R Square	0,945783
Standard Error	26719,55
Observations	25

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	12	3,07E+1	2,56E+1	35,8884	1,63E-07
Residual	12	8,57E+0	7,14E+0	7	
Total	24	3,16E+1			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	221374,5	18700,15	11,8381	5,63E-08	180630,3	262118,6	180630,3	262118,6
Period - t	13432,4	813,049	16,521	1,28E-09	11660,92	15203,8	11660,9	15203,8
February	-18765,7	24727,9	-0,75888	0,46256	-72643,2	35111,9	-	-
March	6684,933	24607,3	0,27166	0,79049	-46929,9	60299,7	-	60299,7
April	17467,03	24513,1	0,71255	0,48974	-35942,5	93011,6	-	93011,6
May	39749,13	24445,6	1,62602	0,12990	-13513,3	143664,1	13513,3	143664,1
June	90490,23	24405,0	3,70785	0,00299	37316,21	143664,3	37316,2	143664,3
July	108583,3	24391,5	4,45168	0,00079	55438,83	161727,8	55438,8	161727,8
August	118685,9	24405,0	4,86317	0,00038	65511,91	171860,1	65511,9	171860,1

September	67306,03	24445,6 4	2,75329 4	0,01749 5	14043,56	120568, 5	14043,5 6	120568, 5
October	42247,63	24513,1 5	1,72346 8	0,11044 7	-11161,9	95657,2	11161,9	95657,2
November	40945,73	24607,3 6	1,66396 3	0,12199 4	-12669,1	94560,5 5	- 12669,1	94560,5 5
December	33342,33	24727,9 5	1,34836 6	0,20244	-20535,2	87219,9	20535,2	87219,9

Table 11: Regression analysis. Dependence of sales from seasonality (employment level of population)

According to our linear regression model we can say that variables move in relation to the months of the year (seasonality of employment of the population). According to index of R square changes in the sales index of bakery is 97 percent dependent from the changes in months/seasons (employment level of the population). Again, the index of adjusted R-squared say that the model is highly fitting to the data.

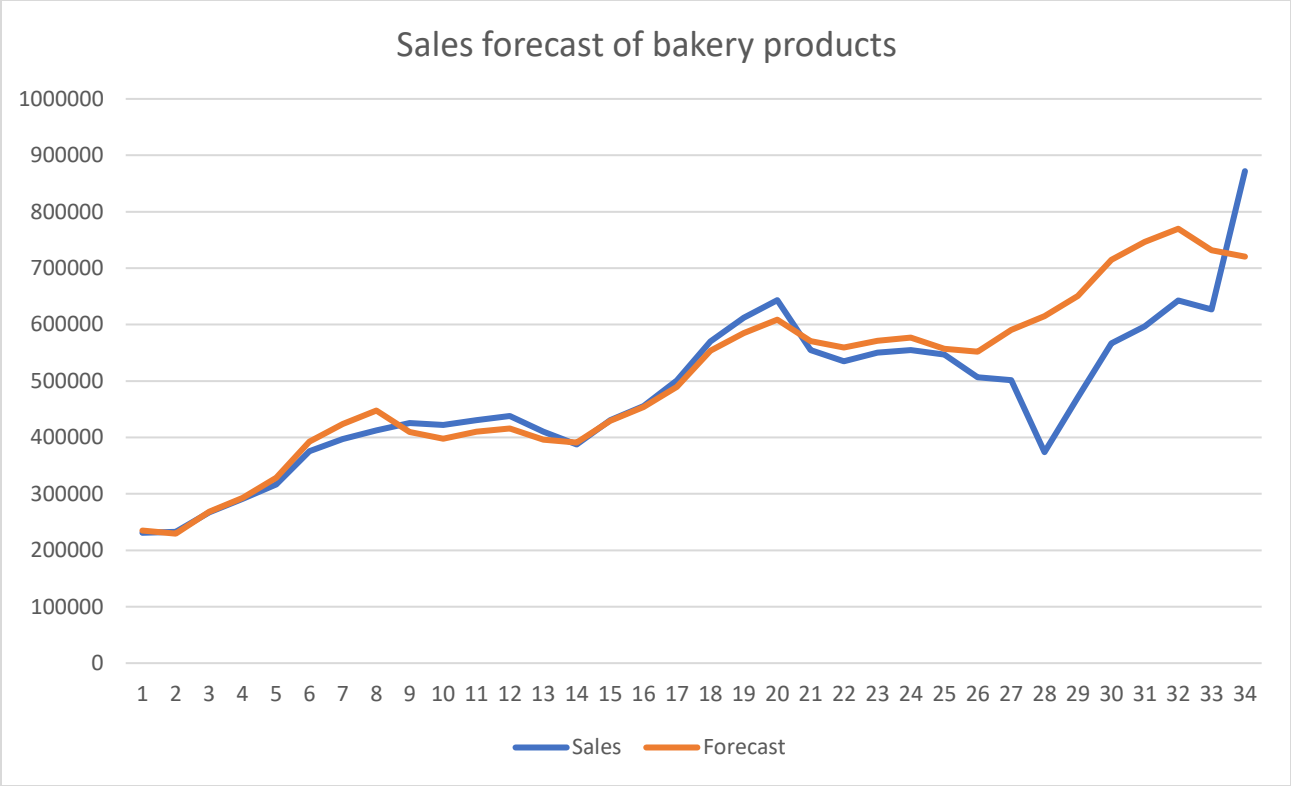


Table 12: Sales forecast

As you see from the data there is just small changes in 2019 and 2020. However, when it comes to third year 2020, there are substantial differences between the demand and forecast, which is the result and impact of pandemic situation (Covid-19) and Political situation within the country in this year.

Unfortunately, national statistical data for our regions is not summarized by months of the year, and we are unable to compare our data with the same origin business field data. However, we will show you the sales data of a retail store (on construction materials) that situated in Aghjabadi city, where you will see the impact of employment activity on sales index.



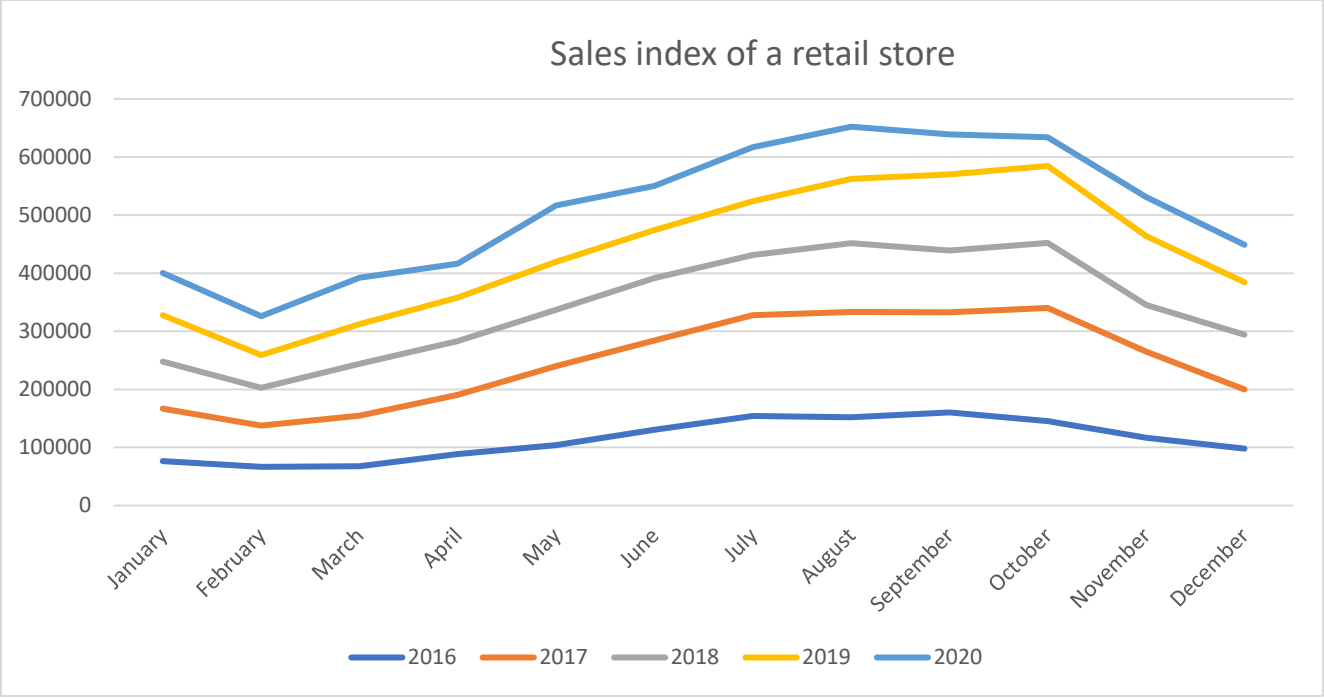


Table 13: Sales index of a retail store

As you see from the sales index of a retail store, the trends in sales are repeating each other every year and increasing during the summer months and reach its minimum at the end of winter, which let us to say that the purchasing power of people is depend on the employment level of people.

**Sensitivity to price discounts** - In compare to local Aghjabadi market, bakery market in Aghdam (settlement Guzanli) is much more sensitive to changes in prices. Also, the players in the Aghdam market are much more active in compare to other regions. So that for occupying the market in Aghdam market, suppliers are decreasing the price of bread regularly. Decreasing the price is playing as a role of catalyst in the rapid increase sales of the market, but parallel to this the profit of the suppliers is going down. For that reason, we will try to manage the situation with developing the bakery vertically. For keeping up with competitors in the market, we will also join to this price war, however for increasing the profit of the bakery, new types of products will be produced and

suggested to customers. For realizing the strategy, we should know the cost of production, breakeven point (which will let us to know the lower limit price of our product) and also, we should analyze the market profoundly for being able to differentiate the products.

With the help of product differentiation, we will be able to:

- \* answering the question of consumer – What’s for me?
- \* giving the consumer the option of choice in product variety
- \* creating brand equity and brand loyalty
- \* giving the reason to producer for different/high prices

Based on the information on “businessinsider.com”, we can say that the price of wheat in the world market has increased up to 35% since August 2020, which is directly influencing the price of flour in our country from 22,00 AZN to 26,00 AZN per 50 kg sack. As we noted above, the baking industry in our country is under the supervision of government directly and in some cases indirectly. For that reason, increase in wheat prices express itself mainly in the weight of bread and other producers again decrease the weight of bread, instead of increasing the price of it. The situation also has been the same in “Aghjabadi Bakery” and therefore, the bakery also decreased the weight of bread in proportion to the increase of price of flour. However, in different from its competitors, the “Aghjabadi Bakery” has additional product of rye bread, which is there is no one bring that product to the market. Therefore, relying on that the price of almost all ingredients of

rye bread is increased, the bakery also has increased the price of rye bread 25%. After the increase in price the sales tendency of rye bread has been as following:

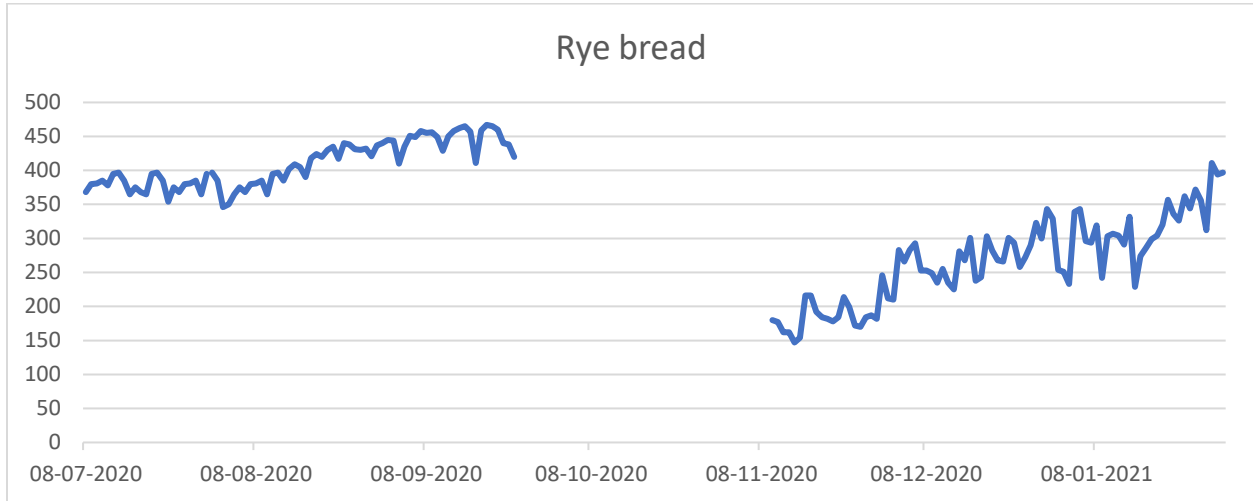


Table 14: Sales index of rye bread

As you see from the chart, there is a gap in the sales of rye bread which is overlapping with the beginning of second Karabakh war, and the production again has restarted from the beginning of November. Until November, the wholesale price of rye bread was 0,40 AZN and the sales had reached just over 450. Basing on the substantial increase in the price of raw materials, the bakery has increased the sales price to 0,50 AZN and restart the production with new price. Just before restarting the sales, the sales drivers (distributors) are informed comprehensively about the cost of production of the rye bread, about the price increase in the world, its reasons, and possible sequences. According to the chart above, we can say that at the beginning of the sales, the index was just under 200, however the index goes up continuously. It should also be noted during the beginning of the sales the drivers had met with some resentment with prices, however after some adaptation period those resentments also went out. If we measure the price elasticity of the rye bread, we can see that,

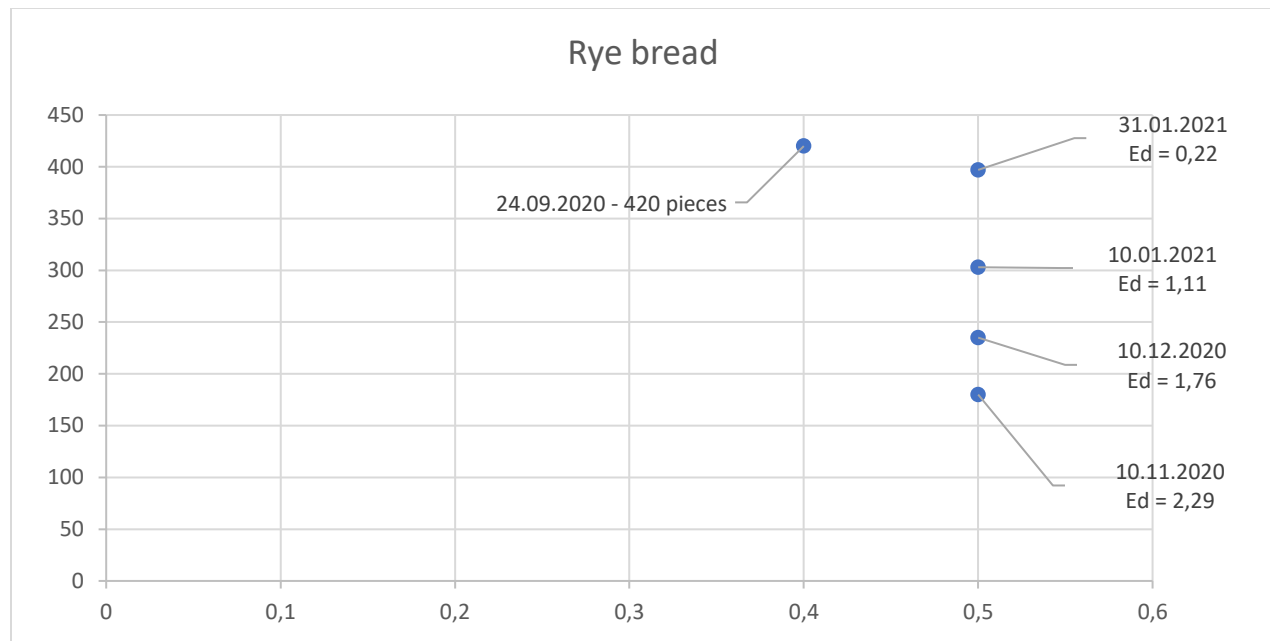


Table 15: Price elasticity of rye bread

the price elasticity of rye bread has been different in various times. So, in the first three calculations the index of elasticity was more than 1, however in the last calculation the index was inelastic, just after 3 months. In our case there can be two reasons that triggering the positive elasticity: time gap in production during the war time; consumers react aggressively to price change at first and need some time to adapt the situation. All in all, as there is no substitute to “Aghjabadi Bakery” that to serve rye bread into the market, the sales have been inelastic to price change.

## Market Demand Analysis

For analyzing the purchase characteristic of consumers over bakery products we had made an interview survey among 140 people in Aghdam and Aghjabadi during January 2021. During the survey we had tried to analyze the preferences of consumers during the purchase of bread, and factors that can influence the purchasing decisions. During the survey, 80 persons interviewed in Aghjabadi and 60 persons interviewed in Aghdam region. Before turning to interview details, it should also be noted that because of the spread Covid-19 pandemic, the big portion of the population is sensitive to hygiene of their nutrition in their daily life, which has impacted their treatments actively in recent times. So that, it is compulsory for all retail store to sell all the food products in a packaged form.

The survey questions and answers are as follows:

The first question of the survey was related to the age groups of the people.

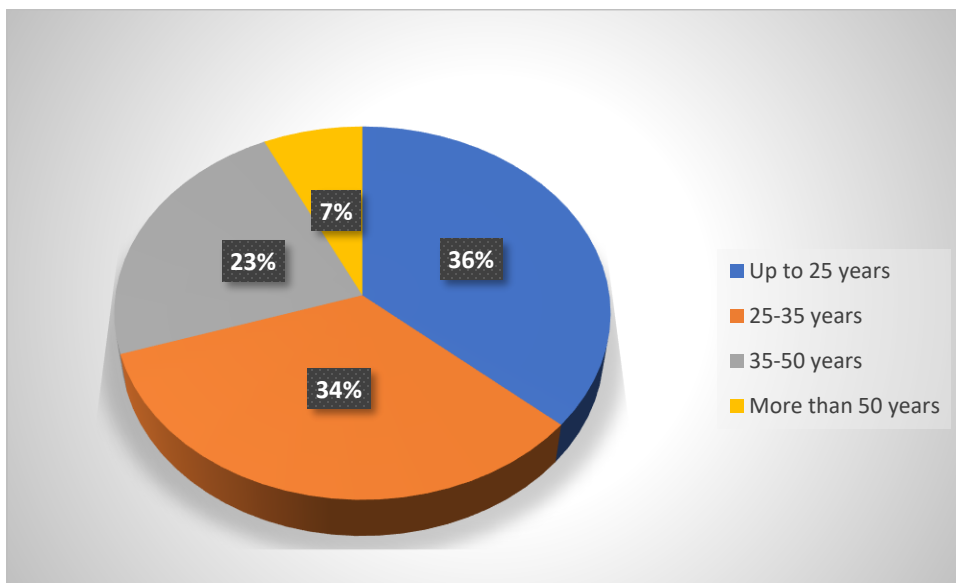


Table 16: Division of respondents according to age groups

As you can see from the chart, the interviewers are divided into 4 age groups and the millennials contain the main portion of total interviewers. Within this portion, females hold 35% of the total respondents. And according to the answers of the respondents, women in families are the who decide which bread to buy to consume.

The next question was about the occupation of the people who participated in the survey.

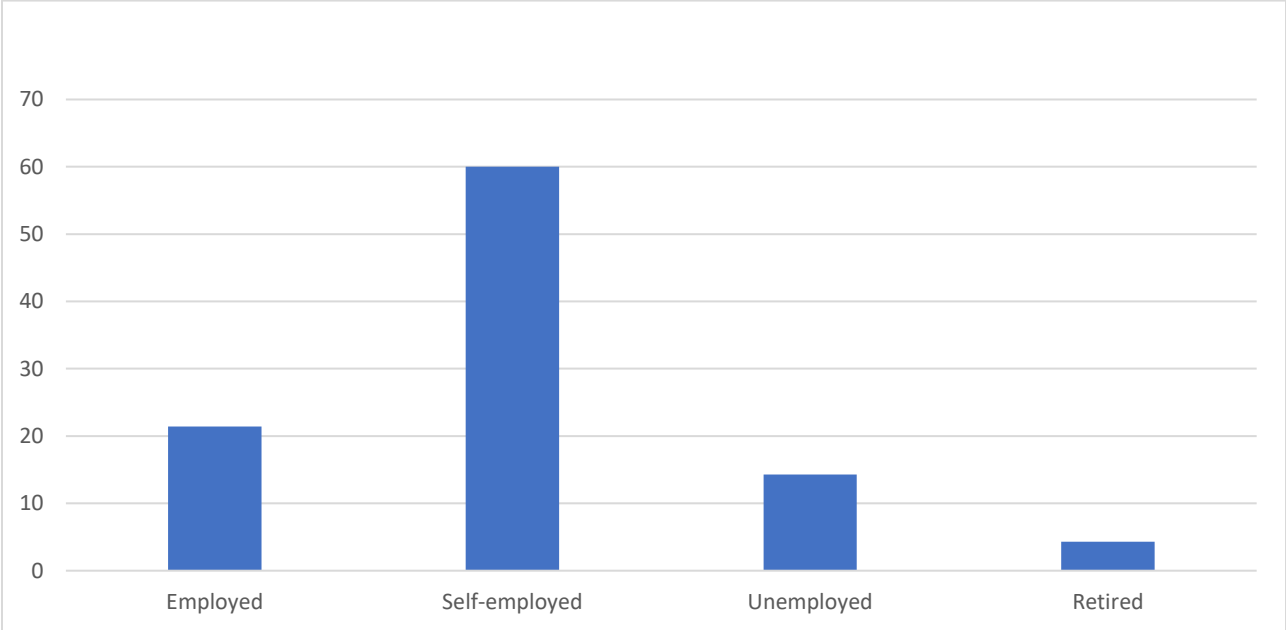


Table 17: Division of respondents according to their occupation

84 persons out 140 is self-employed and busy with mastery, entrepreneurship, grocery, agriculture, cattle-breeding and so on. 30 of them work in governmental and non-governmental structure, 20 are unemployed and the rest is retired.

Another significant part of the survey was the question in which the respondents were asked about the time of the day to buy a bread.

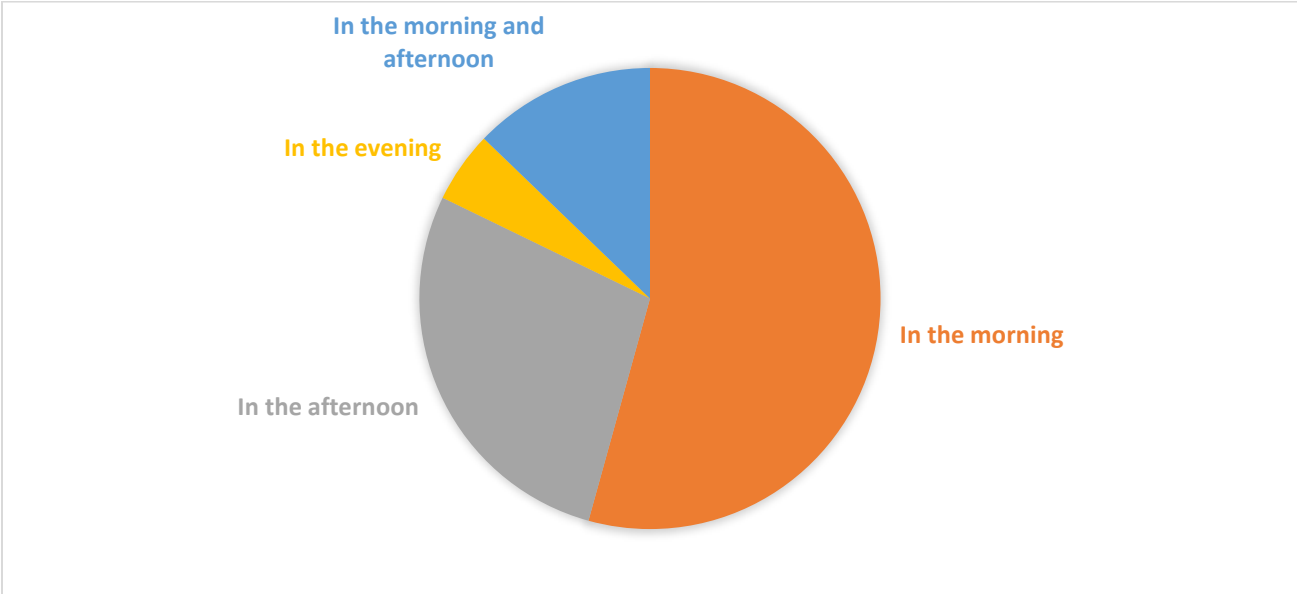


Table 18: Time of the day when the respondents purchase bread

54,3 % of total respondents buy their daily bakery demand mainly in the morning, 27,9 % of them buy in the afternoon. There are 5 % portioned of consumers that they buy their daily bakery consumption one day before and keep it for the next day. The respondents who also have extended family (family members more than 3 persons) that buy the bakery products in the morning and afternoon comprise 12,8 % of total.

The respondents' preferences about the types of bread were another question, which is considered as one of the most substantial parts of the survey.

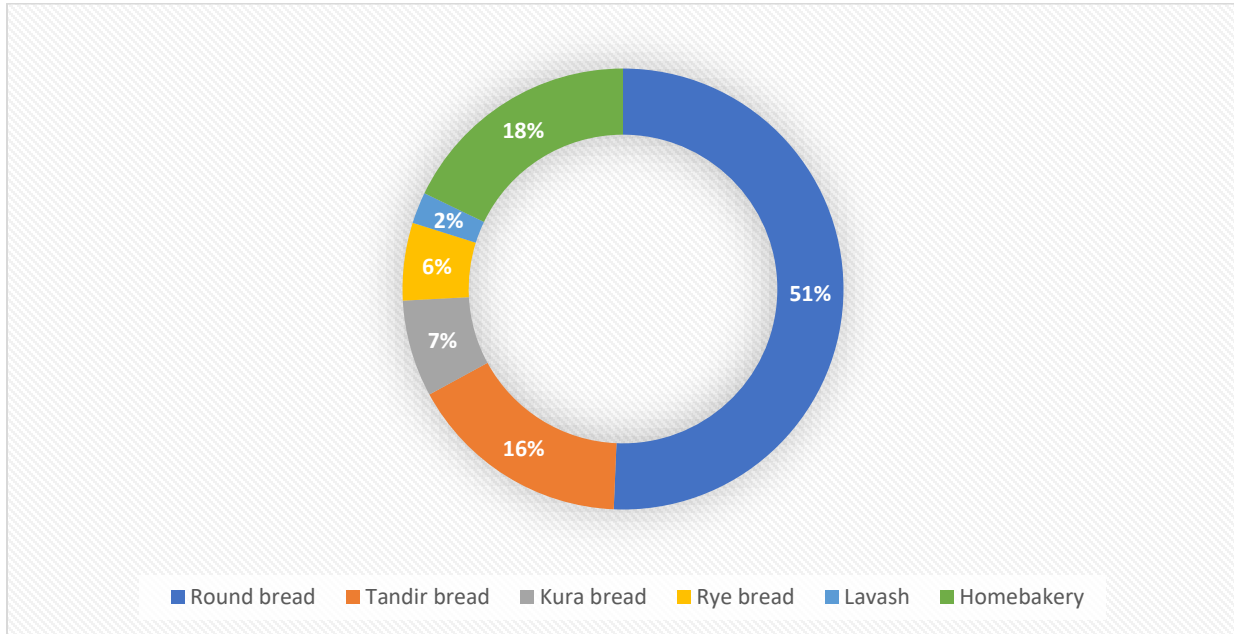


Table 19: Preferences of respondents for bakery products

The most popular type of bakery product in Aghjabadi and Aghdam region is round bread with 51 % choice of representatives. Tandir bread is following the round one with 16,4 %, while Kura and Rye bread complete the list with 7,1 % and 5,7 % respectively. 2,3 % buy lavash for their daily consumption and indifferent from others, the rest 17,9 % of representatives prefer to bake their bakery demand themselves. They were asked to provide the reasons for this preference (homebakery). As a result, it was identified that, one of the major reasons is the anxiety which is related to pandemic situation. They consider that to bake at home is a healthier way. Additionally, they stated that nothing replaces the taste of freshly cooked bread directly out of the oven. One feature you can't feel outside your house is the mouth-watering flavor and fragrance of freshly baked bread sprinkled with butter that slowly melts. The women emphasize that, kneading dough



is a very soothing and therapeutic experience for majority of people. They consider it as a type of meditation and a perfect way to practice mindfulness, even if it's just for a few minutes. They stated that it is a fun for them because they can give different kinds of shape for their homemade bread and their family would be impressed if they bake their own bread.

The subsequent question plays a crucial role within the survey in order to analyze the market demand. In this part, the factors which draw the respondents' attention at the point of buying were examined.

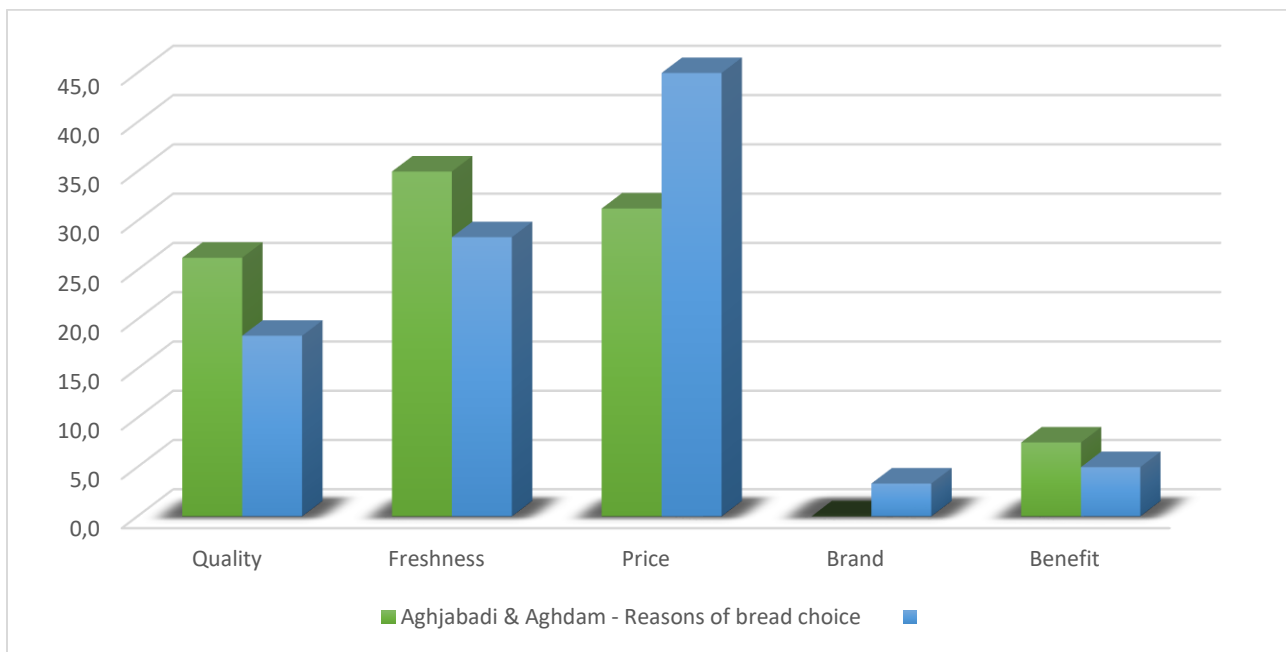


Table 20: Influential factors that play crucial role in the purchase of bakery

When it comes to the abovementioned part of the survey, the reason during the bakery product selection, here, we can see that the consumers in Aghdam regions is much more sensitive to price with 45 % of total respondents, however the same index in Aghjabadi is 31,3 %. Although, the consumers in Aghjabadi are much more freshness sensitive with 35 %, in compare to Aghdam with 28,3 %. Furthermore, 26,3 % of respondents in Aghjabadi pay attention to the quality of the

bread while making a choice, nevertheless the percentage is 18,3 for representatives in Aghdam. It is also interesting that none of the respondents do pay attention to the brand of bakery, but 3,3 % of respondents in Aghdam do. And lastly, 6 out of 80 persons during the survey in Aghjabadi noted that the benefit of bread is important for them, where the number for Aghdam is 3 out of 60. So, it is clear from the chart the freshness of bread is second important point during the bakery choice, even in Aghjabadi it is much more important than price.

In addition to abovementioned questions, the respondents also were asked to share their thoughts about the probability of future increases in bread prices because of different factors involved in the production process. As a consequence, it was defined that it is undesirable action for the people, especially, for the price sensitive people who mainly inhabit in Aghdam, indifferently, just over half of the respondents in Aghjabadi replied the question positively.

Moreover, through the survey we asked additional questions after providing them about the bakery purpose of launching new types of bread. We wished to identify that if these new types were launched to be produced with new ingredients, how it would affect the public preferences. Would they like to taste these new types and how much more they would like to pay in order to taste them? According to the received responses, we determined that the majority of the survey participants (59,3 % out of total respondents) intend to pay a little bit more to taste new types and compare their features with the existing ones.

## Findings

**In multidivisional management structure**, the duty and responsibility of employees will be as follows:

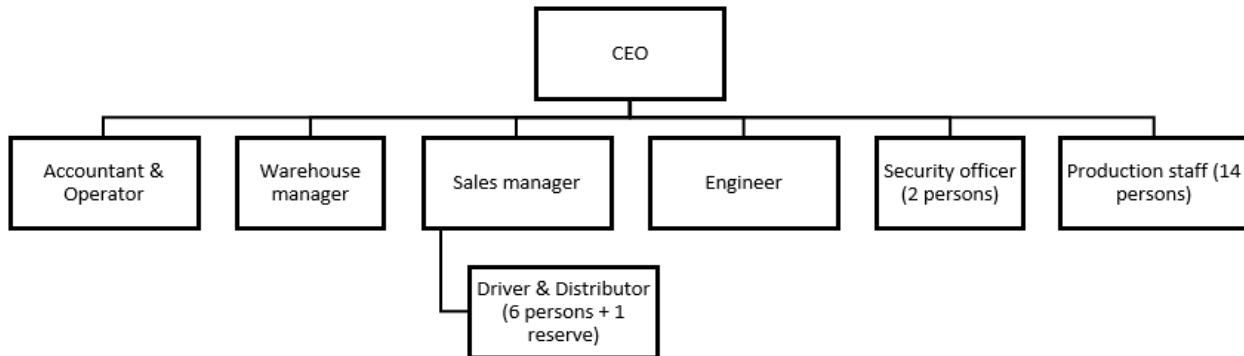


Table 21: Multidivisional structure of “Aghjabadi Bakery”

CEO again will be the main decision maker in the bakery. However, with new changes we are passing away most of time consuming and micro management related issues to accountant, warehouse manager and sales manager. This will enlighten the workload of the CEO, and he will be able to easily monitor the accountancy and get statistical indexes, to work on the development of bakery, working on production of new type of products, participating in new markets etc.

After restructuring process, the accountant will be able and have much more time to analyze the sales tendencies of costumers, monitor the production data, sales indexes, fuel and energy consumptions, prepare and submit the governmental reports and so on. Furthermore, the accountant will also prepare and submit daily, montly, quarterly and yearly reports for CEO and sales manager which will help to make appropriate decisions as soon as possible according to the situation.

Warehouse manager will be responsible to the distribution of daily produced bakery products between the drivers. The products should be taken over from production manager in a daily basis and should be distributed between drivers/distributors. Parallely, as the warehouse manager will be responsible for collecting daily order from drivers and pass it to production manager, he will again be responsible to complete sales of daily produced products. Raw materials and daily necessitive materials also will be in the responsibility of warehouse manager, the records of these materials will have been kept by warehouse manager. All records should have been entered to accountancy system and will be monitored ongoingly by accountant.

Sales manager will mainly be responsible to keep the relationship with customers, and will realize CRM – Customer Relationship Management. Here, the manager should regularly check daily route and sales of drivers, visit the customers seperately and continously, find new customers, markets and work on various strategies for increasing the sales.

In addition to sales manager we are also hiring a new driver. Here the new hire, will be a reserve for drivers and will replace them once a week. This will let the former drivers to take a regular day off, which will increase the productivity of drivers. Paralelly, the reserve driver also will be an emergency reserve for possible situations. The reserve driver himself will be a ready skilled personnel for a possible,additional sales route and if a new route will be arranged, a new driver will be hired as a new reserve.

It should be noted that transportation vehicles and all production equipment need ongoing technical care. Until today, the monthly expense of bakery for outsource engineering cost at least 500 AZN. Here, by hiring an engineer we will be able to take care of all equipment and vehicles ongoingly,

eliminate the dependance of bakery from outsource engineering and also decrease the expenses of the bakery.

We are also planning to hire a new security officer for night shift for increasing the ongoing safety and supervision of the bakery.

In addition to changes in management structure, we also will make changes in control mechanism of accounting. For that reason the accounting software should have been developed. With the help of developed accounting software for production, we would have been enlightened the workload the staff members and increase the controllability. Here, we will give mobil terminals for drivers, which will let them to enter their daily sales directly to the terminals. When driver come back to the bakery, the program will immediately show the amount of daily sales, sales datas and stock of the driver. According to ready data, the driver will report and hand over the revenue that comes from the daily sales to the cash. This process itself will increase the accuracy of accountancy and also decrease the workload of the accountant.

As an additional function, the software will also help us to manage the duty of drivers. Normally, each driver has daily routes of two times a day, morning and noon route. During the noon route, the driver visit the customer A and sell the customer 100 pieces of breads. However, after the use of new program, while entering the amount of sold bread to the terminal, the driver should also enter the amount residual bread in the shelve of customer A. If during the noon route, there is no residual stock in the shelve of customer A, the program will suggest the driver to increase the amount of sales norm of the customer up to 10 percent for next day. However, if the situation is vice versa and the residual stock of the customer A is high, here the program will suggest the driver to decrease the amount bread to that customer for preventing excess amount of residual stock. If

the decisions is being made different from suggestion of the program, this will be marked in the report of the driver and will be reevaluated by sales manager later.

**Effective use of bakery capacity**

As we noted before, during the analysis of sales index we are not taking the sales data of 2020 into account because of excessive unusual influential factors. For that reason, for analyzing the development trend of sales we will look for sales from 2018 and 2019.

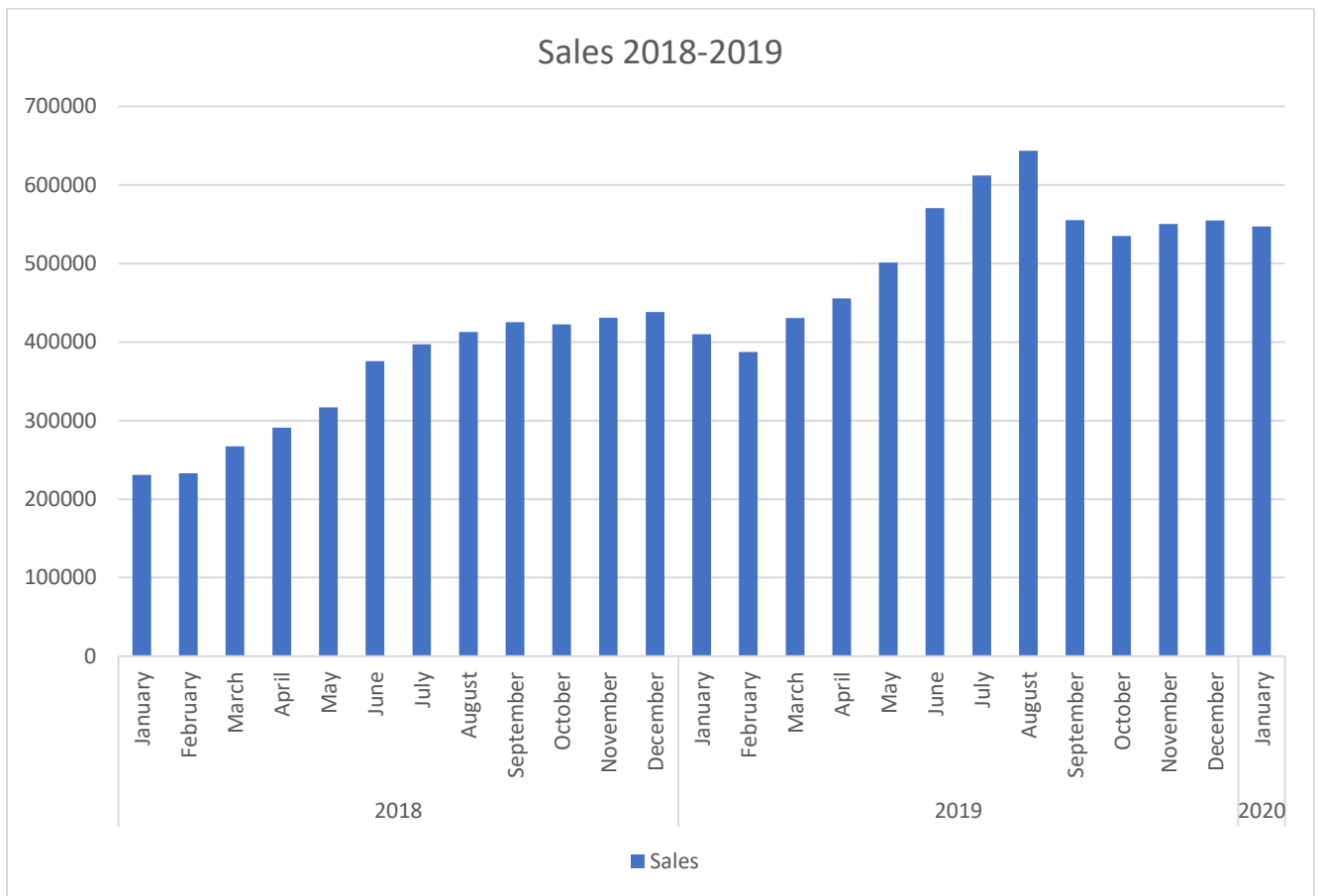


Table 22: Sales trend in 2018 and 2019

As you see, during the two years of operation, the sales index of the bakery is in the upward trend.

However, this development trend is not enough for bakery to increase its income and survive from

the financial difficulties. For accelerating the development speed of the bakery, we will give our suggestions for bakery in the way of rapid development.

Before turning to looking for ways in increase of income, let look first to the expenses of bakery.

In bakery there are three types of expenses: Fix costs, variable costs, and semi-variable costs.

Mainly, fix costs of the bakery are income tax, insurance, administrative staff costs, non-production utility and maintenance costs, transportation costs and other costs that which are not related to production and not changing.

When it comes to, semi-variable costs, they are production staff maintenance cost which is changing periodically, Social Security Fund (SSF) tax of those production staff members, sales costs, fuel costs and other periodical maintenance costs.

And finally, we have direct variable costs that they are mainly raw materials, some portion of gas, electricity bills, taxes, and production-related maintenance costs etc.

In all businesses, sale is the main source of income. But in our case, increasing sales will influence the profitability of the bakery from two side. As usual, it will increase the amount of revenue, and from the second side, increasing sales will parallely decrease the cost of production which has crucial effect on the increase of revenue again. If we look through to expenses, we can see that not all expenses are included into the direct costs, and with the help of increasing sales, those fix, and semi-variable costs can be additional source of revenue for the bakery. The following calculation is done for 5 tons production of round bread (zavod choreyi) and rye bread per day, and all costs are noted with AZN. It should also be noted that the production capacity of one shift for round bread is 23.000 and for rye bread, the capacity is 5.400.

Name of the costs	Fix costs	Variable costs	Semi-variable costs
<b>Raw materials for round bread</b>			
Flour		0,1543	
Yeast		0,005	
Vitamin		0,0003529	
Salt		0,00086	
Oil		0,0018	
<b>Maintenance cost</b>			
Staff in production			5.200 (per shift)
Staff in sales	2.400		
Staff nonproduction	1.320		
Electricity	400	0,001857	
Gas	50	0,004714	
Tax (SSPF)	968		1.768
Compulsory Medical Insurance	60		83
Amortization (building)	4.467		
Amortization (equipment)	2.778		
Amortization (car)	1.000		
Other costs	3.000		
Fuel	123		
Transportation	350		
<b>Total</b>	<b>16.916</b>	<b>0,1689</b>	<b>7.051</b>

Table 23: Cost of production of round bread

As you see from the chart, the fix cost of working in the first production area is 16.916 AZN, semi-variables costs are 7.051 AZN and production cost for per amount of bread is 0,1689 AZN.



Furthermore, the sales price of the product is 0.25 AZN. In this case, if we calculate the cost of one piece of round bread today, the cost of production for one piece of bread will be,

$$(16.916 + 7.051)/550.000 = 0.0435$$

$0.0435 + 0.1689 = 0.2124$  per round bread or  $(0.25 - 0.2124) * 550.000 = 20.000$  AZN per month, if we increase the sales, and maximize the production for per production shift, in that case the cost of production will be,

$$(16.916 + 7.051)/700.000 = 0.0342$$

$0.0342 + 0.1689 = 0.2031$  per round bread or  $(0.25 - 0.2031) * 700.000 = 32.800$  AZN per month, which means that within one production area and one production shift, 27 % increase in the amount of sales index will make 64 % more profit. With taking this calculation into consideration, we are urgently suggesting the bakery to work on horizontal development and to serve its products to border regions for increasing the sales indexes.

Horizontal development will let the bakery to increase its sales index in the short period of time and increase its revenue. However, for the long term the bakery should also work on vertical development with increasing its variety of products. In different from first production area (massive round bread production), second production area of the bakery is supplied with various equipment that can let the bakery to produce specific bakery products. In different from round bread, there is no producer of rye bread in the region. And the bakery had produced rye bread from 2019 to the September of 2020. Because of the launch of second Karabakh war, the production of rye bread stopped. However, right after the finishing of military operations, roughly, in the mid of the November, the bakery again has restarted the production of rye bread.

In the following chart, you can see the cost of production of rye bread and with the help of this data, we will be able to calculate the breakeven point of the product, compare and analyze the sales of the product.

Name of the costs	Fix costs	Variable costs	Semi-variable costs
<b>Raw materials for rye bread</b>			
Flour		0,125	
Yeast		0,005625	
Salt		0,0010125	
Oil			
Vitamin		0,0015	
Rye flour		0,05625	
Bran		0,002275	
Solod		0,0091	
Flour 2nd class		0,0025	
Staff in production			600
Staff in sales			
Staff nonproduction			
Electricity		0,02278	
Gas		0,032	
Tax (SSPF)			156
Compulsory Medical Insurance			10
Amortization (building)	2083		
Amortization (equipment)	375		
Amortization (car)			
Other costs			

Fuel			
Transportation			
<b>Total</b>	<b>2.458</b>	<b>0,25804</b>	<b>766</b>

Table 24: Cost of production of rye bread

Before calculating the **breakeven point** of rye bread, it should be noted that today, the sales price of one piece of rye bread is 0,50 AZN.

$$(2.458 + 766) = (0,50 - 0,25804) * X$$

$$X = 3224 / 0,14196$$

$$X = 13.324 \text{ pieces per month}$$

Today, the sales index of rye bread is approximately 12.000 per month, which is under the index of breakeven point. While looking at the data, it is seen that the production of rye bread is not profitable for the bakery. However, it should also be taken into consideration that it is just short period that the bakery restores the production and if we look to the forecast done in the regression analysis, we can say that the sales index will increase gradually. Furthermore, as a continuation of vertical development, we will have additional suggestions for the bakery in the increase of production differentiation that which will decrease the fix, semi-variable costs and most importantly will increase the revenue of the bakery.

One of these suggestions is the “donar” bread. During the initial research in the market, we realized that until today, the donar bread is provided by the suppliers from Ganja, which is 180 km away from Aghjabadi and Aghdam market. The information is surprising, and we also have realized that neither Barda, Beylagan or Zardab is producing is donar bread. Which means that there is a huge sales capacity in front of the bakery with just only one competitor.

For being able to produce donar bread, the bakery needs small scale dough cutting and rounding machine, which is already bought in recent days, from the supplier of “Altuntop” Turkey. The cost of the dough cutting machine is 7.000 AZN and the rounding machine 5.000 AZN.



Picture 5: Dough cutting machine



Picture 6: Dough rounding machine

There are two types of donar breads in the market, one of them is simple donar that weighted 90 grams for 0,10 AZN, and the other one is kura donar which is 80 grams for 0,12 AZN, respectively. Because its price simple donar bread is the best-selling.

During the market research within Aghjabadi, it is being realized that there are 9 cafes and each of them is serving with averagely 300-400 pieces of donar per day. This means that the donar consumption of the market is approximately 96.000 pieces per month.

Name of the costs	Kura donar bread (100 grams)	Standard donar bread (100 grams)
Flour	0,035	0,035
Yeast	0,00105	0,00105
Salt	0,0001767	0,0001767
Gas		0,002857
Electricity	0,00592	0,000857
Fix costs	0,0246	0,0246
Semi-variable costs	0,008	0,008
<b>Total</b>	<b>0,075</b>	<b>0,0725</b>

Table 25: Comparison the production cost of simple and kura donar bread

As you can see from the calculation, the cost of production for donar breads are 0,075 and 0,0725 AZN respectively, which is highly profitable in compare to round bread. In the first stage of the production the baking process will be in the rotating ovens, however in case massive sales to border regions, the baking process can be turned to tunnel oven which will lead to less cost of production.

For effectively entering the market, we will increase the weight of the product, without changing the sales price. So that, today, the quality products supplied by of outer seller is not sufficient, and consumers are already inclined to replace the former supplier with any new one. For that reason, it will be easy for “Aghjabadi Bakery” to eliminate the opponent from the market just with high quality.



Picture 7: Donar bread

As we noted in SWOT analysis, the bakery has the problem of lack of industry related specialist. Unfortunately, in competitive condition, bakeries try to keep receipts and baking technology of bakery products secretly and do not share any information. In our case, for solving the problem with the specialist, we have already applied to the Senior Expert Service program of The German-Azerbaijani Chamber of Commerce. With the help of the program, we will be available to an expert in the scope of bakery, whom we believe that will help us to increase the quality of our products and will teach us the new technologies of bakery and also will increase the product range of the bakery. The main purpose of the program is to attain the development of the various sectors over the world and free of charge. The commitment of the “Aghjabadi Bakery” during the program is to cover all expenses of the expert within his/her visit, provide the expert with nutrition, location and transport within the required 6 months. The appeal of Aghjabadi bakery to this program is already confirmed by AHK Azerbaijan and appropriate expert is already determined. Unfortunately, because of pandemic situation the invitation of the expert is deferred to a next unknown date by AHK Azerbaijan.

**Sales points** – is another way of increasing the quality of service and profitability. This sales point should be in the central places of the city and consumers should be able to get fresh bakery in any time of the day. In the world practice, the bakery sales points can be in two form and design. One

of them is small bakery kiosks and the other one is small bakeries. The positive features of small types of kiosks are that it is easy to carry and set the kiosk in any place like a bus station, for example, in front of the schools or in the center of the streets and so on. Furthermore, these types of kiosks take up less place to locate and has small maintenance costs. In the first stage of its development, it is preferable for Aghjabadi bakery to get and set these types of small kiosks and set its sales strategy. At first, the bakery can build these bakeries in five places in the region that let to cover central parts of the city. Production cost of one kiosk is approximately 18.000 AZN, and if we take into consideration that for capturing the main sales point within Aghjabadi, bakery need to make 90.000 AZN investment. For not taking any loan or credit, the bakery should need to realize this plan step by step. It should also be taken into consideration that for not impeding the business of its customers (market owners) and market price of its products, bakery should set the sales price of bakery products as same as in the market (the prices should not be cheaper than the other markets). This strategy itself also will keep the profit margin of the kiosk high. However, for attracting the consumers, there always should have been freshly baked warm products. There should also be additional nearby complementary products, like coffee, tea, juice of fruit and etc., which will help to cover the cost of kiosk and increase the income. As a bakery center, if the daily sales of the kiosk will be at least 205 pieces of round bread, this will be the breakeven point (which is really small/easy amounts of sales). However, if we consider that the daily sales of these types of bakery kiosks in different regions are at least around 500 pieces a day, then we can assume that the kiosk will make at least 800 AZN profit per month after deducting expenses like staff, electricity bill etc. It should also be noted that the additional services like tea, coffee and others will also increase the income of the kiosk. In parallel to increase in the sales, bakery become much

more available in analyzing consumer reaction and decisions much more easily and apply those data to its new strategies.



Picture 8: Bakery Kiosk



Picture 9: Bakery shop

After strengthening the quality of bakery products and its service, Aghjabadi bakery should definitely start production of sweets and additional flour products, which will probably contribute big impact on profitability. In that situation, the opening of bakery shops will be in the agenda of bakery.

### **Application of vertical development and motivational programs**

Unfortunately, sales competition in Aghdam region is mainly based on price, instead of quality and service. Most times, for occupying the market these competitors sacrifice their profit margin and decrease the price of bread ongoingly. As a newly launched bakery, Aghjabadi bakery is not so powerful that to compete with these competitors only with price. Although, if we take into consideration the opinions and approaches of consumers in Aghdam region, we can see that the majority of consumers are also price sensitive. Therefore, here, if the bakery is not able to increase or keep its sales and profitability only with keeping the quality, then it should change its strategy



and keep up with the tendency in the market. However, in parallel to this tendency, the bakery should also work on the vertical development. Which means, in parallel to small scale cheap priced bread, the bakery should also suggest the market large scale medium priced round bread, new sorts of products like donar, baton, baguette, buns or bread types with pumpkin, susame or sunflower seeds and so on that will let the bakery to increase its sales and profitability from various sources. In parallel to profitability, these types of diversity will also increase competitiveness of the bakery in front of its opponents.

In addition to product diversification, bakery can also suggest temporary and various campaigns for motivating its customers. Also, during the market research, it came to light that, most of the customers (market owners) try to cooperate with several suppliers (bakeries). And most of them buy the products almost in the same portion. For motivating those customers and for increasing the sales turnover of bakery, some bonus programs can be organized as follows:

<b>Weekly turnover + bonuses</b>	<b>Monthly turnover + bonuses</b>
300 + 10	1.000 + 1%
500 + 15	3.000 + 2%
700 + 20	5.000 + 2,4%
1000 + 30	7.000 + 2,8%
1500 + 50	10.000 + 3%
2000 + 70	15.000 + 3,2%
3000 + 100	20.000 + 3,5%

Table 26: Weekly and monthly bonus campaigns

So, with the help of this campaign we can make the market owner to decrease the sales portion of other suppliers and increase the turnover of bakery for getting weekly or monthly bonuses. These bonuses during the campaign can also be new sorts of bakery products, which will let the bakery both to motivate its customers and also introduce its new types of products to the market.

Furthermore, as we noted before, today, the bakery distributes its products just to only 47% of over the Aghjabadi region which cover the population of roughly 63.000 persons, whoever the rest 72.000 person is unable to reach the products of the bakery until now. For that reason, the bakery should increase the amount specialized vehicles as soon as possible and launch to distribute its products over these villages. It is probable that this will increase the sales index of the bakery at least 30 %.

It should also be noted that, the bakery has the opportunity of participating in the competition of Zardab bakery market. As the Zardab market is just at a distance of 30 km away from Aghjabadi, the bakery can easily access to the market with fresh bakery products.

And finally, because of its location and production capacity, Aghjabadi bakery is one of the biggest bakeries in the region. Here, if look to the map we can see that the distance from Aghjabadi to Fuzuli is approximately 110 km, to Khojavand 113 km, and to the center of Aghdam is roughly 50 km, which means just within 4 or 5 years, these areas will be a potential market for “Aghjabadi Bakery” and with proper preparation and development plan the bakery can be available to participate in these markets.

## Appendix

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# Request for Assignment



5. How many of your employees will collaborate with the SES Expert?

in total: 6 of which are trained: 2 of which are semi-skilled: 6 of which are unskilled:

6. Please provide us with an organigram of your company/your institution.

7. Is there anything else you would like to tell us in addition?

## Expected impact of the SES assignment on the company/institution

- Training and instruction of technical and executive staff
- Increase in productivity and performance
- Safeguarding/creation of jobs
- Planning/safeguarding of investments already made
- Increase in sales
- Improvement of competitiveness
- Contribution to social standards and labour protection
- Contribution to environmental protection and resource conservation
- Other impacts, please specify:

## 3. Information on the conditions at the assignment location

1. Where does the assignment of the SES Expert take place? (town, province/state, region)

Azerbaijan, Aghjabadi

2. Where will be the SES Expert's accommodation? What kind of accommodation will it be?

Hotel room / Prive house

3. How will the transport between the accommodation and the assignment location be organised?

# Request for Assignment

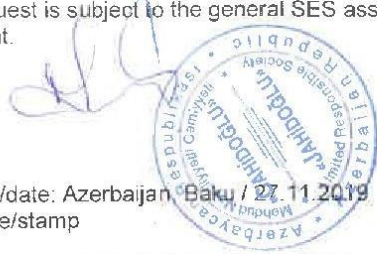
How did you learn about SES?

SES Representative, name:

media

other, please specify. AHK Azerbaijan

This request is subject to the general SES assignment conditions, which are hereby accepted by the Client.



A handwritten signature in blue ink is written over a circular blue stamp. The stamp contains the text 'AHK Azerbaijan' and 'Azerbaijan Republic' in both English and Azerbaijani script.

Location/date: Azerbaijan, Baku / 27.11.2019  
Signature/stamp

Name in block letters SADIG YUSIFOV

ALD rfa en 1512

# Request for Assignment



Private car

#### 4. What kind of technical equipment will be available for the SES Expert?

computer workstation    Internet/Wi-Fi    tel/fax    printer/copier    flip chart/projector

#### 5. When shall the assignment take place?

Anytime

#### 6. How long shall the SES Expert stay at your location?

1-3 months

**Please bear in mind, that the first SES assignment should not be shorter than three weeks and not longer than six months. Follow-up assignments could be shortened to two weeks under specific conditions.**

#### **General conditions for SES assignments**

1. SES assignments aim at training technical staff. They are always carried out on a voluntary basis and according to the principle "help towards self-help" - as a general rule - through suggestions for the solution of acute problems.
2. Requests for assistance through an SES Expert are to be directed to SES together with a project description indicating the assignment target. In doing so, SES expects similar requests not to be directed to other organisations at the same time.
3. The duration of an SES assignment should not be shorter than three weeks and not longer than six months. Follow-up assignments are possible.
4. Even voluntary assignments like those of SES incur costs. Costs incur for the organisation of the assignment, the preparation of the Expert and the international travel (Economy Class). In addition, costs arise for accommodation at the assignment location as well as food, local transport and a daily allowance in local currency for the Expert.
5. The Client bears these costs in total or partially. If the Client is not able to bear all the costs, SES examines the possibility of assuming the costs partially. Funds from the Federal Republic of Germany are available for SES to cover costs. These funds can not be used to cover local costs. Those costs have to be borne by the Client.
6. After precise definition of the tasks and targets of the assignment as well as the mutual agreement on the SES Expert to be assigned, an assignment agreement will be concluded between SES and the Client which includes the description of tasks.
7. Consequently, SES concludes an assignment authorisation which also includes the description of tasks with the respective SES Expert.
8. An assignment agreement between the Client and the SES Expert is excluded.
9. SES does not assume any liability for the SES Expert's activities.



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### Your Request for Assignment

Dear Sir or Madam,

We are glad that you have contacted us and that you are seeking the assistance of an SES Expert.

On the following pages we ask you for some details which will help us process your request.

These details form the basis for our selection. The more precisely you describe your needs, expectations, questions and targets, the more satisfied you will be with the Expert we suggest for you.

We need information on:

1. your company/your institution
2. the tasks for the SES Expert
3. the conditions at the assignment location

Please send us the following form by e-mail, fax or post. We are looking forward to a successful cooperation and we will contact you as soon as possible.

Yours sincerely,

Senior Experten Service (SES)

Executive Director: Dr. Susanne Nonnen

Magistrates Court Bonn HRB 3983

Commerzbank Bonn IBAN: DE54 3804 0007 0259 5353 00 BIC: COBADEFF380

Sparkasse KölnBonn IBAN: DE97 3705 0198 1902 0065 82 BIC: COLSDE33



# Request for Assignment



1. Information on your company/your institution	
Name: Jahidoghlu LLC	Telephone: +994552223398
Address: Azerbaijan, Aghjabadi region, S. Vurghun street	Mobile: +994512557879
Person responsible/Director: Ilgar Yusifov	E-mail: jahidoghlu@gmail.com
Contact person for correspondence with SES	Website: www.jahidoghlu.az
Name: Sadig Yusifov	Telephone: +994552223398
Function/position within your company/your institution: General Manager	Mobile: +994512557879
	E-mail: yusifov_sadiq@mail.ru
Legal form: Limited Liability Company	
Ownership structure:	
<input type="checkbox"/> public institution/public enterprise <input checked="" type="checkbox"/> private institution/private enterprise percentage of private capital in %: 100 <input type="checkbox"/> participation of foreign capital <input type="checkbox"/> subsidiary of:	
Year of establishment: 2017	
Total number of staff: 26	
of which are trained: 6      of which are semi-skilled: 8      of which are unskilled: 12	
<b>Have you already collaborated with other international expert organisations?</b> No	
<b>If so, with which organisation, in which area, and what kind of tasks?</b>	
Is your company/your institution financially supported by other institutions?	<input checked="" type="checkbox"/> no <input type="checkbox"/> yes, by:
Size of firm at national level:	<input type="checkbox"/> small <input checked="" type="checkbox"/> medium <input type="checkbox"/> large
Average sales volume of the last three business years: (if applicable)	<input type="checkbox"/> below 50,000 US-\$ <input checked="" type="checkbox"/> 50,000 – 1 M US-\$ <input type="checkbox"/> more than 1 M US-\$

# Request for Assignment



Results of the last three business years (if applicable)	<input checked="" type="checkbox"/> Net profit <input type="checkbox"/> high <input checked="" type="checkbox"/> medium <input type="checkbox"/> low <input type="checkbox"/> Net loss <input checked="" type="checkbox"/> Balanced accounts trend: <input type="checkbox"/> ↗ <input type="checkbox"/> ↘ <input checked="" type="checkbox"/> →	
Cost structure	Average annual personnel costs: 75000  Average annual material costs: 550000	
Sales markets (if applicable)	<input checked="" type="checkbox"/> Mainly domestic market Market share in %: 100  <input type="checkbox"/> Mainly foreign market Export share in %:	
<b>Type and country of origin of raw materials/primary products (if applicable)</b> Azerbaijan		
<b>Which are your main products/services/tasks?</b> Bread, Bakery Products  <b>Who are your customers/your main target group?</b> Local citizens		
<b>Which technical equipment do you have?</b> Equipments related bakery production  Please add photos of the premises, machines and equipment which are relevant for the assignment.		
Type of machines/equipment	Model/producer	Year of manufacture
Tunnel oven	PPP 2,5 53.221 / J4 / Czech Republic	2013
Flour sifting machine	Bartech / Turkey	2015
Water dosing machine	Bartech / Turkey	2015
Mobile mixer	Bartech / Turkey	2015
Cutting Weighing machine	Bartech / Turkey	2015
Dough rounding machine	Bartech / Turkey	2015
Rotary baking oven "Musson-rotor" model	Voskhod / Russia-Italy	2004
Electric proofer	Voskhod / Russia-Italy	2004
Kneading machine with rolling bowl "Prima-300"	Voskhod / Russia-Italy	2004
Dough rounder with central	Voskhod / Russia-Italy	2004

# Request for Assignment



adjustment Two-chamber dough divider Dough-setting		
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## 2. Information on the SES Expert's tasks

Please answer the following questions as detailed as possible, if necessary on a supplementary sheet. The questions are particularly important in order to determine the most suitable SES Expert.

- 1. According to your opinion what shall be improved?**  
**What would you like to change?**  
**What do you want to achieve for your company/your institution?**  
**What should your staff be able to do better after the assignment?**

We have lack of professionals on the bakery. So, with the help of SES Expert, we will be able to get new receipts, sorts of products and european bakery technologies. Then we will apply best technologies to our production and will offer new products for our customers.

- 2. Have you already taken actions in this context? If so, please specify:**  
**Have you achieved concrete results by doing this? If so, please specify:**

We have involved several experts in from other bakeries. With the help of them we learned some technologies. But they was not as effective as we expected. And these experts always try to keep some information secretly for their future perspectives.

- 3. What could the SES Expert do for you?**  
**In what area(s) should the SES Expert be particularly skilled?**

A SES Expert could be able to teach us new technologies which are new for us, and which we can use to improve the quality, sorts of our products.

- 4. In which languages, except your national language, can you and your staff communicate with the SES Expert?**  
**If you contract an interpreter, which language and technical skills does this person have?**

English and Russian languages are suitable to us for communicating.