



RePro Case



VPG Finland Oy

The history of 31 years

In the beginning of the seventies two cousins, Taisto and Tapio Kuusela, from Lapland moved to Kuopio, *“following a lady”*, as they say themselves. They had made their living in the reindeer farm in Lapland but had now interest to start business in the Southern parts of Finland. Taisto married her and started his business in her father’s garage in the town center; *“leather products for hunting, for horses, for dogs”*. Taisto was an enthusiastic and excellent sales representative and his cousin Tapio was in charge of the production. They had ideas and resources and wanted to get in touch with larger markets. In Kuopio they built a house by the lake for themselves and continued their business by producing various leather products in their new company called *Puijon Nahkatuote Ky* in the year 1973. The main products at that time were gun straps. As pioneers they created new products like collars and leashes to the hunting dogs and imported new products from Europe: *“in the stores in Finland shopkeepers laughed at cat litter, dogs’ chewing bones & shampoo - such products were odd and totally new on the Finnish market, and even to be able to get a loan from Kera we were asked to list our products as gloves and such ‘normal’ leather products”*.

In the eighties they started to produce new products to the pet market, mainly to dogs and cats and gradually they concentrated on importing and distribution. Their company was named Kerox. Until nineties the growth of the business was remarkable: *“hardly any competition”*, *“we expanded the company nine times and learned that strong development needs plenty of financing”*. The company was selected as *“Company of the Year”* in Kuopio, in 1993. In the midst of 1990’s the

technical development of the markets made sales much more difficult. Taisto was an excellent salesman but it was not enough in the market now. Neither of them could speak fluently any other language but Finnish and they had not enough contacts abroad and to the foreign markets. Business had expanded too much and was uncontrollable from their point of view. They started to look for someone who would be interested in buying the business as frontiers were opening to Europe more and more *“there were 4 – 5 candidates who wanted to buy the company, we were old enough and the price was reasonable, so we sold the company and concentrated in our own investment businesses”*.

New ideas, new owners, more capital

Mr Mika Sutinen had started in the company in the year 1992. He created and found the distribution channels through his own former company. Capman Capital Management Ltd became interested in Kerox in 1996. They had also found one shareholder, the CEO of Kera (nowadays Finnvera, a public investor in Finland) Mr Erkki Moisander. Taisto sold the company to Capman in January 1997. The company was bought at the investor's funds; Capman owned 70% and Erkki Moisander approx. 20% and Mika Sutinen the rest. Taisto had promised to consult Mr Moisander during the first months. In Capman there were assumptions for high profits.

In 1997, the company had a turnover of FIM 57 million (less than EUR 10 million) and 62 employees. Margins were sky high, organizational change ahead and huge losses in the business. A development project was started: the number of employees was cut to 28 and the turnover went up, from EUR 10 million to EUR 16 million. There was also a lawsuit when the company was bought from Taisto and Tapio. A different understanding had existed about the amount and value of liquid assets. In the end, the new owners won the case.

Mr Moisander's intensive course in Entrepreneurship

Management of a company was much more difficult than he had expected: *“to manage an expert organisation did not work as planned and the lack of resources was astonishing. Moving to a new environment surprised me as it did not work as expected, I felt insufficient, I felt, I should have known everything, to be a multi-player”*. He believes that it might be easier to manage a firm which one has founded oneself and managed from the very beginning. The idea of an expert organisation did not work in a company where commands and orders had been obeyed. Motivating and soft attitudes brought the company into a recession: *“I introduced new strategies and visions, but employees were frustrated as the strategies did not start to function immediately.”* Another practical shock was the flight prices between Kuopio and Helsinki: *“they certainly were too high for a starting entrepreneur”*. *“I concentrated too much into leadership and planning instead of logistic solutions.”* Also the competition on multinational markets surprised him. It is not enough to have an excellent brand and quality, in the end the competitiveness in prices is the answer. The first year was rather good, but in the year 1998, the losses were almost EUR 1,3 million. Market in Sweden was especially difficult. In the beginning of the year 2000, the Danish Vital Petfood Group bought the company and Mr Moisander was still the CEO of Kerox in October 2000 (8th October, 2000). So, he says, he has got *“the experience of 20 years in four years' intensive course...”*

In 20 days after the interview, 1st November 2000, Mr Moisander became a board member in Danish VPG and Mr Mika Sutinen took the tasks of a CEO in VPG Finland. The profitability was reached again and the company was sold to the Danish partner. Mr Moisander retired from the company and started his own boat business which is another story...

In 2004, the turnover was EUR 27 million, and 43 people were employed. Now, in 2006, the company is owned by a Danish capital investor, which is connected to the owners of Lego & Axel Industries. They own 70% and Nordea Bank owns the

rest. The Danish Investor owns in Finland also Kilroy Travel and Icopal among others.

The age of new CEO

Mika Sutinen sold his share of the company in May 2000, when Mr Moisander still worked as the CEO, and Mika Sutinen as the second in charge. After selling his share, Sutinen rethought his role in the company. After accepting the situation, his stress level has decreased and his personal responsibility as well.

In autumn 2000, Mr Moisander moved into the boat business and Mr Sutinen became the CEO of VPG Finland. He began to re-evaluate his motivation and things he liked in his job. The change of the owner has brought new challenges and there is a lot of curiosity from the point of view of continuing. This all is in centre of self-management.

He recalled being a typical expert in the beginning of his career, working alone. He applied to organisations, which allowed him to do that. Then, while working as the CEO of VPG Finland, and at the same time he was responsible for the whole Scandinavian sale and advertising in the organisation, he became interested in HRM. *“How to motivate and inspire people”?*

Mr Sutinen said: *“The pleasure in golf comes from the fact that you’ll never learn it”*. He believes the same applies to HRM. This is why he finds HRM so fascinating, and considers himself as an apprentice of the subject and only being at the beginning of understanding leadership, however, he is eager to learn more.

At the moment, VPG employs 350 people, from which VPG Finland 48, and under Mr Sutinen’s authority 180 people. He says that VPG Finland takes up to 50% of his time and the rest is spent in managing VPG Sweden, Norway and Denmark. VPG Finland has succeeded well, thanks to the motivated staff, and remained competitive. 40% of the turnover of the entire company comes from Finland.

Development conversations and daily feedback as an efficient way to improve leadership skills

VPG has annually one development conversation, so does VPG Finland, too. The main topics are to set personal goals and evaluate the past year together. Before development conversations, so far three years in a row there has been used 3600 feedback. Then also CEO Sutinen gets feedback from his superiors as well as from his employees. He considers self-evaluation the hardest form of feedback that the 3600 feedback includes.

In addition, Mr Sutinen says that the structure of the organisation is so informal that it is easy to give feedback regardless of the position. VPG Finland has only two managers, one responsible for finance and the other for logistics.

The CEO thinks that the staff is working genuinely as the team organisation structure requires. People are in constant interaction with one another. Although Mr Sutinen himself is constantly away on business trips, things proceed in spite of his absence. A few days he monthly spends in his office in Kuopio, and that time he spends by discussing with the employees to create the sense of being present.

Mr Sutinen himself was positively surprised by the feedback he received. People are satisfied with their jobs, because they are given responsibility and independence in making decisions concerning their work. In addition, they feel as if they can trust their manager to make the right decisions quickly, if needed.

"Before realized staff reorganization procedures our company used to buy our employees a Friday pizza. This tradition ended when in the beginning of 2000 it was found out that more people would have to be fired. We felt bad about buying pizzas at the same time the staff was being reduced", CEO Mika Sutinen describes.

Mr Sutinen trusts in openness, e.g. every month the whole staff receives the financial figures of the company, so everybody would be well aware of the

company's situation. Transparency is important in all actions. In rewarding and taking care of the staff in VPG Finland, Mr Sutinen says that they support innovativeness and reward new ideas for development. In addition, employees' round birthdays are taken into account, and Valentine's Day, among many other special occasions, is celebrated together. In the company the taking care of the staff includes also supporting sport activities in order to prevent illnesses by paying 50% of the costs. However, the sports must be safe.

Mr Sutinen also thinks that taking care of means that new employees are well instructed what is expected of them is important, and they are given the first year as a period for learning the job. This has been used to encourage people to feel free to ask questions and take their own time to learn without hurry.

Mika Sutinen's personal challenge of leadership

"My personal challenge of leadership is to keep the positive dissatisfaction going on", Mika Sutinen says. He explains that one should celebrate moments of success with the entire organisation and consider new and more challenging objectives for the future at the same time. This is the way to keep the organisation and people, including the leaders, at the road of constant development.

Pet food sector and the structural change

Dogs and cats are the most popular pets in households. The total amount of pets has generally been steadily growing since 1970's though a slight decrease was seen between 1994 and 2000. The amount started to increase again from the year 2001. The estimated amount of registered dogs in 2005 was 280 000. One interesting phenomenon is that the average size of dogs is decreasing radically. This development means that the consumption of food also decreases radically. People like small dogs. The number of other pets, especially rodents and reptiles, keeps slowly increasing. Compared to the amount of dogs and cats, the amount of these other pets is only marginal in the Finnish market. The market share of VPG in Grocery Stores is 40.6% and in Pet Trade 45.5%. The dog population has

decreased in Finland but now the company expects the population to catch the growth. The age of a dog is approx. 8.5 years.

In the shop the only important issue is the price. Dog owners are interested in price even if they value quality high when asked. Hard discounters are increasing their pet food shelves. In the Finnish pet food and pet trade market, 95% of total sales are performed by three manufacturers, which are VPG Finland Oy, Nestle Purina Petcare Finland Oy, and Masterfoods Oy. The two latter ones concentrate on dog and cat food only whereas VPG Finland produces also food for other pets (rodents, cage birds, wild birds, fish and reptiles), hygiene and health products, rewarding products and toys. In Finland there is a special feature in the pet branch in comparison with the rest of Europe: pet food & pet stuff are being sold mainly in grocery stores. Competitors are Nestlé and Masterfoods. Sales including taxes, if the turnovers are compared, VPG receives less. VPG sells also pet stuff where value added tax is 5% higher and stores get much higher margins – like 45.5%. Market share measured by gross sales is 28%. Turnover has been traditionally one third.

From factory to customers

Company motto: *“Quality products rationally in time“.*

“With deliveries being made directly from the company’s own factories, the distance between the manufacturer and the consumer is the shortest one possible, contributing to keeping the company’s entire product range competitively priced. Thus, VPG is the ideal partner for any purchaser of pet foods and pet care products under private label or under one of VPG’s own well-established brand names” (www.vpg.dk).

VPG acts with different brands in two market segments: The Pet Trade and Grocery Stores. According to the company the business in these segments is implemented through different set-ups as these two market segments are very different and require special products and specialized services. The company

defines its customers to be: The Pet, Pet owner and Professional buyer. The company manufactures and markets its own brands in six categories, which are Dog Products, Cat Products, Bird Products, Wild Bird Products, Rodent Products and Fish and Reptile Products. On top of these the company also manufactures same product groups under Private Labels of retailers.

Best Friend – own company brand is presented in more than 8000 shops in the Nordic region (Finland, Sweden, Norway, Denmark). The Best Friend brand features a wide range of over 200 articles - ranging from pigs' ears to squeaking toys and food mixtures for pets. Under the brand the products are divided into groups according to the use of the products. The aim of the company is to provide products for the entire lifecycle of a pet – “*from birth to death*”, as they say. The product categories in each product group are:

- Feeding
- Rewarding
- Welfare & Healthcare
- Outdoor, Housing & Travel
- Hobbies & Activation
- Hygiene



Picture 1. Overview of VPG products.

VPG Finland Oy distributes its products through all distribution channels with a varied concept. The products are distributed through all major wholesalers and major part of the business comes through super- and hypermarkets. The most rapidly growing sector of retailers is soft discounter -stores. The only of the major grocery chains, which does not sell VPG's products, is German-owned Lidl.

The company bases its product design of all brands on consumer behaviour analyses and the layout of packages and retail racks are designed accordingly. All retail packages include clear logo, product name, picture of animal, product description, picture or illustration of product or raw materials, quantity in weight or pieces and main sales arguments. The company plans and sells also sales racks for retailers and supports in store and layout planning. The company advertises in hobby magazines of all pet types, it composes in-shop advertising, hands out brochures, runs wide co-operation with different breed associations and attends to fairs and animal shows either with own stand or sponsoring the organiser. This is how the company tries to reach pet owners. To professional buyers, the company uses direct marketing, personal selling operations and publishes brochures.

Further sources of information in English also:

www.vpg.dk

www.tulli.fi (Finnish customs, statistics on trade)

www.tilastokeskus.fi (Statistics Finland)

www.finpro.fi (promoting internationalization of Finnish organisations)

www.finvera.fi (financing company promoting exports and internationalization)

www.yrittajat.fi (Federation of Finnish entrepreneurs)

www.bof.fi/eng/ (Bank of Finland)

www.ktm.fi/?l=en (the Ministry of Trade and Industry)

www.ek.fi/ek_englanti/index.php (The Confederation of Finnish Industries EK)

Appendix:

Table 1. Product groups and brands of VPG.

Product group	Products	Brands in different segments	
		Grocery	Pet Trade
Dog products	Food	Best Friend Complete	NCR Royal Dog NCR Hunting
	Snacks	Bar-B-Q Baseball Beefbone BigBite Bones Chewie Go! Megabite Munchy Piggy Rolls Shoe Stix Toffee TV-Mix	
	Accessories	Support (vitamins) Best Friend (toys etc)	
Cat products	Food	Best Friend Complete Bilanx	NCR Royal Cat
	Snacks	Crunchy	
	Accessories	Pellex Scratch Support (vitamins) Active Toy Catclean	
Bird products	Food	Best friend Premium Choice Festival Menu	
	Accessories	Best Friend	
Wild bird products	Food	Best Friend (seed) Best Friend (fatballs)	
Rodent products	Food	Best Friend Premium Choice Menu	
	Food supplements	Festival	
	Accessories	Care	
Fish and reptile products	Food	Best Friend Premium	
	Maintenance equipment	Best Friend	

Table 2. Distribution through different channels 2004.

Wholesaler	Proportion
Discounters	25 %
Inex Partners	25 % (Euromarket, Prisma, S-Market)
Kesko	18 % (Citymarket, K-Market)
Pet Trade	28 %
Tuko	4 % (small shops mainly)



Education and Culture

Leonardo da Vinci

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