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**SWP 4/91 STRATEGIC SPACE AND INDUSTRY DYNAMICS:
THE IMPLICATIONS FOR INTERNATIONAL
MARKETING STRATEGY**

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INDUSTRY DYNAMICS AND INTERNATIONAL MARKETING STRATEGY

1: INTRODUCTION

Major changes are occurring in both industries and markets in the business environment of the 1990's. These are changes arising from political and economic shifts such as the opening of Eastern Europe and a reunified Germany, regulatory shifts such as the completion of the EC Single Market, or cultural, structural and technological shifts resulting in the internationalisation and, in some cases, globalisation of whole industries. The cumulative effect of all these separate strands is the accelerating pace and scope of change. This has led to a major change agenda for companies regarding their strategies and organisational arrangements to meet these new conditions. Multinational companies are concerning themselves with new procedures for integrating and coordinating their international activities (Prahalad & Doz, 1987; Bartlett & Ghoshal, 1989).

One element of this is the challenge it presents to traditional ways of thinking about marketing. Such a review of strategic thinking in marketing would include such basic elements as the nature of positioning and product development. However, even more fundamental in the rise of international marketing activity is the division between the strategic, centralised elements of marketing and those elements seen as operational and tactical. The changing boundary between these two requires urgent exploration.

This paper looks at some of these issues in the context of the food processing industry in Europe. This is an industry which has been traditionally country-centred, marked by strong national brands, conditioned by retailer buying power and rather short-term in its thinking. It is certainly an industry in which local adaptation of products for highly differentiated national markets has been the norm. A spate of recent international acquisition activity has resulted in a more concentrated industry marked by large multinational companies with extensive portfolios of major brands. It is therefore a particularly interesting industry in which to review the extent of the development of international marketing and its effect on the corporate strategies of major competitors.

2: THE IDEA OF STRATEGIC SPACE

Porter's (1980) popularization of the competitive strategy framework laid some emphasis on the evolution of industries and the triggers for industry change. Industry evolution, however, has been a relatively neglected issue both in the academic and practitioner-based writings. Porter correctly emphasized the need for a dynamic analysis of industries, but it has been his static analysis of industry structure that has received most attention. Not much attention has been paid to the dynamics of change and the associated patterns of asset accumulation by incumbents and new entrants and to the tactical exploitation of these new investments.

Industry evolution is conventionally portrayed in terms of corporate responses to exogenous shifts in underlying demand and cost conditions. These responses themselves trigger a round of endogenously generated shifts until the industry settles to a new equilibrium. The triggers for change may be some combination of exogenous and endogenous factors but the medium through which evolution takes place is the set of asset adjustments over time. Firms as possessors of idiosyncratic capital and the set of loose associations known as an industry are linked by the idea of strategic groups. The term was coined by Hunt (1972), popularized by Caves and Porter (1977), and has been the subject of much attention since. It has been described by McGee (1985) as

"...a device to segment industries into sets of companies whose competitors, actions, and results are relevant to each other, occupying the imagined, conceptual space between firm and industry."

Essentially strategic groups are groups of firms in an industry which follow the same or similar strategies. The strategies are defined in terms of the assets of firms from which group members develop their market positioning and competitive tactics. The essence of group membership is that asset configurations represent "mobility barriers" (Caves & Porter, 1977; McGee 1985), which inhibit group members from acquiring alternative assets, but which also protect them from members of other groups acquiring similar assets to their own. Thus, an industry is composed of 'structures within structures'. Whereas The broad category "industry" is notoriously difficult to define with any precision, the internal structures within an industry - the strategic groups - can be defined with some accuracy in terms of the nature of the assets specific to each group.

The key to understanding industry evolution lies in the ways in which firms change their asset structures. In other words, the ways in which mobility barriers change should be the focus of attention. Changes in mobility barriers provide the explanation of differences between industry structures over time. Potential profit differences between groups can exist only when barriers to casual or opportunistic imitation of strategic position are present. The strategies of firms are concerned with erecting and sustaining mobility barriers, and exploiting the relative competitive advantages they represent in the market place. But strategies are also concerned with finding ways around mobility barriers so as to compete in other, more profitable ways. Thus industry evolution is a product of the ways in which mobility barriers decay and others arise in their place.

McGee and Thomas (1986) enumerate mobility barriers in three main categories: market-related assets ("downstream" in the value chain), production and logistics assets ("upstream"), and infrastructure and corporate assets. Mobility barriers are assets created by firms in response to the competitive environment faced by the firm but also are conditioned by the firm's history and culture, in particular its historic accumulation of tangible and intangible assets.

Unilever, one of the major European food companies, sees changes in all three types of mobility barrier. With regard to market

Europeanisation of eating habits is moving ahead slowly but surely" (Maljers, 1989). He expects uniformity of markets to be achieved alongside a greater variety of products and he therefore anticipates a shift of industry characteristics in favour of the big international companies who will be better able to pursue the increasing economies of scale available in production, marketing and distribution. Unilever's own assessment suggests a slow but steady convergence on the demand side coupled with scale developments in manufacturing and distribution. Thus the new situation will require a new set of investments.

Before looking more closely at the strategic group structures within the food industry we review the long term evolution of the industry up to the late 1980's.

3: STRATEGIC SPACE ANALYSIS OF THE FOOD INDUSTRY

3.1 HISTORICAL BACKGROUND

The European food processing industry has passed through a number of phases each with its particular set of asset structures and business concepts. The UK industry, for example, has seen an early period of wholesaler domination (Kaldor 1980), followed by manufacturer domination from 1930-60, then the period of the scale economy brander (Foy 1980), and the rise of the retailer in the 1970's and 1980's (Segal-Horn & McGee 1989). The next phase could see the emergence of the Euroconsumer.

The Scale Economy Brander

The consumer packaged goods industry (including the food processing industry) enjoyed halcyon days in the sixties. This was a period when mass markets were growing quickly, retail distribution was highly fragmented, economies of scale were available, and processing technologies were proprietary. Substantial economic advantages were gained by the creation of mass marketing systems, comprising national media advertising, national sales forces, and increasingly sophisticated marketing support services. The visible output of this business system was the brand, the repository of guarantees to the customer of product qualities arising from proprietary technology. The creation of the brand was subject to many economies of marketing scale, and itself fostered scale economies available elsewhere in the system. The brand was the visible symbol of the manufacturers' strength, and was the barrier to entry behind which grew a number of highly profitable oligopolies.

The Rise of the Retailer

The heyday of the scale economy brander (the late 1960's) was, however, a period in which the seeds of change were already evident. The large retailer, both in the UK and Europe, was becoming more and more significant. His position in the UK was transformed by the abolition of Retail Price Maintenance in 1964 allowing retailers the freedom to set prices. Furthermore,

the balance of power shifted from the manufacturer to the retailer, just as in the early 20th Century it had shifted from the wholesaler to the manufacturer. The emergence of large scale national retailers in Europe made for dramatic change. The consumer was now faced with a new proposition. Price-led competition was supported by retailer brands as distinct from the non-price competition of manufacturers brands. This was furthered by the entry of smaller-scale processors, who could now find available customers for private label and whose access to technology and to efficient plant was not blocked by proprietary technology. In addition, retailers began to reorganize the inward logistics of their business thereby diluting the distribution economies of the major manufacturers and making possible new specialized distribution companies. The emergence of national retail accounts diluted the national sales forces of processors and undermined their product management structure.

This is now a familiar story moderated only by some variance between product groups. For example, brands for breakfast cereals have held up very well. Elsewhere, the strategic initiative was taken over by retailers and by the new entrants into food processing. The key change was increased concentration of retailing as the majors built larger and larger outlets, took over marketing strategy and steadily developed their businesses to include distribution, own-branding, research (a little) and development (much more), and broader product ranges. The retail trade was able to pressure manufacturers' brands toward commodity status, to brand themselves rather than their products, and to gain very substantial efficiencies. Strategic change in retailing fundamentally undermined the strategic position of manufacturers.

The Rise of the Euro-Brander?

Existing EC food law defines detailed requirements for the composition of specific foodstuffs. These have proved difficult to agree, are quite complicated and are full of numerous national exceptions (derogations). According to MAC (1988):

"nearly every EEC country operates with different label requirements, which implies that an EEC producer is effectively prohibited from using a uniform label for its EEC sales. The amount of information required on the label varies from country to country ... Exhaustive requirements like this ... form a subtle but effective barrier to trade.

The Commission's proposed legislation is contained in four framework directives designed to bring an end to the national exceptions, to provide a more informative system of food labelling and to set general food safety and hygiene standards.

At first sight, these may not appear to be promising triggers for major change. However, MAC (1988) examined trade barriers in ten product sectors identifying over 200 barriers (not all of which would be subject to removal by the new directives). MAC estimated that the quantifiable direct benefits of removing these barriers are themselves significant amounting to 2 - 3% of industry value added. Furthermore, the indirect net benefits would be larger, including the broadening of consumer choice, a significant

competitiveness of EEC food companies vis-a-vis the rest of the world. The report concludes:

"The existence of trade barriers ... has served to protect potentially weak domestic companies, and inversely, has encouraged strong companies to expand domestically rather than attempt cross-border expansion. These features of trade barriers have reinforced the relative fragmentation of the EEC food industry. Removal of these barriers should decrease or eliminate these tendencies".

This dismantling of obstacles to trade comes at a time when national markets are becoming saturated and life cycles of competitive advantage are shortening, when there is an increasingly international orientation of consumers and a growing homogeneity of demand around the world, and when the importance of international sourcing is rising. Taken in conjunction with the decreasing importance of national laws, regulations, and tastes and the liberalization of capital markets we have a strong a priori case for changes in structural characteristics of the industry and a shift towards a more integrated "European" industry.

If this is indeed the case, then companies will be rethinking their segmentation concepts and their targeting strategies and considering how to integrate their marketing across the regions of Europe. This is in contrast with the traditional thinking of the majority of packaged goods multinationals who presently run their international operations as a portfolio of national strategies.

As a new orientation to markets gathers pace, already visible is a new attitude to manufacturing. Many manufacturers are searching for plants flexible enough for a wide product range so as to serve multiple segments. It is also becoming clear that in many industries, there are gains to be realized from rationalizing manufacturing capacity across Europe (Cecchini 1988). In particular, some are looking for scale-efficient sourcing for European markets. The stage looks set for the creation of new asset structures and for the evolution of the industry to a new stage.

3.2 STRATEGIC GROUPS IN THE FOOD INDUSTRY

A simple bivariate analysis can capture the salient characteristics of the industry. First, the importance of brands in the food industry cannot be over-emphasized. National branding is the traditional source of competitive advantage and, as PIMS has shown, brand share is commonly associated with superior profitability. The size of national retailers (in the UK at least) has substantially eroded the strength of many brands, replacing product branding with their own form of branding (own-labelling). However, manufacturers' brands do remain significant but are as yet mainly focussed on national markets. MAC (1988) has shown that out of a sample of 46 EC-based food companies, one half have a presence in two EC countries or less.

Second, building the geographic coverage of key brands is held to be of increasing competitive significance. It lies behind the patterns of acquisitions, disposals, and "swaps" which is well advanced among US food companies and is getting under way in Europe.

This is demonstrated in Gogel & Larreche's (1989) Competitive Posture matrix which compares US, Swiss and EC companies on the basis of product strength and geographic coverage. They conclude that the US food companies (such as Coca-Cola, Kellogs, and Mars) are significantly further advanced than the Europeans in both brand strength and geographic coverage, whilst the Swiss (Nestle and Jacobs Suchard) are significantly stronger in geographic coverage. Since Philip Morris of the USA acquired Jacobs Suchard in 1990, geographic coverage for yet another US food company has been further consolidated.

Our analysis follows the same approach (Figure 1) but for brand or product strength is substituted marketing intensity, a measure of the costs of marketing relative to total costs or to total added value. This reflects not only brand strength but also the nature of costs in the marketing function, specifically the possibilities to exploit scale effects in marketing across borders to larger market sizes. Production and logistics characteristics are not represented in the grouping analysis partly because these assets did not seem to act as a discriminator between the groups. R&D capability is, to some degree, reflected in the marketing dimension, insofar as branding often demands proprietary process knowledge and development skills.

FIGURE 1 HERE

Group A1 (footnote 1) is composed of the Multinational Major Branders (e.g. Unilever, BSN, Heinz). These are multinational companies operating multiple, related consumer goods businesses across the world, with strong perceived product differentiation accompanied by strong branding. These companies have been traditionally multi-domestic in character (as opposed to global (see Porter 1986) or transnational (see Bartlett & Ghoshal 1989)).

[Footnote 1: These groups are based on cluster analyses of some markets, interview data with industry executives, and the researchers' estimates.]

In Group A3 are The National Major Branders (e.g. St Ivel). These are nationally based and focussed companies with very high levels of marketing support for a product range, which, by the standards of the Multinationals, is quite limited.

The Minor National Branders in Group B2 (e.g. Typhoo) are typically not national market leaders and not large in absolute terms. They supplement their local brands with opportunistic export supplies into other national markets in order to maintain volume. This category is probably not uniformly present across the different food sectors.

In Group C3 are The National Own-Label Suppliers (e.g. Hillsdown) who focus on low cost production (sometimes with advanced

production processes) and supply retailers mainly within their own countries.

The mobility barriers attached to these groups are summarized in Figure 2 on a three by three grid corresponding to Figure 1. In general, these barriers are sufficiently high to permit some degree of stability in these structures. For multinationals, the barriers are very high and are being further raised due to increasing levels of advertising and expansion of international operations. Competitive pressure is essentially intra-group although the Own Label Suppliers impose some limits on their price premiums and the National Major Branders compete head on with certain of their innovative brands.

The National Major Branders are also in a good defensive position with local first mover advantages that are difficult to overcome. They seek to maintain the barriers with heavy marketing support but are becoming increasingly vulnerable as new products become more expensive to launch. The Minor National Branders are probably in the most exposed situation. They are susceptible to major brand competition on one side and low price competition on the other. They strive to create a defensible position through strategic pricing and by attempts to be very flexible in production.

FIGURE 2 HERE

The National Own Label Suppliers are also in a potentially difficult position. Their barriers arise from strategic investment in sufficiently large and advanced manufacturing facilities so as to obtain economies of scale. In sectors where scale effects are minimal intra-group rivalry is very high and incursions from foreign own label suppliers is a dangerous threat. New entrants from outside the industry might find this group a useful bridgehead into the industry.

3.3 ANALYSIS OF THE STRATEGIC SPACE

A cluster analysis by Duckett (1990) on one product sector suggests that the strategic space in which these groups are held is sufficiently large and has enough "empty" space to allow for possible shifts in the configuration of the strategic groups. Figure 3 illustrates the way in which the strategic space can be divided (for illustrative purposes) into a three by three grid. Existing groups A1, A3, B2 & C1 take four of the spaces leaving five further possibilities two of which are infeasible under current conditions and likely to remain so.

FIGURE 3 HERE

The effect of the Single Market legislation and of the Food Directives in particular is to make individual country markets more immediately accessible (not more identical). In the longer term consumers in different national markets may indeed converge making possible efficiencies in marketing to larger segments across national boundaries. There will therefore be pressures to drive companies "Northwards" and "Westwards" in this strategic space.

Own label suppliers will be tempted to move into sub-space C2 to supply similar own label products across wider areas. However, the real prize will be to supply own brands to retailers across Europe (sub-space C1). The advantages could arise from full exploitation of potential scale economies especially in production. Lower cost distribution would assist the move, and there might be rewards from greater concentration vis-a-vis the retail trade. However, the difficulties will lie in the degree of national differences to be imposed on the standard own label product and the different legislative environments that will still have an impact regardless of the Single Market.

Harmonization would make a considerable difference to the present situation. The lack of rivalry from other groups outside the own label sectors makes own label look attractive although within own label the rivalry could be intense. The keys to success are likely to be the ability to meet retailers' demands for advanced products at low cost through scale-efficient and perhaps technically advanced production facilities. First-mover advantages might be considerable, particularly if the market is limited. The viability of regional strategies (i.e. C2) depends on the non-viability of the full European Strategy (C1). If sub-space C1 exists it will dominate the regional suppliers because of the sheer size of scale effects. One scenario would have the regional move as a stepping stone on the way to "full" European coverage. Another might see the regional player as a more natural unit but locked in fierce rivalry with those both bigger and smaller. Retailers will play a significant role in determining the outcome by virtue of the way they can exercise their current power in allocating contracts, sponsoring new players, and forming joint ventures.

Sub-space B3 is one of those available but unoccupied. It is sandwiched between powerful national branders and national own branders. There will continue to be a fragmented rump of national players but Europe will not offer them any special opportunities except perhaps through some form of consolidation.

Sub-space B1 will become very interesting. In theory, this will be the home of Pan-European Branders pursuing a strategy of marketing common branded products throughout Europe. This would allow economies of scale to be achieved in all functions, including marketing. This would lead, therefore, to rather lower marketing intensities than their multi-domestically organised rivals (in A1). They would be insulated from the price competition of own labels and would be competitors to nationally-based brands including those Multinational and National players who do not opt for a trans-European style of operation. Increasingly Europe-wide media, lower logistics costs, and the relaxing of legislative differences plus increasingly homogeneous consumers would all make a trans-European group more likely to be sustainable. Essential to success will be the ability to organize and manage in a transnational style, something which Bartlett & Ghoshal (1989) observe is poorly practised anywhere in the world, let alone by European companies. The prospect looks attractive, but the journey may be hazardous.

Sub-space A2 is also available but relatively unoccupied at present. It can be called the Regional Brander and has some

expansion path for the National Branders as well as a possible route of development for the weak national branders alongside them in the space. However, one can see the prospect of quite fierce rivalry in this area. The Multinationals will be anxious to preserve their (national) brand positions especially if they are seeking to Europeanize their brands. The remaining national players will be very actively seeking to defend their positions against attacks from trans-Europeans, Multinationals, the power of retailers, not to mention any new regional branders.

The Minor National Branders in the centre of the strategic space (B2) are going to feel encircled if the growth in own brands across Europe and the development of trans-European brands takes place. The emergence of strong Regional and Pan-European Own Label Suppliers (in C2 & C1) would make their opportunistic plays across national boundaries extremely marginal. This group like the one underneath it (B1) is likely to become fragmented and only marginally profitable.

The Multinational Major Branders (in A1) are well placed to defend themselves and would enjoy either the status quo or a very slow process of change. However, they are also very well placed to see and understand the opportunities, particularly those opportunities that would enable them to improve their global position. So the stakes are very high for this group. Any move to a transnational or trans-European style would compromise their huge investments in national brands and in country management structures. The immediate opportunity to rationalize production and logistics across Europe will give them a very good picture of how a marketing change or revolution might be managed at a later date. Their great advantage over the national players is their international experience and one would expect them to capitalize on this. So on the whole we would expect to see a gradual migration into the trans-European group.

The National Major Branders (in A3) are faced with great opportunities but probably see them as immense difficulties. Their great strength is local/national and there is always likely to be some room for the new niche players of Europe. The big uncertainty is that no-one can say how much room. On the other side the opportunity to expand looks fraught with uncertainty. The international expertise is not there, nor are the organizational subtleties and skills required to manage across borders. Many of these players will seek collaborations and alliances as early steps. They will experiment with regional moves and hope to move in the direction of trans-European strategies (in B1). But this will very likely take a long time - the mobility barriers are very high.

Figure 4 illustrates the possible shifts in the strategic group configuration over time. This suggests that 1992 will cause some major discontinuities with major implications for existing strategic groups, members of which may be forced to exit from the industry, alter their strategy, or seek salvation in conjunction with others. The industry is likely to go through a confused and uncertain period over the next five years. It may take up to ten years for the bulk of the major players to read and understand the new environment and for the industry to begin a clear convergence onto a new structure.

FIGURE 4 HERE

We anticipate two main avenues for strategy change as the food industry evolves over the next ten years or so. The first will be a restructuring, consolidation, efficiency-seeking change. There will be a large reduction in numbers of plants and numbers of companies. There will be some simple closures and re-allocations of production within firms. There will be a spate of acquisitions of companies with distinctive assets, such as brand names or distribution (but probably not manufacturing). Many small and smaller firms will be compelled to exit. The driving force in this scenario is the search for low cost through efficiency in production, distribution, and marketing. By itself, this might not be so dramatic but for the strong possibility of new forms of competition based on new segmentation, branding, and new products. So there will also be a premium on the rediscovery of marketing (especially international marketing skills) facilitated by joint ventures (products for markets, for example), and swaps of facilities to round out product lines and segment portfolios. The conjunction of efficiency seeking with marketing and product innovation is likely to prove complex and highly disturbing to the existing industry structure.

3.4 IMPLICATIONS

This analysis suggests that a combination of exogeneous and endogenous triggers will impel European food companies progressively "Northward" and "Westward" on the strategic space map towards two currently vacant strategic spaces in which will be found Pan-European Own Label suppliers and Pan-European Branders respectively. Along with strong National Branders and Multinational Branders these will constitute, it is argued, a new configuration of strategic groups and a new pattern of competition in the European food industry of the next century.

For this scenario to come true, the mobility barriers preventing this movement "Northward" and "Westward" must seem to be diminishing in strength relative to the mobility "capacity" of the firms involved. We would expect to see companies making particular kinds of investments in products, technologies and brand names, as well as adopting different approaches to manufacturing, marketing and distribution. Although much of this evidence for this is fragmented and contradictory, as would be expected in an industry in the early stages of significant change, some tentative conclusions can be drawn.

The principal themes which emerge from the evidence are cost-push and demand-pull. The "cost" theme addresses the possibilities for change in scale economies and for other step changes in unit costs. The "demand" theme contains the debate about the emergence of Euro-markets at the expense of national markets. This means a Europe-wide positioning of corporations, products and brands to provide a strong pan-European image and a high degree of standardisation in marketing programmes across Europe. However, the European food industry is historically fragmented in structure and local in character (Burns, McInerney, & Swinbank, 1983; Swinbank & Burns, 1984; Capara, 1989; Sparks, 1989). The food

distributors and end-consumers. Any shift towards a Europe-wide policy would constitute a radical change in the behaviour of the industry members.

The next section discusses the extent to which any such shifts are discernible as yet in the marketing strategies of European food companies.

4 THE EFFECT ON MARKETS AND MARKETING

The Debate

There are two opposing views of international marketing. The first treats marketing essentially as a local problem, emphasizing differences between countries, consumers and in marketing systems. It advocates tailor-made marketing programmes for each country to be managed locally. The emphasis placed by so many industrialists and commentators on country-specific differences in food tastes and preferences reflects the fact that Europe is only at the beginning of any real effort at Europe-wide demand-creation.

The second view believes much more in the growth of common customer needs across countries and the ability of companies to treat marketing not just as a transferable skill but as the basis for creating competitive strategy. This view emphasizes the benefits of standardization, argues for common marketing programmes across countries and believes in a strong, centralised marketing organization. Given the vehement views expressed in this national versus standardised consumer tastes argument (Capara, 1989), it is interesting to note the experience of the UK chocolate confectionery market, the richest chocolate market in Europe. A 53% increase in imports in 1989 made Britain a net importer of chocolate for the first time. Reasons for the shift include the stocking of continental chocolates by UK mass retail chains such as Marks & Spencer and the dynamic entry of Jacobs Suchard into the mass chocolate bar market. However, more far-reaching general trends in demand-creation are at work. Retailers are increasingly sourcing their own-label products abroad and this trend is seen by the industry (Cadbury Annual Review, 1989) as being reinforced by the influence on consumer taste of foreign travel and Pan-European advertising. So, more international sourcing by retailers and changing consumer preferences appear to be far-reaching in nature.

Reconciling the polar opinions in the national\EC debate (and the local\global debate) is obviously difficult if only because each seems sometimes to be appropriate. However, there are very strong reasons why companies should wish to do both simultaneously. In other words the tendencies to standardisation are there and the benefits promise to be sizeable. However, the country to country differences are also substantial and cannot be ignored. What has changed is that the benefits to standardisation have considerably increased and are beginning to be reflected in research. Consider the data in Table 1:

TABLE 1

Selected US and European Multinationals

Elements of Marketing Programme	Degree of Standardisation		
	High	Medium	Low
1 Product Characteristics			
2 Brand Name	81	4	15
3 Packaging	75	5	20
4 Retail Price	56	14	30
5 Basic Advertising Message	71	6	20
6 Creative Expression	62	4	34
7 Sales Promotion	56	11	33
8 Media Allocation	43	10	47
9 Role of Sales Force	74	10	15
10 Management of Sales Force	72	10	17
11 Role of Middleman	80	7	13
12 Type of Retail Outlet	59	7	34

Source: Sorensen R. & Weichmann U. (1975)

Standardisation is particularly evident with respect to brand name, product characteristics, role of middleman, packaging, role and management of sales force and basic advertising message. These are all still considered controversial areas for standardisation, yet more recent research confirms these conclusions. Takeuchi & Porter (1986) examined some of the most common activities within the marketing function based on ease or difficulty of international co-ordination. The results were based on the trade off between the organisational costs of co-ordination and the scale economies available from standardisation. Table 2 gives their assessment of the extent to which national differences make standardisation of particular marketing activities easier or more difficult.

TABLE 2

Ease/Difficulty of Standardising Marketing Activities
Across Countries

EASIER	MORE DIFFICULT
- brand name	- distribution
- product positioning	- personal selling
- service standards	- sales person training
- warranties	- pricing
- advertising themes	- media selection

Source: Takeuchi & Porter, 1986

The inherently local character of marketing operations suggests that many activities will continue to be organised within local markets. But there are five activities that appear to offer gains from central organisation: production of sales and promotional material; marketing training; global advertising (to some degree); and, where products are fairly complex, sales force activity and service support. Working from the centre in these areas can yield economies of scale in delivery, increase the rate of learning, simplify co-ordination with other activities and gain benefits by operating in a country with comparative advantage in that activity. In fact the activities easiest to co-ordinate are those which allow for market segmentation and targeting and product positioning - strategic market planning.

This is quite consistent with Vandermerwe's (1989) model of pan-European marketing which rests on a division into regional mass-clusters, regional niche-clusters, and local niche-markets and argues that protected markets and niches will vanish and that marketing strategies will have to recognize a Europe-wide system. Marketing strategy here focuses on the identification of key market segments, on product development and positioning for those segments, and on co-coordinated product launches.

The Example of Jacobs Suchard

Jacobs Suchard is an interesting example of a pro-active global marketing strategy with a high degree of standardisation of activities. Its strategy was recently described by an Executive Vice-President as follows:

"At Jacobs Suchard we increasingly think global and not only in terms of 1992" (Zinser, 1989).

Based on extensive economic, consumer and market research, Suchard's re-positioning has involved addressing all three types of mobility barriers. Marketing goals include the extension of successful concepts from one country to another. This implies global brands, umbrella concepts, line extensions and the test conversion of key national brands.

An example of Suchard's aggressive internationalization of an established brand is the expansion of 'Milka'. Sold only in tablet form in 1985 it is now also sold as a chocolate bar.

to Austria, German, Switzerland, and France and in 1989 was to UK, Spain, Benelux, Italy, Holland, Argentina, Hong Kong, Japan, Canada, and the USA.

With regard to product range, within each global brand Suchard practices harmonisation of recipes, packaging, sizes and line extensions combined with pruning of product ranges. Advertising implications of its global marketing strategy include a one copy strategy, one agency for the brand, harmonised advertising, a new approach to media planning and buying, and new advertising concepts.

There is great clarity in Suchard, both about its strategic positioning (transnational brander) and the leverage behind it. Suchard sees itself responding to, and partly creating, global demand convergence with the international manufacturing centres and the other related elements of the marketing strategy represent a pro-active response to the changing economics of the business.

The Lessons from Acquisitions

These kinds of arguments imply a chain of causation running from the availability of cost savings in marketing overheads to the creation of consumer tastes sufficiently homogeneous to justify such marketing approaches. However, the push for strong products, product positioning and brands is not driven solely by considerations of cost. Major food companies with quality brands do perform strongly (see Stobart 1989) and are featuring prominently in the corporate restructuring and acquisition activity currently taking place in the food sector.

Grover (1989) remarks that the food industry is in "the midst of a period of major structural change" and is "becoming increasingly consolidated by a few large companies". He claims that

"a handful of mega-scale food conglomerates is emerging, e.g. Nestle, Unilever, and BSN".

He argues that the more fragmented structure in southern Europe has made these countries particularly inviting as takeover targets and he cites some fragmentary evidence on the rate of acquisitions in Spain and Italy in support. The main evidence, however, concerns the number of domestic and cross-border takeovers in Europe in the food industry. Over one third of all takeovers between January 1988 and May 1989 were cross border in character. Much of this activity Grover attributes to the building of trans-European positions in which domination of particular product categories across Europe is being sought.

The evidence on restructuring via acquisition is probably strongest from the experience of UK activity in the United States. Hamill and Crosbie (1989) show UK acquisitions of food and drink companies in the USA rising from \$15 million in 1984 to over \$7780 million in 1988. The average size of these takeovers has risen from about \$5 million to a something in excess of \$555 million. As a percentage of all UK takeover activity in the USA, food and drink takeovers accounted in 1988 for over 25% whereas in 1984 it

background to this is the maturity and slow growth in the British domestic market and the relatively higher growth prospects in the USA. However, Hamill and Crosbie point out the emergence of global strategies among UK food and drink companies in which acquisitions are seen as the vehicles by which "critical mass" can be achieved. They go on to suggest that the development of strong national and international brand portfolios is being fostered by a select group of multinational companies. Their evidence is by no means conclusive, and does not itself discriminate between our strategic groups of Multinationals and Transnationals but does lend support to the general Northward movement in the strategic Space.

Their prime conclusion is that the main objective of these companies has been brand leadership and market share in an industry which is becoming increasingly global. More pertinent is that these companies have chosen to pursue these ends primarily through acquisition. This contrasts with other better established international branders whose emphasis has been on internationalization of their existing portfolios with very selective acquisitions to fill in the gaps (e.g. Unilever and Suchard).

The sheer scale of UK acquisitions in the USA suggests an emerging view that multinational and transnational portfolios are becoming very much more important. The fragmentary evidence within Europe, seems to point in the same direction. Common to all these examples is the feeling that markets are converging, that efficiencies in marketing, distribution, and production are possible, and - most important - that fundamental shifts in industry structures and in marketing strategies are taking place. Alternatively, a lot of very expensive mistakes are being made.

5: SUMMARY AND CONCLUSIONS

The central theme of this paper has been the effect of industry dynamics on marketing strategy. A review of some of the current evidence, suggests that greatly increased potential for pan-European strategies has developed. If this is indeed the case, then international marketing strategy should give much more careful consideration to the following points:

1. Product positioning will require greater attention to segmentation and some rethinking of how those segments are defined. If the boundaries of the industry are shifting then, so must the prevailing view of market segments. In particular, the selection of certain products as pan-European and others as local products, must be set not only against judgment of the possibilities for standardisation as opposed to local adaptation of each product, but also against the context of much greater competitive threats in all categories.
2. Marketeers will have to pay far more attention to competitors and their activities, particularly with reference to expansion of geographic coverage of products and any

acquisition activity extending product ranges or markets or both.

3. Pan-European marketing strategies will include a rediscovery of branding. This will involve the need for greater understanding of how brands may become something other than national brands. Paradoxically, it will also entail a much clearer focus of brands in national markets to cope with new entrants. Finally, in support of branding, more extensive product development must provide the substance behind the brands.
4. A greater emphasis on time and timing as an element in marketing strategy. The shortening of product life-cycles has become a commonplace. When this is combined with the speed of new product roll-out across selected international markets, coordination issues become still more sophisticated. In particular, speed of movement from R & D to the marketplace will be a major factor in competition. This will necessitate a different type of marketing skill, the integration of marketing involvement and cooperation at much earlier stages of product development.
5. Marketing must become more aware of cost, both the overall cost base of the company in comparison to its competitors and also, the structure of cost within the marketing function itself. Although this may seem a less obvious issue for marketing than some of the earlier points, it is probably the most central for grasping the possibilities of international marketing. One of the fundamental arguments for globalisation or regionalisation is the cost saving available. How do these cost efficiencies translate into marketing? Specifically what is required is an assessment of which marketing activities can be centralised to gain efficiencies and which should be locally delegated to retain responsiveness. The issue is one of judging the balance of sources of efficiencies in innovation, compared to sources of cost efficiencies. Although these issues have not been much explored in this paper, it is clear that these are the new challenges in marketing management and control.

Finally, this agenda for international marketing should be recognized as just as relevant for small as for large companies, since the more effectively the large competitors respond to these challenges, the tougher becomes the competitive environment for all.

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FIGURE 1

**STRATEGIC GROUPS:
FOOD INDUSTRY 1980s**

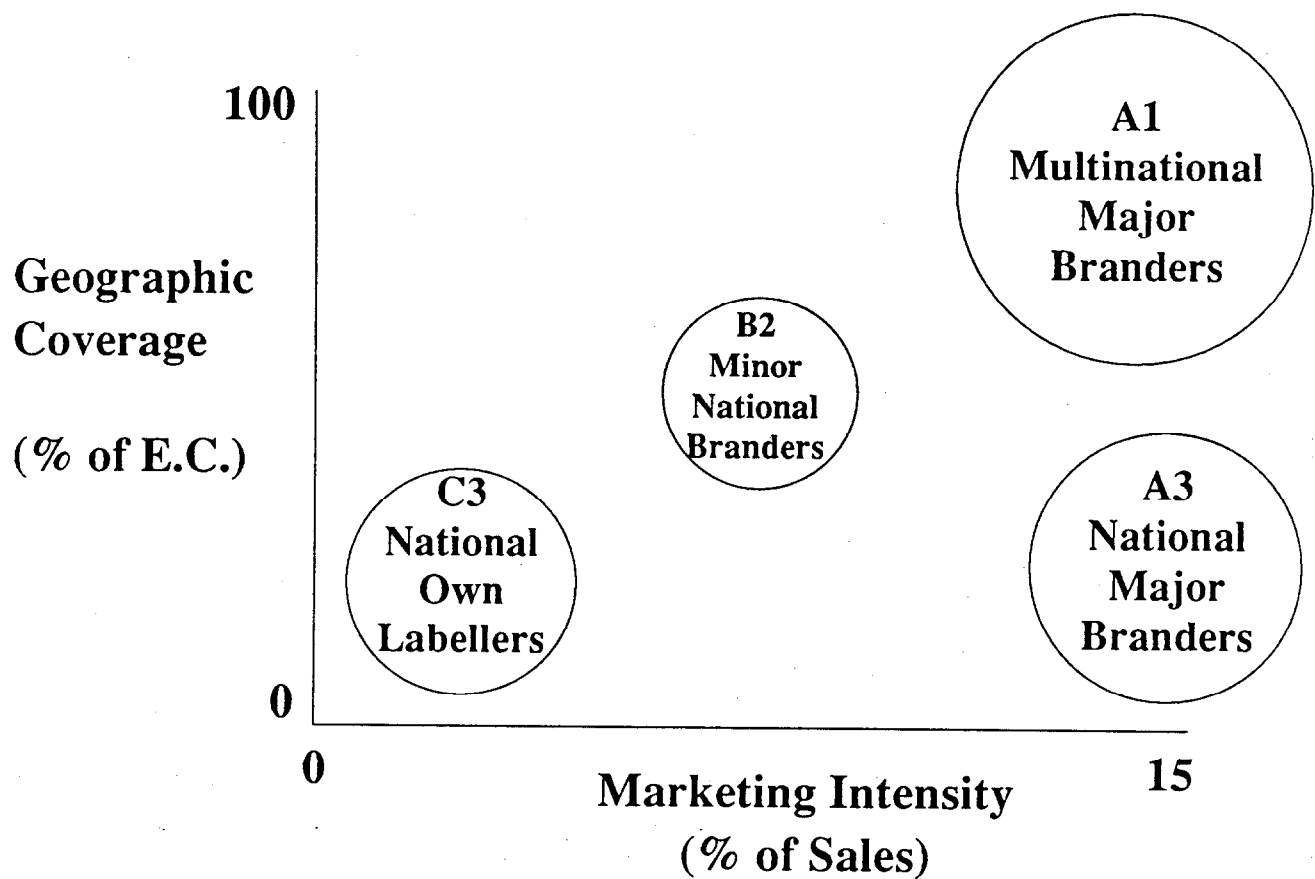
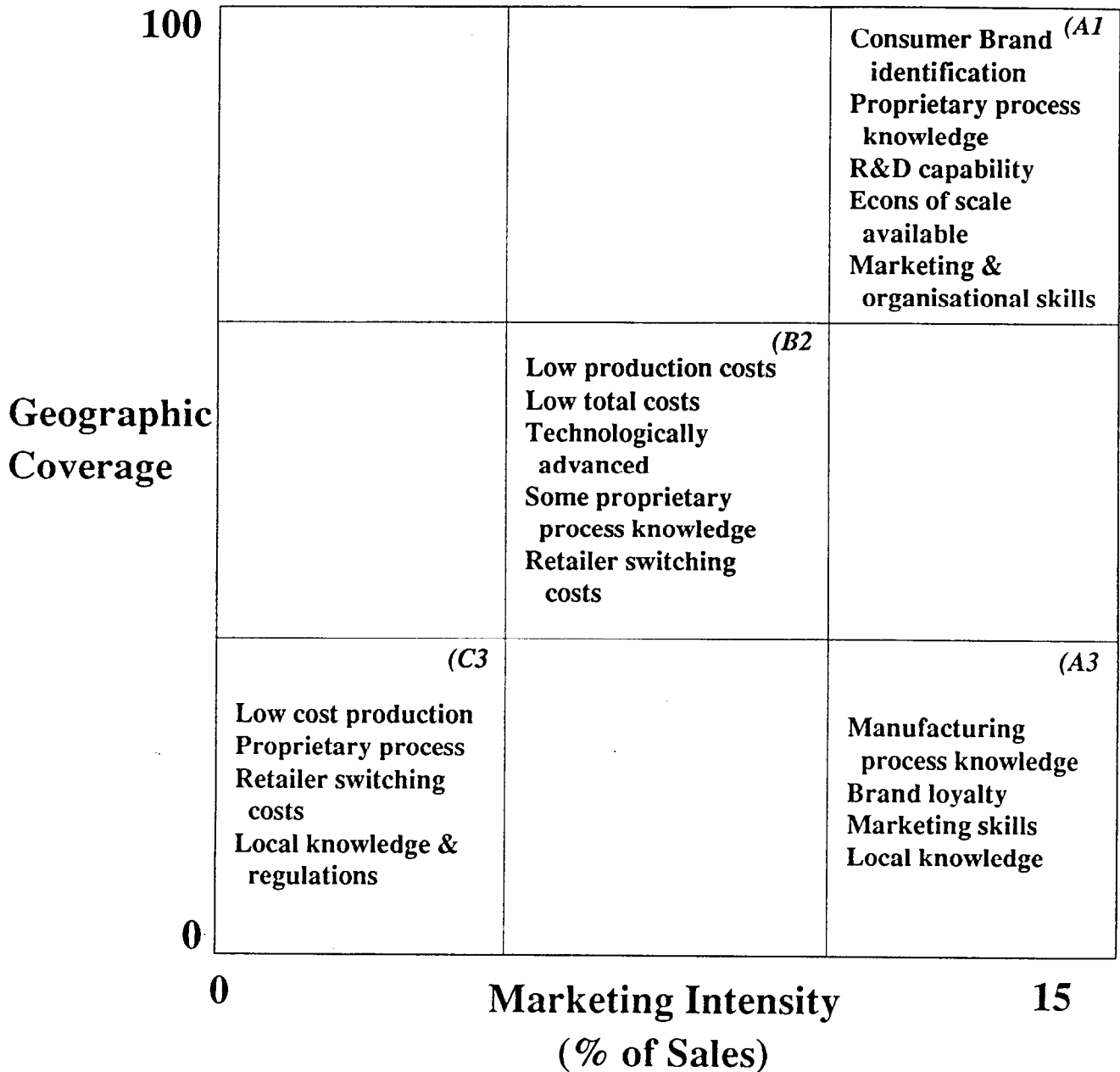


FIGURE 2

SUMMARY OF MOBILITY BARRIERS



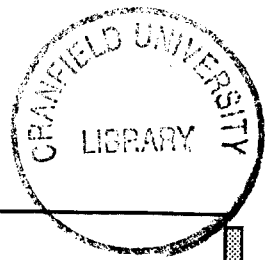


FIGURE 3

STRATEGIC SPACE ANALYSIS

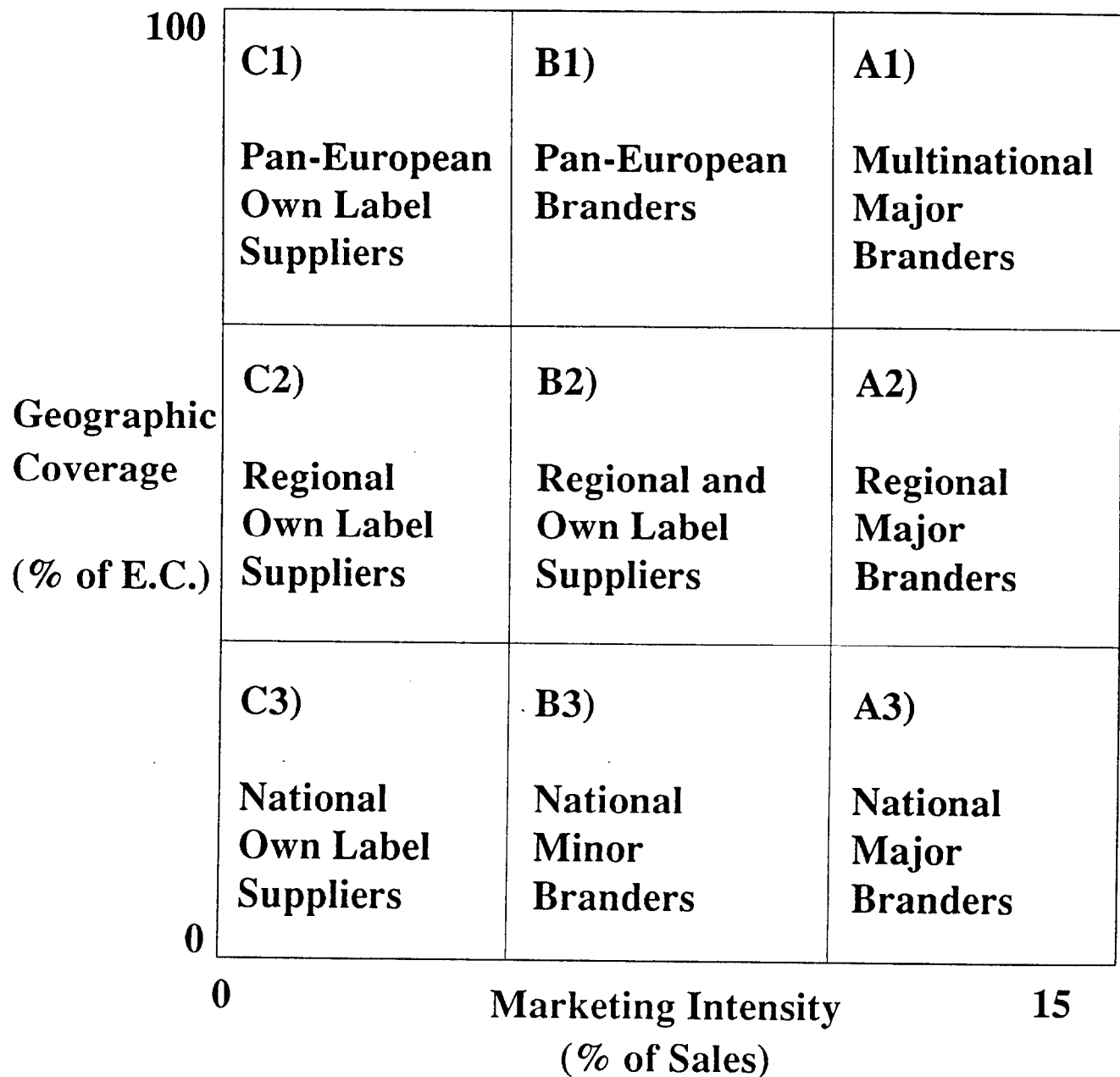


FIGURE 4

STRATEGIC GROUPS: 2000

