SWP 42/90 STRATEGIC SPACE AND INDUSTRY DYNAMICS

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1: INTRODUCTION

The major changes in the environment of business in the 1990's, for example the globalisation of markets, the completion of the single market in the EC, and most recently the opening of Eastern Europe to market forces, highlight the need for a model of industry dynamics. The ways in which industries and firms change over time has proved to be very difficult to portray within causal models. Samuelson (1947) drew distinctions between economic systems in terms of static, dynamic, and stochastic systems. Economists have been successful in building causal models within a comparative statics framework and have made considerable advances in modelling dynamic systems where there is continuity in the underlying behaviour patterns and the data which represent them. Historians have a rich tradition of analysis but one which focusses on the classification and understanding of events without attempting to provide causal models for projection into the future. In strategic management research there is a great need to develop dynamic and causal models. By a dynamic and causal system we mean (following Samuelson) one where given the initial facts there is sufficient material to predict what will happen, say, ten years thereafter. Clearly systems of interest to us will also have elements of both the historical and the stochastic and these should be reflected in our ten year view.

This need to understand better the dynamics of industries is the more pressing given the major economic changes that are taking place in our environment. Companies are having to make larger and larger investments in physical, human, and intellectual capital to cope with demands from markets. All of these require a longer view and much more explicit thinking about long term positioning in markets. In formulating their views companies will be looking for a closer understanding of the changes in industry structure that are implied by these great issues of the day. Scenario writing as developed at Shell (Wack 1985a, 1985b) was one attempt to take an explicit and long term "what-if" view. Ansoff's writings (Ansoff 1984) on strategic issue management and the use of weak signals were another important contribution. The work of Penrose (1959) and Marris (1964) sparked off the interest in constraints to growth faced by firms. Little, however, has been written on the dynamics of industry structure following Porter's early comments on industry evolution (Porter 1980). One exception was Lawrence and Dyer (1983) who provided a framework from an organisational perspective showing the ways in which firms adapt over the long period.

This paper advances one way in which a more analytical approach to long term industry change can be developed. "Longer term" is taken to be a period beyond which the lives of the principal fixed assets will have expired (either through use or obsolescence) and major reinvestment decisions will have to be addressed. The model starts with the familiar, static concepts of industry structure, borrows ideas from strategic group theory and extends these to horizons extend. The accessibility of different parts of the space (the sub-spaces) depends on the ways in which barriers to movement (mobility barriers) within the space change over time. The key to the practical implementation of the model is the identification of the relevant mobility barriers and the ways in which the costs of mobility will vary as a result of changes in the underlying industry conditions (such as legislation on non-tariff barriers to trade).

The model is developed in non-mathematical terms and is illustrated by reference to the prospects for long term change in the food processing industry in Europe. Much discussion of industry change is now conducted in terms of globalisation or Europeanisation/regionalisation. The European food processing industry was chosen because in many ways it is a controversial sector in which to review the global/national competitive debate and to argue for major investment decisions designed to upset the industry order. It is traditionally a country-centred industry marked by strong brands, conditioned by retailer buying power and quite short term in its thinking. Any argument for globalisation is predicated on the view that some process of homogenisation of consumer preferences does exist, is continuing and that from it arise attractive target market segments for goods and services defined across national boundaries. Following from that are issues of scale and focus advantages in addressing such segments. The food industry is a particularly interesting vehicle for an anlysis of trends in globalisation since it as a "worst case". No other industry faces such deeply rooted culture-bound notions of "taste" as those concerning eating habits. If change in consumer preferences and competitive strategies can be demonstrated for this industry, it would provide a significant addition to the debate so far.

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 behind such long term shifts. This, however, has been a relatively neglected issue both in the academic and more 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. The long term development and evolutionary paths of industries and markets can and have been chronicled historically but not much attention has been paid to the dynamics of change and the associated patterns of asset accumulation by incumbents and by new entrants and to the tactical exploitation of the newly developed positions. The use of a comparative statics framework can fail to interpret the ways in which fundamental shifts take place.

Any analysis of the dynamics of an industry structure at some future date requires a careful understanding of the interplay between competitors and the way this is likely to evolve over time. Porter's (1980) generic strategies give no more than a starting point in categorizing the available sources of competitive advantage. Some further work has been done to develop different industry typologies from which more specific competitive

1985). However, these elaborations of the original model are still silent on the dynamics of industries.

To ascribe industry evolution to fairly broad shifts in underlying demand and cost conditions begs the question of how, precisely, firms will adjust their assets over time in order to compete more effectively. The sum total of that set of asset adjustments will constitute the new, perhaps still evolving industry structure. The tool which enables us to bridge the gap between firms with all their idiosyncrasies and the nebulous concept of loose associations known as industry is the notion 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 described in terms of the assets of firms from which group members develop their market positioning and competitive tactics. Thus, high volume capital-intensive production lines promote a quite different outlook on competitive behaviour than small scale, hand crafted production techniques. 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 can be seen to be consist of structures within structures. The broad category "industry" is notoriously difficult to define with any precision. But 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, we argue, to the understanding of industry evolution lies in the ways in which firms change these asset structures. In other words the ways in which mobility barriers change should be the focus of attention. Oster (1982) wrote:

> "..at the heart of strategic group theory is the idea that there are rigidities to change."

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 on the one hand 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.

chain), production and logistics assets ("upstream"), and infrastructure and corporate assets.

These mobility barriers are assets created by firms in response to the competitive environment faced by the firm but are conditioned by the firm's history and culture, in particular its historic accumulation of tangible and intangible assets. Where external events are dramatic in character and foretell fundamental changes in demand and cost conditions then firms' strategic responses are the more likely to disengage from traditional patterns of incremental accretion of assets and to focus more on the creation of new assets. Thus, external events are frequently the triggers of change within firms insofar as firms are capable of interpreting the signals contained in these events. We argue that certain facets of the (expected) changes in Europe are sufficiently discontinuous in character so as to change the views of firms as to the assets that will be appropriate in the period following the creation of the Single Market. However, we are not confident that the available signals are uniform in character and capable of unambiguous interpretation.

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 food processing industry has passed through a number of phases each with its particular set of asset structures and business concepts. The industry has seen a period of wholesaler domination (Kaldor, 1980), followed by manufacturer domination in the 60's - the period of the scale economy brander (Foy 1980), then the rise of the retailer in the 70's (Segal-Horn & McGee, 1989), to be followed, it is said by some, by a new era in which the Euro-Consumer will emerge.

The Scale Economy Brander

The consumer packaged goods industries (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. These substantial economic advantages were buttressed 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 fostered scale economies available elsewhere in the system. The brand was the visible symbol of the manufacturers' strength, and was the visible barrier to entry behind which grew a series of

The Rise of the Retailer

The heyday of the scale economy brander (the late 60s) was, however, a period in which the seeds of change were already evident. The large retailer was becoming more and more significant. His position was fostered by the abolition of Retail Price Maintenance in 1964 allowing retailers the opportunity to compete on price. Furthermore processing technology was diffusing and becoming less proprietary. Quite suddenly the balance of power shifted from the manufacturer to the retailer, just as in the 1930s it had shifted from the wholesaler to the manufacturer. The emergence of large scale national retailers made for dramatic change. The consumer was now faced with a new proposition. Price-led competition was supported by an outlet brand (as distinct from a product brand). This was furthered by the entry of smaller scale processors who could now find ready customers in the private label retailers and whose access to technology and to efficient plant was not deterred 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 it possible for further new entry by specialized distribution companies. The emergence of national accounts diluted also the national sales forces of processors and undermined their product management structure.

This is by now a familiar story moderated only by a degree of variance between product groups (in some instances brands have held up remarkably well e.g. breakfast cereals).

The strategic initiative were captured by retailers and by the new entrants into food processing. The major change was the concentration of retailing as the majors built larger and larger outlets, concentrated on price competition, and steadily widened their businesses to include distribution, branding, research (a little) and development (much more), and wider and wider product ranges. The retail trade was able to turn brands into commodities, to brand themselves rather than their products, and was able to gain very substantial efficiencies. Strategic change in retailing was bound to have very substantial effects on the strategic position of manufacturers.

The Rise of the Euro-Brander?

Existing EC food law defines detailed requirements on 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."

exceptions, to provide a more informative system of food labelling and to set general food safety and hygiene standards.

At first sight these may seem to be unpromising triggers for major change. 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 estimate that the quantifiable direct benefits of removing these barriers are themselves significant amounting to 2 - 3% of industry value added. But they go on to say that the indirect net benefits would be larger, including the broadening of consumer choice, a significant increase in trade, efficiency gains, and an improvement in the competitiveness of EEC food companies vis-a-vis the rest of the world.

MAC (1988) gives some examples of these benefits and 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".

Riesenbeck (1988) argues that (1) national markets are becoming saturated and life cycles of competitive advantages are shortening forcing companies to segment more finely and concentrate on acceleration of new product development, (2) there is an increasingly international orientation of consumers and a growing homogeneity of demand around the world, (3) the importance of international sourcing is rising, and (4) that entry and exist barriers have been reduced as the level of fixed assets required has fallen. These views are in the spirit of Ohmae (1985) and of Levitt (1983). Taken in conjunction with the decreasing importance of national laws, regulations, and tastes and the liberalization of capital markets we have the a priori case for changes in structural conditions and a shift towards a more "European" industry.

If this is indeed the case then some companies will be targeting more specific socio-economic groups and regions integrating their marketing across regions - in contrast with the majority of packaged goods multinationals who presently run their international operations as a portfolio of national strategies (Ramsay 1988).

A new orientation to markets may take some time to gather pace. But there is already a new attitude to manufacturing. A number of different strands are visible. First, many manufacturers are searching for plants flexible enough for a wide product range so as to serve fragmenting markets. 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 single scale efficient sourcing for European markets. Finally, there are those seeking

Thus, in addition to market choices, there are significant manufacturing plant and product range choices to be made. These are discussed further in the following section. The industry in the 1990's promises to be very different from the two previous periods in which first the manufacturers and then the retailers held the strategic initiative.

3.2 STRATEGIC GROUPS IN THE FOOD INDUSTRY

A simple bivariate analysis can capture the most important characteristics of the industry. The importance of brands in the food industry cannot be overemphasized. National branding is the traditional source of competitive advantage and brand share is commonly associated with superior profitability (see PIMS database). The size of national retailers (in the UK at least) has substantially eroded the strength of many, but not all, brands, replacing product branding with their own form of outlet branding (private labelling). However, this is more evident in the UK than elsewhere. In general, manufacturers' brands remain significant but are focussed on national markets.

MAC (1988) shows that out of a sample of 46 EC-based food companies, a half have a presence in two EC countries or less (Table 1 below). 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.

TABLE 1

Average Major Countries per Product Line
for EC-Based Companies

1	country	6%
1-2	countries	44%
2-3	countries	24%
3-4	countries	17%
>4	countries	9%

Source: MAC (1988)

This is shown in the Gogel/Larreche (1989) Competitive Posture matrix (Figure 1 below) which compares the relative strength of US, Swiss and EC companies on the basis of product strength and geographic coverage. They conclude that the US food companies are significantly further advanced than the Europeans in both brand strength and geographic coverage, whilst the Swiss are significantly stronger in geographic coverage.

FIGURE 1 HERE

Our analysis follows the same approach (Figure 2 below) but for brand or product strength we substitute marketing intensity, a measure of the costs of marketing relative to total costs or to 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. We try to cope with this in the commentary. R&D capability is to some degree reflected in the marketing dimension insofar as branding often demands proprietary process knowledge and development skills.

FIGURE 2 HERE

These groups may be characterized as:

A: Multinational Branders
B: National Branders
C: Weak National Branders with Direct Branding for retailers outside home territory
D: National Direct Branders

[Footnote: These groups are based on cluster analyses of some markets, interview data with industry executives, and the researchers' own judgement. These groups should be treated as hypotheses to be statistically tested.]

The Multinational Branders are multinational companies operating multiple, related consumer goods businesses across the world, with strong perceived product differentiation accompanied by strong branding. These companies are traditionally multidomestic in character (as opposed to global\transnational, see Bartlett & Ghoshal (1989) and Porter (1986)).

The National Branders are nationally based and focussed companies with very high levels of marketing support for a product range limited by the standards of the Multinationals.

The Weak National Branders are typically not national market leaders and probably not large in absolute terms. They supplement their local brands with opportunistic own brand supplies into other national markets in order to maintain volume. [Note, this category is probably not uniformly present across the different food sectors].

National Own Branders focus on low cost production (sometimes with advanced production processes) and supply retailers within their own countries.

The mobility barriers attached to these groups are summarized in Figure 3 below. In general these barriers are sufficiently high to permit some degree of stability in these structures. For multinationals the barriers re very high and are being deliberately raised by the group through increasing levels of advertising and expansion of international operations. Rapid inflation of media charges have the effect of increasing the barriers as well. The competitive threats are probably felt to be from within the group although the own branders limit the price premiums by their activities and the National Branders compete

The National 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 on price as new products become more difficult to launch. The Weak National Branders are probably in the most exposed situation. They are susceptible to brand competition on one side and low price competition on the other. They strive to create a defensible position through strategic pricing and attempts to be very flexible with their production plant.

FIGURE 3 HERE

The National Own Branders 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 then intra- group rivalry is very high and incursions from foreign own branders is a dangerous threat. New entrants from outside the industry might find this group a useful bridgehead into the industry (see McGee and Thomas (forthcoming) for a review of Sequential Entry strategies).

3.3 ANALYSIS OF THE STRATEGIC SPACE

The results of a cluster analysis by Duckett (1990) on one sector of the industry 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 group configuration. Figure 4 (below) illustrates the way in which the Strategic Space can be divided (for illustrative purposes) into a three by three grid. Existing groups A, B C, & D take four of the spaces leaving five further possibilities for us to consider. Duckett's cluster analysis used advertising intensity as a proxy for marketing intensity. He assumed that intensity of advertising above 15% was not sustainable thereby setting an outer bound to the strategic space. Moreover the levels of advertising intensity chosen to define the sub spaces reflect the realities of the strategies they define. Thus a pure own brand strategy is consistent only with very low levels of advertising (less than 1%) whereas a national branding operation in the UK would typically require a figure in excess of 6%. The precise boundaries would be affected by the product category.

FIGURE 4 HERE

The effect of the Single Market legislation and of the Food Directives in particular is to make individual country markets more accessible not more identical. In the longer term consumers in different national markets may indeed converge around some common standards but for the moment the immediate opportunity is for companies to reconstruct their production and logistics assets to achieve the efficiencies implied by freer movement of goods. The longer term opportunity is to achieve very considerable possible efficiencies in marketing to larger segments across national boundaries. There will therefore be pressures to drive companies "Northwards" in this strategic space.

Own branders will be tempted to move into sub-space X to supply similar own brand products across wider areas. However, the real prize will be to supply own brands to retailers across Europe (sub-space V). The advantages will arise from full exploitation of potential scale economies especially in production. Lower cost distribution will 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 brand product and the different legislative environments that will still have an impact regardless of the Single Market. Harmonization should make a considerable difference to the present situation. The little rivalry from other groups outside the own brand sectors make this attractive although within the own brands 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 sub-space X depends on the viability of V. If the latter exists it will dominate the regional suppliers because of scale depending on the limits to scale effects in production. 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 may well 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 Z is sandwiched between powerful national branders and national own branders. There will continue to be a fragmented rump of marginal players but Europe will not offer them any special opportunities except perhaps through some form of consolidation.

Sub-space W will become very interesting. In theory this will be the home of pan-European Branders pursuing a strategy of marketing a common branded product throughout Europe. This would allow economies of scale to be achieved in all functions including marketing leading therefore to rather lower marketing intensities than their multidomestic rivals. They would be insulated from the price competition of the own brands and would be at least potentially formidable competitors for nationally based brands - and this includes those Multinational and National players who do not opt for a trans-European style of operation. An increasingly European media, lower logistics costs, and the relaxing of legislative differences plus increasingly homogeneous consumers would all make a trans-European group the more likely to be viable. 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 Y can be called the regional brander and has some parallels with the regional own-brander. It is a natural expansion path for the national branders as well as a possible route of development for the weak national branders alongside them 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 weak national branders in the centre of the Strategic space 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 groups in X and V, regional and European own branders, would make their opportunistic plays across national boundaries extremely marginal. This group like the one underneath it is likely to become fragmented and only marginally profitable.

The Multinationals are well placed to defend themselves and would enjoy either the status quo or a very slow change process. 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 branders 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 there 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 W, the trans-European. But this will very likely take a long time - the mobility barriers are very high.

Figure 5 illustrates the possible shifts in the strategic group configuration over time. Dates have been included but are no more than educated guesses. As the picture shows 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.

FIGURE 5 HERE

The industry is likely to go through a confused and uncertain period over the next five years as competitors interpret the signals from the environment, seek to consolidate their existing and for the industry to begin a clear convergence onto a new structure. If first-mover advantages are thought to be substantial, then many companies will have to reconsider their traditional attitudes to the risk-return trade-off.

Following from this analysis 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. In the new structure as it stabilizes there are likely to be many simultaneous strategic groups co-existing with some comfort. But in the evolution towards this there is likely to be a great deal of confusion and experimentation as companies seek for new understandings and new positions.

4: UNDERSTANDING THE INDUSTRY DYNAMICS

Section 3 outlined the historical developement of the European food industry and the nature of the strategic groupings within the industry. The traditional barriers protecting these groups are now being removed or undermined making possible a repositioning and restructuring of the strategic group structure. The analysis of strategic space in section 3.3 argued that a combination of exogeneous and endogenous factors will move European food companies progressively "Northward" on the Strategic Space map towards two currently vacant strategic spaces in which will be found Pan-European Own Branders and Eurobranders respectively. Along with strong National Branders and Multinational Branders these will constitute, it is argued, a new pattern of strategic groupings a new structure of competition in the European food industry of the next century.

For this scenario to come true, the mobility barriers preventing this movement "Northward" must seen 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. In this section, specific pieces of such evidence will be presented and discussed. Although much of this evidence is fragmented and contradictory, as would be expected in an

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. At this point the linkage between globalisation and Europeanisation should be evident since the cost-push and demand-pull themes are the same for both and the overlap features so strongly in the evidence discussed below.

In her Europe-wide survey of senior business executives Vandermerwe (1989a) found a number of common expectations concerning environmental and consumer behaviour changes which would accompany the Single Market. Although not specific to food companies, they give a useful picture of variables common across sectors. Increased market opportunities from greater pan-European receptivity to standardised goods and services, enlarged niches, more rapid product diffusion, greater homogeneity combined with complexity, regional rather than national market focus. Cost-reduction was seen as arising from harmonised technical and environmental standards, rationalised product ranges, increased scale reducing production costs, Europe-wide sourcing, cheaper and faster physical distribution combined with more centralised warehousing, shared centralised R & D costs and streamlining of organisational and administrative functions. Threats were seen overwhelmingly in terms of increased intensity of competition from a variety of sources such as better prepared and equipped "outsider" new entrants, "unfair" competition from state monopolies or low wage EC economies, emergence of gaps between smaller companies and giants. Changes in consumer behaviour were expected to involve greater price-sensitivity, more demanding, better informed customers, less culture-bound or patriotic consumer spending, and greater interest in global products and brands. Industrial customers are expected to increase pressure to reduce and equalised prices while more centralised buying functions replace country sourcing with Europe-wide or global sourcing.

Vandermerwe describes the major strategic marketing adjustments being made as a visible shift to more "European-ness". Europe-wide positioning of corporations, products and brands to provide a strong pan-European image and a standard or similar EC marketing programme. However, the industry is said to be fragmented in structure and local in character (Burns, McInerney, & Swinbank, 1983; Swinbank & Burns, 1984; Capara, 1989; Sparks, 1989). The food processing companies have operated close to their suppliers, distributors and end-consumers. Any shift towards Vandermerwe's "European-ness" policies would constitute a radical change in the structure and competitive behaviour of the industry.

4.1 MARKETS AND MARKETING STRATEGY

Harmonisation of food regulations mean that existing as well as new products will be available to European-wide consumers, creating the necessary initial conditions for increased homogenisation of food tastes. The emphasis placed by so many industrialists and commentators on country-specific differences in at the beginning of any real effort at Europe-wide demand-creation. However, Vandermerwe (1989b) constructs a 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 recognise a Europe-wide system.

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 dominant influences.

Some of the most vehement rebuttal of a pan-European approach occurs with regard to the management of international marketing activities. This is largely because of the pivotal role performed by the marketing function in the close tracking of consumer preferences and the management of local market infrastructure which, it is said, must be carried out as close to the markets as possible. The fact that this function can now be performed as well or better by retailers' point-of-sale data-capture technology makes it even more critical for the manufacturers to do this effectively. Nevertheless, considerable commonality in international marketing activities has been occurring for some time. Consider the data in Table 2 provided in 1975 by Sorenson & Wiechmann.

TABLE 2

Degree of Marketing Standardisation among 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)

From Table 2 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 coordination. The results as given in Table 3 were reached in the context of judging the tradeoff between the organisational costs of coordination and the scale economies available from standardisation. Table 3 gives their assessment of the extent to which national differences make standardisation of particular marketing activities easier or more difficult.

TABLE 3

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

These kinds of argumments imply a chain of causation running from 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 Table 4) and are featuring prominently in the corporate restructuring and acquisition activity currently taking place in the food sector.

TABLE 4
Movement in Share Price of Companies with Strong Brand Portfolios

Company Ord Shares	Price at 13/3/88*	Price at 20/7/89	% change	%gain/loss on ind.index	%gain/loss on mkt.index
Cad Schws	277p	450p	+65.7	+30.0	+31.7
Dalgety	273p	395p	+44.7	+13.5	+15.0
Grand Met**	481p	581p	+20.8	-5.2	-4.0
Guinness	302p	525p	+73.8	+36.3	+38.2
R H M	329p	455p	+38.3	+8.5	+10.0
Rcktt & Col	815p	1200p	+47.2	+15.5	+17.0
Unigate	268p	415p	+54.9	+21.5	+23.1
U B	265p	405p	+52.8	+19.8	+21.5

Notes:
*Date of "dawn raid" on Rowntree by Suchard
**Under performance of Grand Metropolitan principally due to market caution following the £3.1 bn Pillsbury/Burger King acquisition

Source: Stobart 1989

4.2 MANUFACTURING AND LOGISTICS STRATEGIES

As a relatively low-cost products, total physical distribution costs for food average around 18% of total costs and for commodity items can be as high as 35% (Penman, 1989). However, faster, cheaper transportation and access to cheaper labour within the EC together with the scale effects from rationalizing production (Cecchini 1988) could lead to a fall in transport costs by as much as 10% (Commission of the EC, 1988). Sharman (1989) also speculates that Europe could follow the US and experience an increasing number of competitive "Less Than Truck Load" (LTL) shipments allowing faster customer service, reduced inventoriess and potenbtial competition in smaller, previously uneconomic, fringe markets. As Sharman points out logistsics strategy is intertwined with other aspects of strategy and the secondary effects of lower transport costs could be considerable (see Figure 6 below).

In transportation and distribution, retail concentration is a key factor determining the shape of the industry and its cost structure. In the Southern EC economies (Italy, Spain, Portugal, Greece and Ireland) retail concentration is relatively low and immense opportunities for restructuring and increased concentration are thought to exist. High retail concentration is itself a trigger for distributor concentration since it foreshadows a shift from manufacturers' own transport to the use of specialist contract distribution companies and common user systems. For example, as the large UK retail companies have entered Europe, they have taken with them their distribution practices and expertise (eg Marks & Spencer in France). Increases in retail concentration in Europe can be expected to lead to the greater use of centralised distribution and specialist distribution contractors. The development of European buying associations and consortia (eg Argyll, Casino, Ahold, Rinascente, Dansk, ICA, & Migros in 1989) are therefore significant for the food processing sector. Retail consortia are not just joining together to buy products. Smiddy (1989) sees further, more sophisticated procurement benefits in the joint purchase of vehicles, computers, systems software, etc and possibly even in the eventual international transfer of trading formats.

The restructuring of distribution will benefit non-European as well as European producers. American and Japanese producers will be able to import through centrally-placed Holland and Belgium and then truck throughout Europe (Penman, 1989). Also noteworthy is the effect on specific product categories (such as fresh, chilled and frozen produce), of cost reductions from shorter journey times and, most importantly, from dramatic technological developments in transportation. For example the development of the "Freshtainer" system can extend the life of fresh foods up to 5 times by the use of computer-controlled temperature, humidity and atmosphere levels. Its effect on the scope of market development for such products as fresh fruit, flowers, vegetables, poultry, meat and fish, is obvious, especially since there are also high-growth consumption categories benefiting from the trends to healthy eating and the "greening" of European consumers (Elkington, 1989).

In terms of manufacturing strategies in Europe, the typology suggested by Collins, Schmenner & Whybark (1989) is helpful. From the experience of a small but internationally-based group of major companies all currently coping with multi-plant manufacturing in Europe, trends toward consolidation of previously fragmented operations were clear. They define a plant's "charter" in terms of product range, technologies employed, and geographic markets served. Figure 7 illustrates this for product range and geographic coverage together with the military shorthand which describes the possible charters.

FIGURE 7

European Manufacturing - Plant "Charter" Matrix

No. of Weapons (Product Lines)

Geographic Responsibilities (Country Markets Served)		Many	Few
	Many	NAVAL FLOTILLA	MISSILE SILO
	Few	INFANTRY	TANK CORPS

Source: Collins, Schmenner & Whybark (1989)

Only one of their companies used the `missile silo' charter for all its plants, primarily because its world-wide manufacturing strategy was established that way at the outset. For the other companies a mixture of charters was the norm. However as competition across Europe has intensified, cost pressures have led to rationalisations to prune excess equipment and under-utilised capacity. Most often, manufacturing strategy repositioning has been towards the `missile silo' plant charter, ie increased product focus combined with pan-European manufacture. In the cases where major repositioning has not taken place, there have been simplification of plant charters. These were usually achieved by a combination of product swapping among plants, product reassignments or simply plant closures.

Pan-European manufacturing has also been stimulated by the high cost of new product launches which favours pan-European product launches. However some food processing companies have retained `infantry' and `tank corps' plants for products considered heavily nationally based and with high transportation costs. Some changes were discernible even here with increasing acceptance of multilingual packaging and questioning of assumptions that a proliferation of products were necessary to meet market needs. When one of the multinational food processors reduced five different recipes for the same product to just one, no discernible effect on demand occurred.

Common denominators which emerged for manufacturing included consolidation of previously fragmented operations, simplification of operations, and an increasing globalisation of the scope and impact of manufacturing operations. Moreover the successes achieved by pan-European `pioneers' increased competitive pressure for the rest to follow. Their ability to do so was found to be greatly influenced by the differing characteristics of firms. Major mobility barriers included a lack of pan-European managers to match pan-European plants and the effect on the relative power of country managers.

This approach strongly reinforces the choice of geographic coverage and brand characteristics as key strategic dimensions in this industry and suggests an increase in the degree of integration within firms of their manufacturing and marketing operations.

4.3 CORPORATE STRATEGIES

Evidence from food companies concerning their overall corporate strategies is difficult to pinpoint and even harder to assess. Unilever, one of the major European food companies, sees changes in all three types of mobility barrier. With regard to market segmentation and product lines, the Chairman's view is that `the 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. Maljers also regards industry characteristics as moving in favour of big international companies who will be better able to pursue the increasing economies of scale available in production, marketing and distribution.

Unilever expects `a downward trend' in production locations. The present 200-plus sites in sixteen European countries will be gradually reduced in terms of organisation characteristics (the third category of mobility barrier), both greater centralisation (eg of production) and greater diversity (eg between consumer products and food products) are expected, placing a premium on flexible management skills. The company's own evaluation suggests a slow but steady convergence on the demand side coupled with scale developments in manufacturing and distribution.

As a long-established multinational brander, Unilever's present position on the strategic space map is clear - a Multinational Brander. Its view of prospective changes in the industry seems to be cost-driven rather than consumer-led so its journey from multidomestic to transnational is cautious and measured. It is therefore consolidating its position by anticipating the cost-push and responding to any demand-pull.

By contrast with Unilever's strategic thinking and the clear pan-European and global thrust of Jacobs Suchard described below, the prospects in the European brewing industry are viewed quite differently by Guinness. Despite the widely recognised internationalisation of the brewing and drinks industries and the position of Guinness itself as a successful international brewing and drinks company, itbseems very conscious of the structural barriers to the development of pan-European brands (Sparks 1989). These barriers include a strong bias towards domestic manufacture or foreign manufacture under license arising from the high transportation costs of drinks, the differing national structures of distribution channels and outlets, returnable packaging regulations, a plethora of national recipes, and the range of national duty and VAT levels. Many of these, such as packaging, and 1992-related exploration of tax harmonisation. Nevertheless Guinness itself appears unsure about the likelihood or significance of any or all of these factors. Its corporate stance towards prospective industry changes are therefore difficukt to assess.

Domestic brewers dominate national markets although concentration levels vary dramaticallyfrom country to country (e.g. the classic proliferation of German small breweries compared to the UK's five major brewers with 75% market share, Heineken with 40% of its domestic market in Holland, and Carlsberg with 70% of the Danish Market). Gogel and Larreche (1989) expect scale-efficient brewing plants to emerge and launch into the fragmented German market from Holland (Heineken) or France (BSN). But, in Guinness' view, European brewers should not develop pan-European products but should continue to support national brand differences as the best defence against further incursions of multinational competitors. It is extremely difficult to reconcile this strategy with data on rapid industry concentration at a world level, with the top ten world brewers increasing their total share of the world beer market from 23% in 1978 to 42% in 1987 and five European companies in the world's top twenty brewing companies. The expectation is for increased competition in Europe from American, Japanese, Canadian and Australian brewers.

Guinness thus appears to see the industry as polarising between increasingly powerful international brewing companies and strong national branders. At the same time it seems unclear to which group it belongs. Guinness' views on cost and demand factors place it firmly in the multidomestic camp, yet this position is difficult to reconcile with the rapid international concentration and globalization taking place in brewing. This recalls our strategic space analysis in which we suggest that traditional multinationals may find themselves between strong national branders and transEuropean branders. That kind of three way competition is likely to be very fierce with a premium attached (perhaps) to successful early moves. Whereas Unilever's attitude to this three cornered fight might be described as flexible, Guinness appear to be reluctant participants in the global game.

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 repositioning 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. This echoes other radical industry views on the development of international food brands. Since new products are the least culture-bound (Quelch and Hoff, 1986) they are often considered easier to market internationally

> "existing brands with a real product advantage or a distinctive positioning (`pillar' brands) should be looked at first" (Capara, 1989).

As 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 countline, praline and seasonal, while expansion of its geographic spread in 1985 was to Austria, German, Switzerland, and France and in 1989 was to UK, Spain, Benelux, Italy, Holland, Argentine, Hong Kong, and Japan.

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. Since a global strategy is about change in the economics of the business as a whole, it carries implications beyond brand management, marketing and advertising. Production reorganisation for Suchard involved new investment in international manufacturing centres, yielding automated scale production, simplification of operations and plant closures. Changes in organisation structure and skills to improve coordination capability have led to an HQ of only sixty people, decentralisation as the key philosophy but reinforced by multinational taskforces, global brand sponsorship, European key account management, one common language and a corporate style that is deliberately more aggressive and entrepreneurial.

Suchard's view of developments in its own sector and how to respond to them is predicated on increasing effectiveness of world-wide media and continuing trade and industry concentration. 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.

This section has explored some of the manufacturing, logistics and marketing evidence for the change scenarios which we introduced in section 3. An issue of some importance has emerged. The Europeanisation or globalisation debate has primarily focused on market characteristics, changes in demand patterns, and the search for the Euro-consumer, i.e. the demand-pull side of the matrix. On this side there is much discussion but little hard evidence. It is even possible that historic market differences may eventually be seen as the artificial result of the ways in which manufacturers have operated. However this misses the main point about where the dynamic for globalisation resides. Considering the weight of evidence on the cost-push side of the matrix, of technical and investment building-blocks already in place, the true engine for globalisation is the realization that unit costs can be significantly reduced. It is the cost drivers that are seen as the real pressure point for change and the real prize for pioneers.

4.4 THE ROLE OF ACQUISITIONS

The previous section looked at the pressures for change arising from the way in which underlying changes in demand and cost conditions can change the nature of mobility barriers. This section looks briefly at the evidence of firms' "intentions" interpreted from their actual behaviour in terms of acquisitions and alliances. If we are to accept the notion that there will be strategic moves into vacant "spaces", we should expect at least some moves to create new competitive units via acquisition as opposed to the slower route of internal growth. Buiges & Jacquemin (1989) in their overview of strategies of firms in the large internal market observe that the majority of mergers and acquisitions in Europe are purely national (over 55% in 1987-8). But intra-community acquisitions considerably outnumber those in which one party is from outside the Community (29% compared with 15% in 1987-8).

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". His starting point is that the northern European economies have very concentrated food industry structures but slow growth markets whereas the Southern countries have much more fragmented but high growth structures. Grover claims that

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

He argues that the fragmented structure in the South 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, is contained in his table (reproduced as Table 5 below) which shows 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 transEuropean positions in which domination of particular product categories across Europe is being sought.

TABLE 5
Number of Food Industry Mergers and Acquisitions

January 1988 - May 1989

	Domestic	Cross-Border	
Involving >50% of equity	218	122	340
Others (mergers, minorities etc)	47	17	64
Totals	265	139	404

Source: Grover 1989

In section 4.2 above above we suggested that the high concentration in food retailing has implications for the food processors. In particular it is likely to lead to the emergence of TransEuropean own branders. This will be further fuelled by the emergence of European buyer groups (see previous section) will be a catalyst for the consolidation of food manufacturers. It is likely to be a catalyst also for onw branders seeing the opportunity to write ever larger contracts with these buying alliances. However, these experiments on the retailer side are still only in their early stages. Opinion on internationalisation of retailing (e.g. OXIRM 1989) suggests that international retailing will start to become a new force across Europe, in which case ripostes from processors can be expected.

The evidence on restructuring via acquisition is probably strongest from the experience of UK activity in the United States. Hamill and Crosbie (1989) report some statistics that show UK acquisitions of food and drink companies in the USA rising from $15mn in 1984 to over $7780mn in 1988 (Table 6 below). The average size of these takeovers has risen from about $5mn to a something in excess of $555mn. 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 was less than one per cent. This represents a spectacular increase. The 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 mas" can be achieved. Hamill and Crosbie 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

TABLE 6
UK Acquisitions in the US Food & Drink Industry
1984-8

Year	Number	Value $mn	Average Size $mn	Share of all UK Acquisitions %
1984	3	15.6	5.2	.4
1985	6	214	35.7	4.1
1986	7	1081.4	154.5	8.0
1987	8	1304	163.0	4.1
1988	14	7782.3	555.8	24.5

Source: Hamill & Crosbie 1989

Hamill and Crosbie supplement their statistics with brief reviews of five largest UK acquirers in the food and drink sector. 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 the 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. Within Europe we would expect to see more efficiency driven, rationalization acquisitions together with a stronger emphasis on own brands. The limited evidence suggests the European food conglomerate with a portfolio of major brands is already emerging. There appears to be little hard evidence yet for the rise of the genuine transEuropean brander. The power of the food industry still lies in its national brands and it is not at all clear just how quickly the power of the national brander will be challenged by the new Eurobranders. The strategic space model suggests the grounds on which the new competition can emerge but is silent, as yet, on the timing of the challenge. It does, however, suggest that the national brands may find it difficult in the long run to remain the dominant force in the industry.

5: SUMMARY AND CONCLUSIONS

This paper has suggested one way in which a more analytical approach to long term industry change can be developed. The essence of our approach is to define the industry in terms of its strategic groups and to specify the nature of the mobility barriers which preserve these groups. We propose then that a strategic space analysis be used in which the "empty" spaces in migration between already existing groups. We suggest then that necessary (but not sufficient) conditions for change include requirements that mobility barriers in relation to the mobility capacities of the relevant competitors are declining. We suggest that evidence for such erosion in mobility barriers can usually be found in the conditions under which an industry is currently operating.

As an illustration of this methodology we chose the food processing industry in Europe. We chose this because firstly it is a worst case, that is an industry so rooted in national preferences, national brands and national and multidomestic competitors that change would have to be fairly radical if it were to take place at all. Second, it is an industry likely to be dramatically affected by the single market legislation of the EC. It is also an industry where the available data across such a broad sweep of activities is so weak that a conventional economic or strategic analysis cannot be undertaken.

From industry sources and reviews, sector analyses, and current research reports, this paper has provided an account of the evidence for change in the industry so far and an assessment of its significance for structural and competitive change. It is argued that slow but real changes in demand, increased experience in standardization of international marketing, a step change down in physical distribution costs, and changes in warehousing and distribution technology when taken together strongly extend the possibilities for centralization of production, distribution and marketing in this sector. An interesting polarisation of corporate strategies in response to these new competitive possibilities appears to be emerging, reflecting the global/national debate.

Our analysis three observations. First, two major new strategies are quite likely to emerge, viz the pan-European Own Brander and the TransEuropean Brander. Second, the strategic space analysis tells us something about the pathways to achieving these positions. Third, it also tells us something about the nature of the competition both en route and in the new structure. This approach does not tell us how long the process of change will take, nor does it say who will be the winners and losers. It is possible, however, to say something about the characteristics of the winners and losers.

The inferences we have drawn from our data need testing. There are two lines of approach for future research. One is to develop better statistical measurement of the initial strategic group structure. This is technically possible with the various multivariate tools available but much still needs to be done on variable definition and measurement. Second, data on the underlying mobility barriers needs more rigorous examination than we have been able to provide in this paper. Progress on these lines would make a strategic groups and strategic space analysis a useful tool in the better analysis and understanding of industry dynamics.

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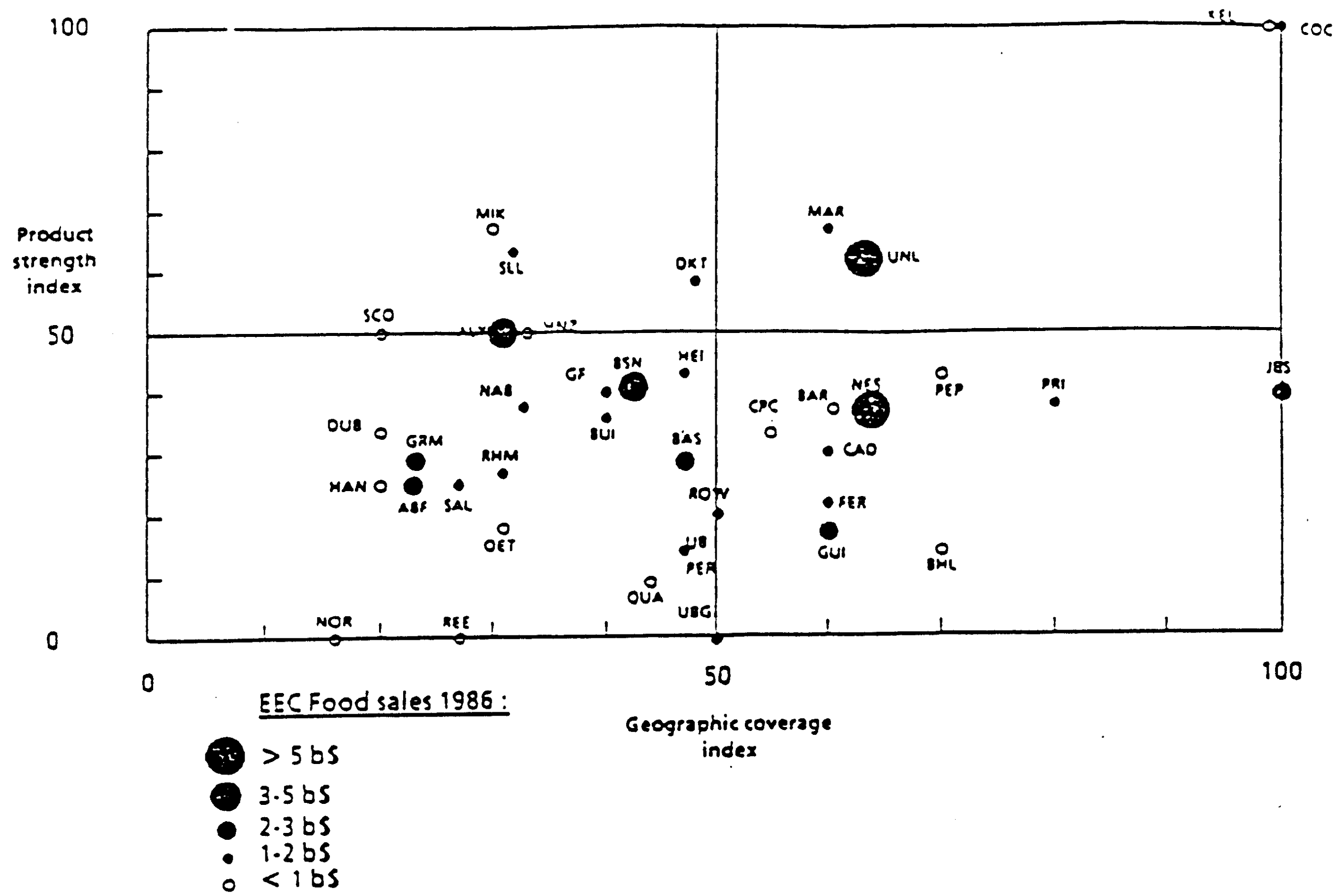
Figure 1

Estimated Product Strength and Geographic Coverage for European Food Companies



Code	Name	Country of origin	Number of products
ALY	Allied Lyons	UK	9
ABF	Associated British Food	UK	7
BAR	Barilla	ITALY	3
BAS	Bass	UK	3
BHL	Bahlsen Gruppe	GERMANY	3
BSN	BSN	FRANCE	13
BUI	Buitoni	ITALY	7
CAD	Cadbury Schweppes	UK	2
COC	Coca-Cola	US	2
CPC	CPC International	US	5
OET	Dr August Oetker	GERMANY	7
DUB	DUB Schultheiss Konzern	GERMANY	3
FER	Ferrero	ITALY	3
GN	General Foods	US	4
GRM	Grand Metropolitan	UK	6
GUI	Guinness	UK	2
HAN	Hanson Trust	UK	4
HEI	Heineken	NL	3
HNZ	Heinz	US	7
JBS	Jacobs-Suchard	SWITZERLAND	2
KEL	Kellogg's	US	1
OKT	Kraft	US	5
MAR	Mars	US	4
MIK	Ortiz-Miko	FRANCE	2
NAB	Nabisco	US	6
NES	Nestlé	SWITZERLAND	15
NOR	Northern Foods	UK	5
PEP	Pepsi-Cola	US	2
PRI	Pernod-Ricard	FRANCE	2
PER	Perrier	FRANCE	3
QUA	Quaker Oats	US	4
RHM	Ranks Hovis McDougall	UK	7
REE	Reemtsma	GERMANY	3
ROW	Rowntree Mackintosh	UK	2
SLL	Saint Louis Lesieur	FRANCE	5
SAL	Sara Lee Corp	US	2
SCO	Scottish-Newcastle	UK	1
UNL	Unilever	NL	8
UB	United Biscuits	UK	1
UBG	United Breweries Group	OTHER EEC	2

Source: The MAC Group, 1988.

Figure 2

Strategic Groups: Food Industry 1980's

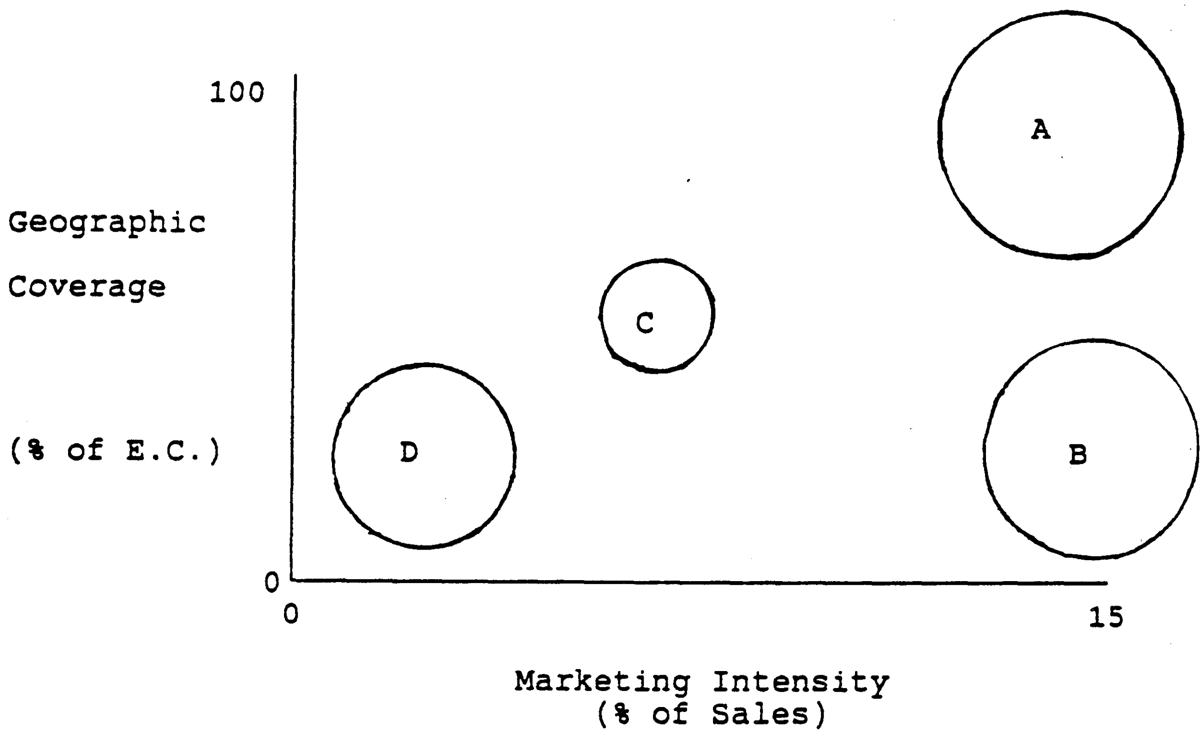


Figure 3

Summary of Mobility Barriers

Geographic Coverage (0 – 100)

		consumer Brand identification proprietary process knowledge R + D capability econs of scale available marketing & organisational skills
	Low production costs low total costs technologically advanced some proprietary process knowledge retailer switching costs	
low cost production proprietary process retailer switching costs local Knowledge & regulations		Manufacturing process knowledge brand loyalty marketing skills local knowledge

0 – 15

Marketing Intensity
(% of Sales)

Figure 4

Strategic Space Analysis

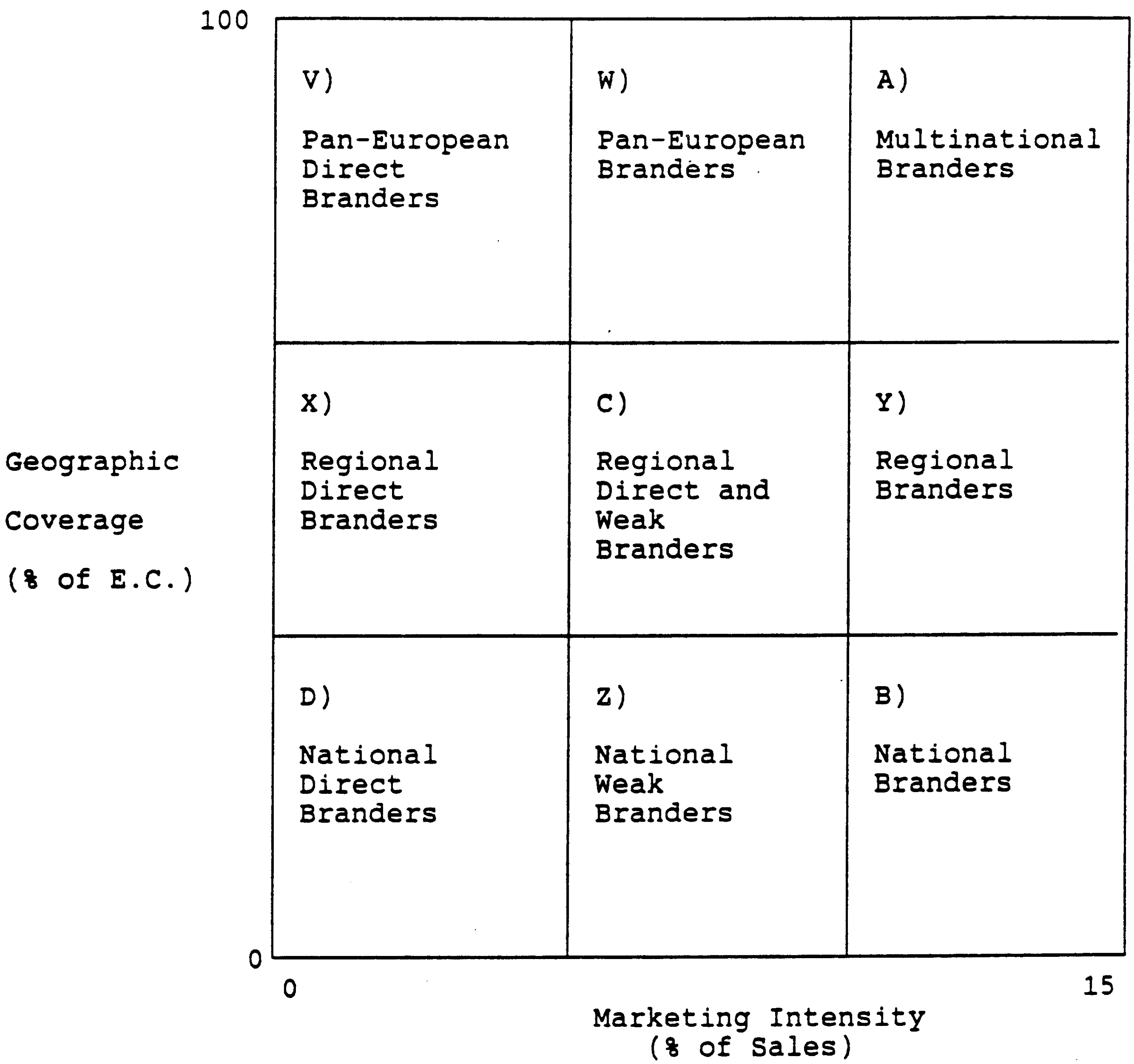


Figure 5

Possible Changes in the Strategic Group Map

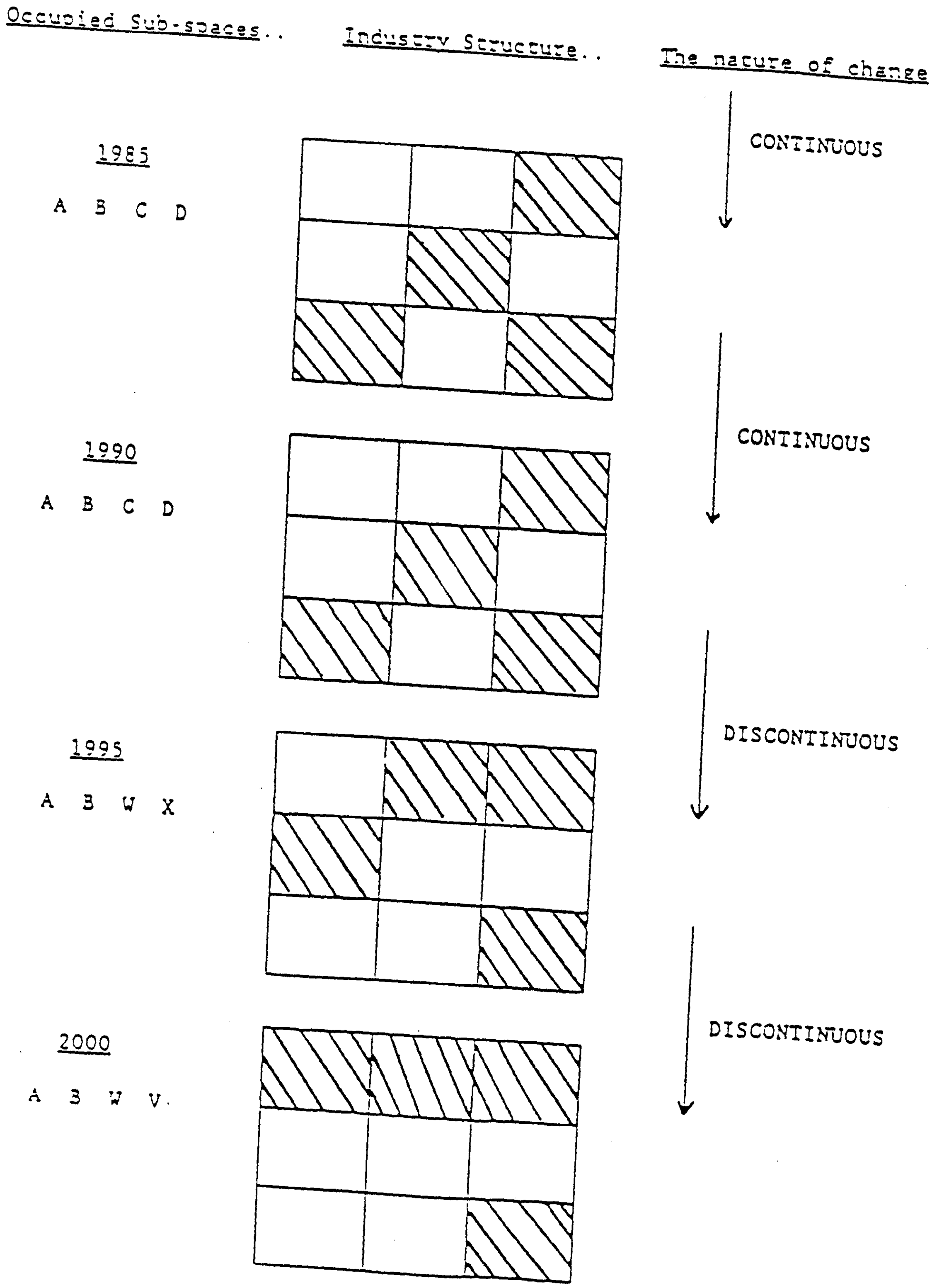
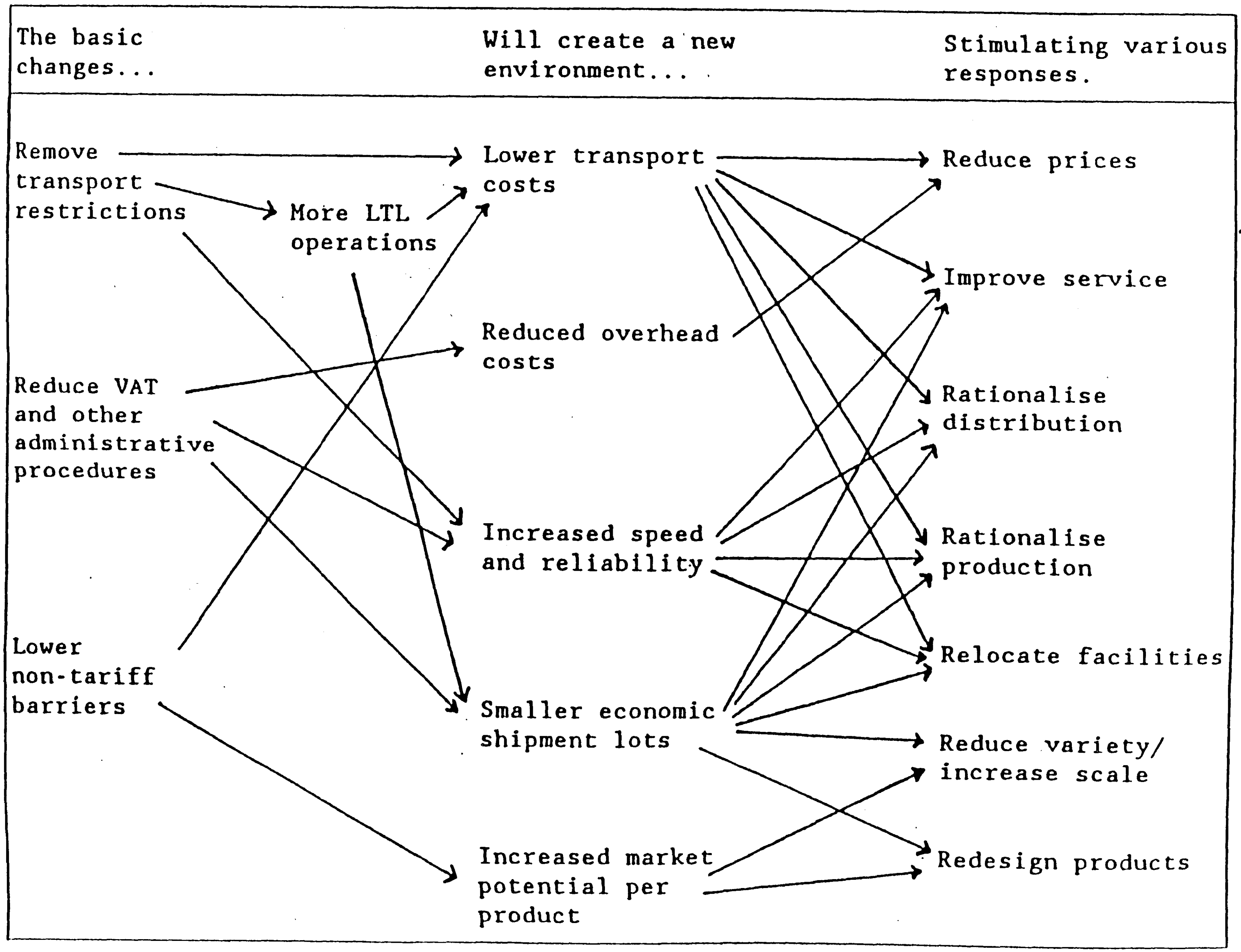


Figure 6

The Impact of 1992 on Logistics



Source: Sharman (1989)