

An internal analysis of greggs marketing essay



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Greggs plc intend to expand their operations into international markets in order to satisfy their overriding objective: ' to be Europe's No. 1 Bakery'.

Germany has been selected as the host country and justification for this decision has been discussed.

Moreover, Greggs will enter the German Bakery market through the employment of a ' Foreign Direct Investment' method, more specifically a ' Sales and Production Subsidiary'.

This report outlines the blend of marketing mix components used to position the offering; the implementation method adopted to ensure effective product and service delivery; and the control mechanisms utilised to make sure that objectives are achieved.

2. 0 Introduction

Greggs is the currently the leading UK retailer in the bakery market having experienced high levels of growth in 2002. The company achieved revenues of £422. 6 million, an increase of 11. 9% on the previous fiscal. Its operating profit also witnessed an increase of 11. 8% to £35. 3 million in 2002. Their popularity has rapidly increased as consumers are seeking quick, convenient and indulgent foods to complement their fast-paced lifestyles .

Greggs is actively expanding their operations and have over 1, 200 retail outlets under the Greggs and Bakers Oven brands . They entered into the international arena in 2003 with the opening of two outlets in Belgium. This strategy was pursued in order to fulfil the company's long-term objective of becoming a leader in the European market place.

Further international expansion will therefore satisfy their current objectives and enhance their presence in the European bakery market.

2. 1 Report Objectives

To justify market choice

To undertake internal and environmental analysis for the home and host country

To identify the most appropriate foreign entry strategy

To tailor a services marketing mix to requirements of the host market

To suggest methods of implementation to allow successful market penetration

To monitor the progress of this venture through the employment of control mechanisms

3. 0 Mission statement

“ We intend to be Europe’s finest bakery-related retailer, achieving our ambitious growth targets by attaining world-class standards in everything we do. Our purpose is the growth and development of a thriving business for the benefit and enjoyment of employees, customers and shareholders alike.

3. 1 Values

Greggs is a customer-focused business, seeking to provide excellent products and services that deliver enjoyment and value-for-money. We are

committed to people development, within a considerate culture that combines autonomy and accountability and maintains a strong focus on profitability. In all our activities, we aim to achieve excellence through continuous improvement”.

4. 0 – Market Choice

Cannon and Willis propose a method of “ simple elimination ” to identify a potential host market. This method of market choice ensures that the remaining country satisfies all main criteria highlighted by the organisation. The diagram below shows a systematic approach to finding a suitable market for Gregg’s expansion. Industrial, economic and cultural factors will be integrated into the selection process as these are central to Greggs’ operations in addition to their main aim: ‘ To be the no. 1 bakery retailer in Europe.’

Parallel to their objectives, all non-EU countries will be excluded from the selection process. Greggs’ second priority is to enter markets which display fast growth in bakery markets. The countries with the highest levels of category growth are shown below:

Figure A

CountryCakes and Pastries Market – % Category Growth 1995 – 1999

Portugal 4. 60%

Germany3. 70%

France 3. 60%

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Spain1. 80%

Denmark1. 80%

Using this table, Greggs may eliminate Denmark and Spain from their market choice selection process.

Psychological distance between the home and host country can also determine the success of international activities and thus have been incorporated into the process.

The French have a wide selection of elaborate, exquisite and gourmet dishes. This contradicts the typical product proposition offered by Greggs. Although Greggs could consider a focused differentiation strategy targeting niche markets, the abundance of specialist bakery retailers would suggestively make the French bakery market difficult to penetrate effectively and therefore exclude it from further scrutiny.

Portuguese market trends highlight an increasing demand for “ wholesome, family products “.

In contrast to the latter, Greggs offer an ‘ on the move’ food proposition which is typically consumed individually rather than in a family environment. Suggestively the Portuguese are reluctant to embrace new food offerings as research illustrates a strong preference for traditional cuisine served in traditional restaurant settings . Moreover the market is dominated by both high street retailers such as Podaria Popular and industrial manufacturers thus implying high barriers to entry are high.

Having adopted this process of elimination, Germany appears to be the prevailing market choice.

Despite the high labour costs, long vacation time and slow economic growth, Germany's overall economic performance is the 3rd largest in Europe and consequently presents itself as an attractive market choice for Greggs.

“ Products with a convenience character are continuing to prove popular in the German bakery market, ranging from ready to eat and impulse products to in store bakery products “. Furthermore, “ across the bakery market, international bakery specialties such as croissants, ciabattas and baguettes are rising in popularity, a reflection of higher consumer demand for more non-traditional or novel products “. This market therefore presents itself as an ideal location for Greggs to expand their international operations. Greggs will pursue a ‘ concentration’ technique with regard to country and customer target group. “ A company may concentrate its efforts by entering countries that are highly similar in terms of market characteristics and infrastructure to the domestic market “. This will enable Greggs to minimise risk and benefit from cultural fit. Moreover, as in the UK they will concentrate efforts on a focused target audience.

5. 0 – Internal and Environmental Analysis

5. 1 – Internal Analysis

5. 1. 1 Strengths

Internal strengths need to be assessed to identify assets, capabilities and core competencies that are transferable to the host country.

Greggs is a well recognised bakery retailing brand in the UK which aims to “ create a single and cohesive Greggs brand nationwide “. This is being executed using a coherent and consistent promotion of the company’s proposition and brand across the country.

Greggs have sustained a strong cash flow which allows them to invest money in maintaining in their retail outlets, bakeries and brand. Key investments include significant funds spent on production facilities to support the growth of retail operations.

Greggs actively seek to position their stores in prominent locations relative to distribution channels and customer access. Greggs stores are typically located in busy and heavily populated towns where their fast and convenient proposition is ideal. In response to the 6. 4% increase in demand for takeaway foods , Greggs is adapting their servicescape to cater for these growing needs.

5. 1. 2 Corporate Culture

Greggs operates in a risk taking corporate culture which allows them to be innovative and responsive to market changes. They believe in providing high customer service aiming to retain customers by inducing loyalty and trust. They place great emphasis on motivating and empowering employees as they believe that continued growth of the business is a reflection of the

workforce . These competencies are transferable and of equal value to the German marketplace.

Greggs are actively expanding their operations internationally in order to spread risk, increase international brand awareness of their product portfolio and exploit fast growing new markets.

5. 1. 3 Value Chain

Greggs UK have produced a ' Value Chain Analysis' which is “ an analytical tool that describes all activities that make up the economic performance and capabilities of the firm .” This can be used by Greggs to exhibit core competences that can be exploited in the host market .

5. 2 – Environmental Analysis

The environmental analysis aims to identify the current situation of the German bakery market using relevant tools of analysis and international research methods. A PEST analysis has been used to identify influential factors for Greggs in Germany as discussed.

5. 2. 1 International Marketing Research

“ Marketing research refers to gathering, analysing and presenting information “.

It is the lack of knowledge on foreign markets that is one of the major barriers an international marketing manager must overcome . It is therefore imperative that Greggs formulate an effective market research strategy as the first step in overcoming this barrier. In this case, international marketing

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research was carried out for the purpose of reducing potential risk and providing us with a final systematic and objective approach for our proposition.

Primary research has not been undertaken due to the limitations of this report. However, if Greggs were to implement this internationalisation proposal, primary research would be an imperative tool when considering market choice. These could include qualitative methods such as interviews and observation. Secondary forms of research carried out have included Government reports, Internet sources and textbook literature, and further strengthened by journal articles. This variety of data collection methods helps to provide a rich analysis from numerous sources as a foundation for decision-making.

From this research the following factors have been taken into consideration when considering Germany.

5. 2. 2 Social & Economic Environment

Social factors, as outlined in the PEST analysis outline the increasing trend towards ‘on the go’ consumption. This reflects the busy lifestyle of the working population in Berlin hence the choice of location. The economic factor of high disposable income also provides an attractive reason for Germany as consumer spending is high.

5. 2. 3 Prospective Country Culture

Greggs may use the Hofstede model to “identify persuasive fundamental differences of national cultures” and thereby assess their cultural fit. “

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According to Hofstede, the way people in different countries perceive and interpret their world varies along four dimensions: power distance, uncertainty avoidance, individualism and masculinity .”

The German culture is a low context and explicit, perhaps even more so than the British. Moreover, “ the German national mentality is of a relatively high level of uncertainty avoidance. The Germans do not like a sense of insecurity which makes them feel uneasy in business. (Germans work with) hard facts, and sound arguments “. There are therefore slight cultural differences that the UK management team will have to consider upon entering the German market.

5. 2. 4 Market Competition

Competition in the German market is a key variable of Greggs’ success.

Figure B- Competitor Analysis

Germany cakes and pastries market share (% value) by company

Manufacturer20002001

Bahlsen11. 29. 1

Lady Cake-Feine Kuchen8. 06. 9

Dahli Kuchen7. 47. 2

Grossbäckerei Wendeln7. 07. 0

Dan Cake3. 23. 4

Kuchenmeister 7. 811. 3

ABK 9. 08. 6

Private Label 15. 116. 5

Other 31. 330. 0

Total 100100

It is therefore important to identify, analyse and monitor competitive movement. Figure B illustrates the potential competition in the German bakery market in accordance to market share

5. 2. 5 Geographical Climate

Greggs' sales are affected only by climatic extremes – very hot weather can depress demand for bakery products, and prolonged rain or snow can make people reluctant to go out and make their usual daily purchases . This pattern is mirrored in Germany and therefore fluctuations in sales must be accounted for.

5. 2. 6 The German Market

The use of the Porters 5 Forces model has recognized the attractiveness of the German bakery market through the identification of barriers to entry and potential substitutes .

6. 0 – International Marketing Objectives

In light of the organisations resources and competencies, the following objectives have been established:

6. 1 Short Term Objectives

Utilise promotional mechanisms to encourage trial and to inspire customer loyalty to the brand

By fulfilling this objective, Greggs will be working toward securing a loyal customer base thereby defending themselves, to a large extent, from competitors.

Conduct quarterly pricing reviews to ensure that prices remain competitive with rivals

By ensuring competitive prices, Greggs' reinforce their commitment to offering ' value for money' as highlighted in their mission statement.

To ensure all employees receive high standards of training that is reflected in high quality service to the consumer

Greggs corporate strategy highlights the importance of a fun and supportive working environment. They promote themselves as being a " great place to work " and encourage personal development. This in turn reflects on their high quality service offered to the end consumer.

6. 2 Long Term Objectives

To continually monitor, anticipate and challenge competitor movements in the bakery market.

This will allow Greggs to remain innovative and develop new and adapted recipes in response to market changes and consumer needs.

To strengthen and build upon our place market to achieve 4% position by 2010.

This will be achieved through “ core growth and introduction of new outlets “. It will enable Greggs to be a proficient player in the German Bakery market (see Figure B)

To broaden the Greggs product portfolio by 5% year on year.

This will permit Greggs to expand their operations, in line with their growth ideals, and additionally offer a larger product range to ever-evolving consumer needs.

To launch a further 6 stores in Germany by 2010 thus expanding scope and influence.

This will facilitate Greggs strive towards achieving their main aim: ‘ To be Europe’s finest bakery-related retailer.’

Increase awareness of the Greggs brand in the German bakery market

By attaining brand awareness, Greggs will able to insulate themselves, to an extent, from the wrath of competition. The German bakery market is largely fragmented thus making it an attractive market for potential new entrants.

7. 0 Foreign Market Entry Strategy

“ Firms deciding to enter a foreign market face a critical decision in choosing the best market entry mode to service the market. This decision is crucial because it can have an ongoing impact on a firm’s international business performance .”

Root (1994) suggests three different rules ‘ Naïve rules’, ‘ Pragmatic rules’ and ‘ Strategy rules’. However as a result of the increasingly heterogeneous nature of the international market, it is important that Greggs do not generalise their approach, but adapt each entry mode according to the host market. The mode selected in Belgium therefore, may not be entirely applicable to Germany. Based on this rationale, Greggs will be employing ‘ Strategy rules’ which is when all entry modes are compared and evaluated before a choice is made .

Moreover, according to Hollensen (2001) “ some firms have discovered that an ill judged market entry selection in the initial stages in the firms internationalisation can threaten the firms future market entry and expansion activities “, hence illustrating its importance to Greggs plc.

Greggs will need to consider the main groups of entry mode influencers prior to choice in order to identify the most appropriate and profitable mode.

1) Internal Factors

According to the Company’s Act (1985), firms with over £5. 75 million in turnover and over 250 employee are classified as large. Greggs more than qualifies this with a turnover of £422. 6 million and employment of 17600

people in 2003. This provides them with an adequate resource capability to open up a sales and production subsidiary in Germany.

Moreover, in developing their theory of internationalization, Johanson and Vahlne 1977 assert that “ uncertainty in international markets is reduced through actual operations in foreign markets (experiential knowledge) rather than through the acquisition of objective knowledge .” Greggs have already ventured into Antwerp and Leuven in Belgium hence increasing their experiential knowledge and expertise.

Greggs produce is fresh and baked goods. In order to maintain this stance, the only feasible option would be to produce, as well as sell in the host country. Additionally, because Greggs will promote themselves as a British company, they will be communicating a clear differential and competitive advantage.

2) External Factors

Both the UK and Germany are members of the European community thereby reducing their Socio-Cultural distance. This proximity between countries will therefore favour hierarchical modes of entry.

Due to the proximity between countries perceived risk is reduced.

Companies are therefore less reluctant to pursue more involving modes of entry.

It has been stated that “ the size of the host country is an important attraction to foreign direct investment ” as large and growing markets will make management more likely to commit resources to the development of a

wholly owned subsidiary . With a population in excess of 825 Million people in 2002 Germany is evidently a large and growing market making it an ideally suited to a FDI mode of entry. Moreover, the German bakery market is highly fragmented which reduces barriers to entry in the form of dominant competitors.

All other variables being equal, the higher the intensity of competition, the more likely a firm is to select an export mode of entry. The German cakes and pastries market is made up of several small players each of which occupy small proportions of the marketplace . This presents itself as an ideal proposition to Greggs who will be able to establish themselves without dominant opposition.

3) Desired Mode Characteristics

The choice of mode of entry will also depend on the attitudes of the decision maker. Although it is difficult to determine how pro-risk or risk averse Greggs Managing Director Sir Mike Darrington is, one may assume from their hierarchical entrance into Belgium that a high risk, expansionist strategy has been adopted and will be pursued.

The degree of control that management desire over operations will help establish which mode of entry to employ. Hierarchical modes allow high levels of control over operations ensuring that the latter are carried out to Greggs specification.

All else being equal, the greater the resource investment, the lower the flexibility of the business. Consequently, if Greggs pursue a hierarchical mode of entry, they will have to consider their potential limited flexibility.

The above suggests that Greggs' would benefit from a hierarchical mode of entry as it satisfies all criteria for the latter. This is where the firm completely owns and controls the foreign entry mode.

However, regardless of the apparent control over operations specified by this mode, the degree of control that head office can exert over the subsidiary depends on how many and which value chain functions can be transferred to the market.

Having reviewed all alternatives, it was decided that a Sales and Production subsidiary will be introduced in Germany leaving the Research and Development and Marketing activities to be conducted at home in the UK.

According to Hollensen (2001), having selected this mode of entry, Greggs will benefit from having full control over the whole operation. Moreover, Greggs has long term market potential in Germany and therefore the ownership of a sales and production subsidiary will enable Greggs to build a strong international presence over a long period of time. This method also eliminates the possibility that a national partner gets a 'free ride' and allows Greggs to gain market knowledge directly.

A sales and production subsidiary will facilitate rapid entry to the German market allowing quick access to its distribution channels. Plus, no

transportation costs will be incurred as raw materials will be purchased in the host country.

In addition to those proposed by Hollensen, Greggs may benefit from being able to adapt the ingredients used to German tastes. They can additionally tailor the servicescape to German preferences. Greggs produce is non-durable and therefore it would be inappropriate to needs to be produced and sold quickly as it is predominantly sell fresh food.

Retaining R&D and Marketing operations at home will reduce costs and risk. Having established themselves in the German market, Greggs may consider transferring these operations over in the future. Moreover, employing a hierarchical mode will enable Greggs to exploit new market opportunities as soon as they arrive with minimal delay. In line with the latter, Abell (1978) concept of a strategic window states that there are only limited periods during which the fit between the requirements of the market and capabilities of the firm are at an optimum . Investment should therefore be timed accordingly.

Although, this method will require a great deal of investment in terms of time, money and commitment, research has shown that “ the profit returns generated by foreign direct investment modes are usually greater than those generated by exporting “.

According to the Uppsala Internationalisation Model, companies begin their internationalisation process a) by moving into relatively close markets first then more distant ones and b) companies entered new markets through exporting. Although at face value it appears that Greggs’ strategy

contradicts the assumptions of model, it does however highlight the following exception: Firms that have larger resources can take larger steps with fewer consequences. Arguably Greggs fall under this category.

This model also suggests that firms start by entering markets which are nearer in terms of psychic distance hence reducing uncertainty. Germany is considered relatively near and despite language barriers, the German culture is similar to that of the UK as highlighted in the 'Environmental Analysis' section of this report.

8. 0 Services Marketing Mix

Marketing mix refers to a " range of marketing activities that an organisation combines and implements to generate a response from the target audience ." Greggs will use the marketing mix template to identify and satisfy customer needs relative to competitors.

Product – Greggs will extend and adapt the UK product range to cater for the specific needs of the German market. 65% of the product range will include UK foods such as sausage rolls and pasties whilst the remaining 35% will be German baked products. Research has shown that German consumers are demanding non-traditional and novel products . Greggs will therefore cater for this demand and additionally present themselves as a ' one-stop shop' proposition to consumers who also intend to buy traditional German baked goods.

In terms of ' core' offerings, the product range will remain broad and sell food items such as cream cakes, pasties and doughnuts as well as

sandwiches and baguettes. Germans demonstrate a strong preference towards meat related foods which will have to be considered in food preparation. Greggs will buy a hot drinks machine and purchase cold drinks from German wholesalers to compliment the core product range.

Additionally, portion sizes, weight, colour and packaging of the products will remain as they are in the UK to maintain consistent product offering.

Greggs will differentiate their product offering from competitors by communicating their focus on British baked products to consumers. This will inspire loyalty to the brand and a committed consumer base. Subsequently, the brand will be recognised for high quality, tasty produce and thereby attain brand equity.

Although Greggs in the UK emphasise an 'on-the-go' proposition, to cater for all, Greggs in Germany will offer optional seating facilities for those who prefer a 'sit down' meal at an additional cost of 1. Greggs UK prides itself on the great taste and value that it offers to consumers. These are core competences that can be transferred to international operations.

In terms of the 'augmented product', Greggs will provide a customer satisfaction guarantee so that if a customer be dissatisfied with their purchase, a replacement product (up to the same value) can be offered. This will confirm our commitment to offering high quality foods and avoid the negative effects of 'bad word of mouth.'

Price – To effectively penetrate the German market, Greggs will operate a market pricing strategy. This will involve adding a profit margin to the 'costs of goods'. Prices will be benchmarked against those of competitors (see <https://assignbuster.com/an-internal-analysis-of-greggs-marketing-essay/>

Figure B for competitors). As highlighted in the international marketing objectives, a competitor pricing review will be conducted monthly and prices amended respectively. Credit facilities will not be necessary as the consumer expenditure is unlikely to be excessively high.

Place – Greggs have selected Berlin as their chosen location for the following reasons: Firstly, Berlin has a large and growing population of approximately 3, 396, 300 people thus Greggs will gain access to a large consumer base. Secondly, Greggs' proposition is ideally suited to Berlin's fast-paced and chaotic character, in addition to its large working population, as it is quick and can be consumed whilst 'on the go.'

For this target audience, Greggs will present itself as an affordable, luxurious indulgent after a stressful and tiring day. However, despite these clear advantages, Greggs will need to remain competitive as this prime and attractive location. The 'Porters 5 Forces' model illustrates the highly fragmented nature of the cakes and pastries market therefore Greggs may avoid high entry barriers .

Promotion – Greggs will position themselves as a value for money food, 'convenient', 'on-the-go' retailer offering both British and German bakery-related products. These brand characteristics will be communicated through the use of above and below the line promotional activities.

Greggs will use the current UK television advert with a German voice over in the German market. This will take immediate effect after the launch of the store (see Figure C – Critical path). TV advertising benefits from high viewing figures and will help raise awareness of the Greggs brand quickly.

In addition promotional mechanisms may be used to support the TV advertising in the Berlin region. Posters and leaflets with 25% off coupons will be distributed within a 2 mile radius of the Greggs outlet in order raise awareness amongst locals. Furthermore, to initiate brand loyalty a 'buy any food product and get a drink free' promotion will be implemented to encourage trial and positive word-of-mouth. Finally, a Greggs website for Germany will be developed at the UK head office and communicated to the German market in the TV advert. The website will be low cost and low maintenance.

Promotional material will be adapted in the UK and sent to Germany prior to launch as highlighted in the critical path. If this venture proves successful, Greggs may consider investing in facilities to develop marketing communications in the host country.

People – As discussed later in the implementation stage of the report, a UK management team will recruit and train German employees to competently deliver a coherent message to the international consumer. It is imperative that the German manager, chef and sales assistants are trained sufficiently to provide consistent service quality.

Greggs employees are an important component of the service delivery and ultimately influence the perception that consumers develop of the brand. Greggs UK pride themselves on the friendly and approachable nature of their employees which, again, is a core competence that can be transferred to the German market.

Furthermore, Greggs will have to abide by German legislation regarding the composition of the workforce in terms of gender, age, and ethnicity etc. Moreover, Greggs will have to ensure that wages are fair and competitive as no minimum wage has been defined by German law.

Processes – Greggs will need to ensure that an efficient, effective and reliable service is provided, from the first to the last point of contact. Greggs need to ensure that high service quality is delivered throughout the entire process. Any minor hindrances may affect consumer perceptions on the overall service and the brand.

Initially, it is the ease of access to the store that instigates a high quality service encounter. From then onwards, elements such as the speed and quality of the service delivery; the management and friendliness of staff; the comfortable furniture in-store etc. that trigger either a positive or negative judgment of the encounter.

Physical Evidence – Prospective customers will look for cues in the Greggs service environment to evaluate the product and service that is being offered.

The website, posters and leaflets all advertise the core product on offer and thus the professionalism and quality of them will be used to create assumptions of the offering. The uniforms of the employees, the servicescape, the furniture and décor must be of high quality to communicate the desired image. Napkins, bags and wrappers serve a functional purpose as they protect consumers from scolding foods and additionally communicate brand information.

The integration of all components of the marketing mix “ form a major aspect of marketing concept implementation .”

9. 0 Implementation

It has been stated that “ effective implementation of an average strategy beats mediocre implementation of a great strategy every time ” thus illustrating its importance.

9. 1 Pre-Launch

As shown below on the critical path, an expatriate UK management team will be sent to Berlin in Germany 10 months prior to launch. This team would have already received intensive training at the UK head office to prepare them for the implementation process. The team will consist of a senior manager, a store manager and an assistant manager. Their main objectives will be to set up the store, recruit 1 German store manager, 2 chefs and 4 sales assistants & manage the delivery of raw materials. The UK management team will continue to guide and assist staff for 18 months post launch until the German store manager can competently take over this role.

9. 2 Managing German Employees

In order to successfully implement the strategy, it is imperative that the German Store leader understands and replicates the overall values and vision of the business. Without a belief and understanding in the Greggs p