

Packaged food industry analysis



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Industry Analysis Introduction

According to Market Research, the packaged food industry “ consists of all types of foods and/or beverages found in mass, gourmet, and specialty markets internationally. These products range from raw ingredients like spices, to convenience products like ready-made meals. Packaged foods can be shelf-stable, refrigerated/frozen, and can be packaged in bags, bowls, bottles, boxes, brick packs, cans, cartons, crates, jugs, packets, pouches, spray or pump dispensers, tins, tubes, and tubs, among other packaging formats” (Packaged Foods Market Research Reports, 2012).

Products that are not included in the packaged food industry would be products that do not go through the packaging process; meals served at restaurants, drive-thru fast food, and relevant services. The value chain for the packaged foods industry would start with raw materials which are generated and converted, which then move to production and distribution to retailers and consumers which are then used and disposed of (Innovative Food Packaging Solution, 2008).

The inputs for the industry would be the raw materials and production and distribution labor that goes into producing the products, while the companies in the industry are selling to wholesalers and consumers. In 2010 the global packaged food retail value was approximated at \$1. 95 trillion, with a projected forecast in 2015 of \$2. 14 trillion (“ Packaged Food 2010 – Part 1: Global Market Performance”). This forecast is showing the growth of the

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packaged food market is expected to be increasing substantially over the next few years.

While the market often changes due to behavior shifts and social/cultural trends, new technological developments must be made to meet these changing needs. An example of the technology changes that are currently occurring would be the trend towards sustainability; companies are going to need new technology in order to make their packaging more sustainable.

Analysis A. The most influential trends found in the packaged food industry that have a positive impact are the technological, environmental and sustainable, and social/cultural trends.

By introducing and implementing new technological processes applied to the packaging and production of packaged foods, companies are able to reduce their fixed, variable, and input costs and in turn make a higher profit. With the current push towards going green and becoming sustainable, implementing plans that support bio-diversity and the reduction of harmful chemicals and pollution are beneficial as companies are seen as conscious to the environment and have a better image publically due to this.

The social and cultural trends of consumers are also highly influential on an industry because these trends will influence the purchasing habits of consumers dependent on what they buy, when they buy, and how often they buy. The trends that are seem as having a negative impact on the industry would be an increase in obesity rates in the United States; consumers are starting to focus around healthier eating options and might leave processed

packaged foods out of their diet (“ Global Food Markets: International Consumer and Retail Trends”, 2011).

Another negative trend would be the demographic trend of 23.5 million Americans live in locations with absence to traditional supermarkets (“ Global Food Markets: International Consumer and Retail Trends”, 2011). This is seen as a negative trend because consumers are not always able to have the convenience of visiting a local supermarket to purchase packaged foods and substitutes such as fast food and dine-in restaurants are a more convenient option.

A third negative impact trend would be the rising oil and raw materials prices; these factors cause an increase in the production and distribution of products, overall reducing net profit for a company (“ Global Food Markets: International Consumer and Retail Trends”, 2011). B. In relation to Porter’s Five Forces for the packaged food industry, the risk of entry by potential competitors is a medium to high threat due to the amount of resources and time it would take for a new company to try to enter the existing market.

The bargaining power of suppliers is low for this industry as there are substitutes available and the low chance that suppliers will enter into the industry themselves. As for the bargaining power of buyers, this force is seen as a medium to high threat. The industry is relatively dependent on the buyers, as those companies with the highest market share have the ability to lead and shape the industry. The threat of substitutes is also a medium to high threat, as the convenience of using alternatives such as fast food and dine-in/take-away is very attractive to individuals who have less time to

prepare meals. Due to these four forces, the overall rivalry in the market is high. With the high demand for packaged foods and the amount of companies in the industry, there is a high rivalry in relation to competition for market share. C. The strategic groups that have the top five highest percentage of market share and the highest amount of competitive intensity would be (in order of market share starting with the highest): Nestle SA, Kraft Foods, Unilever Group, PepsiCo Incorporated, and Mars Incorporated.

The more generic strategic groups include all of the private label companies that consist of a total of approximately 12% of the total market share (“Packaged food in the U. S. ”, 2011). The difference in these companies would be that the strategic group of the highest five companies has a much more competitive nature as they all compete and strive for a higher percentage of market share than their competitors. The higher the market share a company has the more likely they are to increase their promotion and marketing in order to have a strategic advantage over their competitors.

D. Through research of the industry, the packaged food industry is currently in the mature stage of the industry life cycle. This can be concluded as growth is not the main focus of the companies in the industry; rather they are focused on the market share and cash flows being increased (“Packaged Foods Market Research Reports”, 2012). The implications due to the mature stage of the life cycle is that companies are no longer expanding, and with the market share being at a rather steady rate for existing companies, it can be harder to grow the market share.

This can impact the industry over time as it will be more difficult for companies to increase their market share even if they are increasing profits.

Conclusion Due to the macroeconomic and external trends that affect the packaged food industry, it would not be recommended to enter the market as a startup company, however if you were looking to invest in a company it would be advised to invest in one of the companies that have a high market share and are competitive in nature, as these are the companies that will most likely give the highest return on your investment.

The factors that make this industry most attractive in relation to investment would be the demand structure of the industry overall and the economies of scale that are a high threat among already established companies. This industry is an attractive industry overall as seen by the Porter's Five Forces because it has a high demand and has a high volume of sales globally.

Appendix A: Macro Environment Analysis Industry definition According to Market Research, the packaged food industry “ consists of all types of foods and/or beverages found in mass, gourmet, and specialty markets internationally.

These products range from raw ingredients like spices, to convenience products like ready-made meals. Packaged foods can be shelf-stable, refrigerated/frozen, and can be packaged in bags, bowls, bottles, boxes, brick packs, cans, cartons, crates, jugs, packets, pouches, spray or pump dispensers, tins, tubes, and tubs, among other packaging formats. ”

Description of the trend Pos. or Neg. Effec? Description of what effect this trend might have on the industry (for industry analysis)- why is it potentially positive or negative?

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Economic trends:

- 1. Rising oil and raw materials prices

Neg. Leads to higher variable costs to produce packaging, which will negatively affect profitability.

- 2. Housing market is in turmoil due to financial crisis

Pos. This could be positive in the sense that if more individuals are living in smaller housing units, they are more likely to buy packaged foods, so the affect will be positive for profitability.

- 3. Steady growth rate of industry overall

Pos. As the packaged food industry continues to see steady growth, sales will continue to increase (all other things equal)

Legal and political trends:

- 1 . FDA Food Safety Modernization Act (4 January 2011)

Pos. By increasing the safety of foods (packaged), this act will increase consumer trust therefore having a positive effect on sales. |

- 2. FDA requirements on processed food

Neg. and Pos. The requirements made by the FDA can be seen as either negative or positive, as it will be positively viewed by consumers which could increase sales, but with more strict laws it could increase production costs which would decrease profit.

- 3. Food hygiene legislation

Neg. and Pos. As there is increasing legislation for the process of packaged foods, this could increase costs however with healthier foods consumers might increase purchases.

Ethical issues:

1. Consumers concern over food safety Neg. As consumers are avoiding foods from certain areas nationally and globally, food safety concerns could have a negative effect on packaged foods.

| 2. Consumers concern over how much packaging is involved in their purchase| Neg. or Pos. | With more than 80% of consumers surveyed stating concern over packaging, companies can either reduce packaging (Pos. or do nothing (Neg.), both which have reverse effects on profitability.

3. Improper use of pesticides, antibiotics, and other chemicals| Neg. | If companies are using an improper use of any chemicals, it will have a negative impact on the views of consumers, leading to a decrease in sales and profits.

4. Misusage of water resources and the impact on local farmers| Neg. | With companies misusing water resources, it will have a negative impact on local farmers who provide companies with resources.

Diversity – demographic trends:

1. 23. million Americans live in locations with absence to traditional supermarkets| Neg. | With so many consumers living without walking distance to a supermarket, they are less likely to be buying packaged food. Instead they will buy pre-made market food, which will decrease sales of packaged food.

2. Increase in consumer knowledge of health and wellness| Pos. |

Manufacturers have responded to this trend by reducing bad elements such as sodium and sugar and have been focusing on foods that are either functional or naturally good for you with health claims such as ‘ high fiber’ and ‘ with antioxidants’.

3. Rise in consumer lifestyle of “ more money than time”| Pos. | Consumers who claim to have more money than time are looking for packaged foods that meet restaurant standards, and with the increase of these products hitting supermarkets, it will positively reflect on revenue.

Diversity – social / cultural trends:

1. Americans stay at home to dine Pos. This leads to an increase in profits as more consumers are eating at home rather than dining out and visiting restaurants.

2. Increase in ethnic cuisines among AmericansPos. With the increase in ethnic cuisines, consumers are purchasing more packaged foods such as rice and spaghetti products, which continue to slowly increase.

3. Increase in obesity rates among Americans| Neg. | With the raising increase of obesity among Americans, the intake of processed packaged foods will be decreasing among health conscious consumers, resulting in lower sales. | Consumer trend of healthier habits| Pos. or Neg. | As consumers become more health conscious, they are less likely to buy unhealthy packaged food.

However, these consumers will be spending money on the more expensive and healthier organic options

Technology trends:

1. Meal solution companies focus on reducing packaging use | Pos. | Through innovative technology meal solution companies are able to create steaming and crisping packaging to increase convenience for consumers, overall giving a positive impact.
2. Plant technology to reduce pollution| Pos. | As packaging plants produce new technology they are able to reduce the pollution caused by each plant, having a more positive environmental and technological impact.
3. Active packaging of food vs. traditional packaging| Pos. | The use of active packaging is increasing because it allows packaged foods to interact with both food and the environment, rather than traditional packaging which has barriers which prevent this process.

Environmental Sustainability trends:

1. Fair trade is growing at steady rate Neg. or Pos. While fair trade products are increasing in sales, not many packaged foods have tapped into the fair trade market, so this can either positively or negatively affect packaged food sales.
2. Plant reduction of harmful emissions Pos. With packaging plants taking efforts to reduce their emission of harmful gasses, this will have a positive effect on the way consumers view their products and efforts

3. Supportive policies on bio-diversity Pos. When companies are positively supporting the environment, they are viewed as sustainable by consumers and are more likely to have increased profits.

Global trends:

1. Increase in international disposable income Pos. As income is increasing in international countries, consumers are spending more on products such as meat and dairy, which will raise the profits of packaged foods.

2. Globalization| Pos. or Neg. | Positive for countries who are benefiting from exports with cost advantages, however can be lower for this countries with strict trade laws and who are not able to receive as many products.

3. Packaged food increase in high-convenience driven countries Pos. As consumers in countries that depend on convenience of products, packaged foods sales are rising, having a positive overall impact. Summary The most influential trends found in the packaged food industry are the technological, environmental and sustainable, and social/cultural trends.

By introducing and implementing new technological processes applied to the packaging and production of packaged foods, companies are able to reduce their fixed, variable, and input costs and in turn make a higher profit. With the current push towards going green and becoming sustainable, by implementing plans that support bio-diversity and the reduction of harmful chemicals and pollution, companies are seen conscious to the environment and have a better image publically due to this.

The social and cultural trends of consumers is also highly influential on an industry because these trends will influence the purchasing habits of consumers dependent on what they buy, when they buy, and how often they buy. The trends that are seem as having a negative impact on the industry would be an increase in obesity rates in the United States, the demographic trend of 23. 5 million Americans live in locations with absence to traditional, and the rising oil and raw materials prices; these factors cause an increase in the production and distribution of products, overall reducing net profit for a company.

Appendix B: Industry Attractiveness (Porter’s Five Forces Model) Packaged Foods Industry Risk of Entry by Potential Competitors Sub-category: | Threat Level| Description| Economies of scale| Low| The effort and resources required to enter the packaged food industry is substantial, and will take significant time to build a brand strong enough to compete with current established market leaders. | Brand loyalty| Medium| While there are consumers who stand by certain brands, many focus instead on price only and will buy a lower priced store brand alternative. Absolute cost advantages| Low| There are high marketing costs for the brands with high market share that will be high to reach for new entrants. Also, the machinery and production is not easily replicated by new entrants. | Customer switching costs for buyers| High| There are multiple alternatives for consumers and the switching costs are relatively nonexistent. | Government regulation| Medium| There are no meaningful government regulations to keep one from entering the industry, however once in the industry there are regulations a new entrant would be faced with, but not at a high threat. |

Overall threat to industry profitability Overall there is a medium to high threat for risk of entry to the packaged food industry. This is mostly due to brand loyalty and customer switching costs; however it is a hard industry to enter due to the economies of scale reached by current market leaders, which would be the most hurtful threat to new entrants. Bargaining Power of Suppliers Some of the most well-known suppliers in the packaged foods industry include Archer-Daniels Midland, Bunge, and Cargill, as they all produce main and common ingredients in a large variety of packaged foods products.

These suppliers are supplying ingredients such as: wheat, dairy products, sugars, and meats. Sub-category: | Threat Level| Reason| Product offered by suppliers is vital to the focal industry with few substitutes| Low| While there are suppliers who are well-known, there are multiple substitutes in the industry. | Focal industry is not an important customer to suppliers| Medium| The packaged food industry is a large industry and one of the largest customers, however there are other industries suppliers are selling to. Switching costs for companies in the focal industry when switching between suppliers are significant| Low| Companies are able to switch between suppliers fairly easily, and it's possible that many companies conduct purchases based solely on price, so they could switch quite easily if they do not have relationships with their suppliers. | Suppliers can threaten to enter the focal industry| Low| Due to the high economy of scale of companies already in the industry, it is unlikely a supplier of an ingredient or supply would enter the market themselves. Companies in the focal industry cannot threaten to enter suppliers' industry| Low -Medium| While a company could

enter their suppliers industry, it would take a lot of effort and new equipment and processes to enter, and companies would be better off purchasing from outside suppliers. | Overall threat to industry profitability There is a low overall threat for the bargaining power of suppliers. There are substitutes available for companies and it would be more work than payoff if companies were to enter into their suppliers market.

With the low switching costs for companies, they are likely to base their purchases off of prices of goods/services rather than supplier relationships.

Bargaining Power of Buyers: The buyers in the packaged food industry would be retailers who purchase in bulk. Examples of some industry buyers would be grocery markets, supercenters such as Wal-Mart and Target, and smaller grocery retailers that carry packaged foods in refrigerated sections of the grocery.

The end buyer of the products would be consumers who are purchasing packaged foods from the retailers. Sub-category: | Threat Level| Reason| Buyers are dominant (few buyers, or buyers have many choices)| High| There are multiple sources to buy packaged foods, and buyers have many choices of where to buy their goods. | Buyers purchase in large quantities| Medium| While buyers are not buying in very large quantities at the same time, they are consistently buying the products over a long time span, so over time they purchase a large quantity. The focal industry is dependent on a certain set of buyers| Medium| There are many options for buyers, so the industry is not dependent on any one set of buyers; however the large buyers who have a large market share are very important in the industry. | Switching costs for buyers are low| Medium| Buyers are able to switch between their suppliers at <https://assignbuster.com/packaged-food-industry-analysis/>

relative ease; however it might not be the most convenient option for a buyer. | Buyers can purchase from several companies in this industry at the same time| High| A buyer can purchase from one company one day and another company the next, making it a high threat for competition. Buyers can threaten to enter the focal industry themselves| Low| It is unlikely a buyer will enter the market themselves, again as the economies of scale are high for the current companies in the industry. | Overall threat to industry profitability There is a medium to high threat overall for the bargaining power of buyers. As retailers are relatively dependent on the buyers, buyers with high market leadership are able to put pressure on suppliers to benefit themselves. Buyers have more control over the industry than the suppliers, as buyers are the ones who are selling the products to the end consumer.

Substitute Products Some of the main substitutes for the packaged food industry would be eat-in restaurants and fast-food services, along with farmers or harvesters who produce and eat their own foods. Sub-category: | Threat Level| Reason| Threat of close substitutes of products and/or services that are from a different industry. | Medium – High| While there is no real ‘ substitute’ for the packaged food industry (you must purchase food), there are substitutes such as restaurants and fast-food services. Also, farmers who grow their own food are a slight threat to the industry.

Overall threat to industry profitability This is a medium to high threat for the industry, as consumers are able to survive without purchasing packaged foods, however it is unlikely. There are substitutes that consumers are able to frequent more than the purchase of packaged foods, and the convenience of purchasing food to go or at a restaurant is a condition that could be

hurting the packaged food industry. Rivalry Sub-category: | Threat Level| Reason| Industry Structure | High| As packaged food sales are such a high percentage of sales for many retailers, there is competition in the industry.

There are multiple large companies who are all fighting to gain market share.

| Demand conditions | Medium-High| While consumers are facing a recession they are not trying to spend as much money, however the sales of packaged goods are steadily increasing, so there is a high demand for these products. |

Cost structure | Medium-High| There are high fixed costs and investments that are involved in this industry, creating a rather large threat for entrants attempting to enter the industry. Exit barriers| High| Once you are in the

industry, after investing all the costs required to become a company and producer, the costs to exit would be very high. | Overall threat to industry

profitability The threat of rivalry in the packaged food industry is high. There is a high demand for packaged foods and with multiple companies all competing for market share, it is a highly competitive market. One condition that could hurt the market is the fact that there is high competition, leading to multiple options for consumers.

Strategic Groups for the Packaged Foods Industry

The strategic groups in the following conceptual map are based on the top performers in the packaged foods industry. As the top 5 performers in the industry take up approximately 10% of the industry, we can see that the packaged foods industry is highly fragmented. * Nestle SA * Kraft Foods * Unilever Group * PepsiCo Inc. * Mars Inc. * Nestle SA * Kraft Foods * Unilever Group * PepsiCo Inc. * Mars Inc. High All Private Label Companies

(information is not publically shared) All Private Label Companies

(information is not publically shared) Competitive Intensity Low High

Market Share Summary The top five companies are listed as the companies who have not only the highest percentage of market share, but also have an extremely high competitive intensity between them. The private label companies tend to have lower market share and are slightly less competitive than the public companies. By having a higher market share and continually striving to increase that share, the top companies are naturally more competitive.

Bibliography “ Fair Trade and Trade Justice Issue.”

Ethical Issues Relating to the Food Industry. Methodist Organization, 2009. Web. 2 Feb 2012. ds in the food industry. It related more towards the ethical standpoint behind each trend, however it touched on how each trend is also impacted the environment. This source was primarily used for the legal trends and environmental trends that were used in the appendix A and the analysis. “ Food and Drink Packaging Trends. ” Mintel. Mintel Group Ltd. , 2012. Web. 11 Feb 2012.

Description: This source focused around the implications of packaging on consumer views. This source was very helpful when discussing the trends in the demographic and economic areas. I used this source in both appendix A and in the analysis on trends in the industry. “ Global Food Markets: International Consumer and Retail Trends. ” USDA: Economic Research Service. (2011): n. page. Web. 14 Feb. 2012. It; <http://www.ers.usda.gov/briefing/globalfoodmarkets/consumer.htm>>. Description: This source

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looked at global and international trends in the industry. I used this source for the appendix A to determine trends that are affecting the industry. Three of the trends in my analysis that were either positively or negatively affecting the industry came from this source. “ In Packaged Foods, Success Is More Than Just Good Taste. ” Morningstar. Morningstar, Inc. , 16 May 2011. Web. 12 Feb 2012.

Description: The Morningstar source focused completely around the implications of Porter’s Five Forces on the packaged foods industry. This was the most useful source I found as it gave great insight to the industry forces and how they each shape the industry. This was used extensively during the analysis section of the final paper. “ Market Research. ” Packaged Foods Market Research Reports. Marketing Research, 2012. Web. 12 Feb 2012.

Description: This source was used to find the current market share and profit growth for the industry overall. This source also had information on the leading competitors, which is where the information for appendix C was found. I was able to use this throughout the entire paper for statistics and information on sales. “ Packaged Food 2010 – Part 1: Global Market Performance. ” Passport GMID. Euromonitor International, 12 Nov 2010. Web. 11 Feb 2012.

Description: This source was used primarily for the industry trends that are affecting packaged foods. I used this source to determine if trends were positively or negatively affecting the industry. This source was used throughout the analysis as well as the appendices. “ Position Paper Market

Trends and Developments. " World Packaging Organisation. (2008): n. page. Web. 14 Feb. 2012.

Description: This source focused around the industry trends such as economic and sustainable trends. I used this in appendix A and in the analysis of the trends that had a positive and negative impact on the industry. This article also spoke about the packaging industry and how the laws and guidelines have an effect on the industry. " Scientific Status Summary. " Innovative Food Packaging Solution. Institute of Food Technologists, 2008. Web. 12 Feb 2012. Description: This source was extremely helpful in explaining the industry