

# The strategic group mapping model marketing essay



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For the purpose of this report, the industry of choice was the cereal industry. The cereal industry is highly competitive with numerous businesses competing for an increased market share. The cereal industry is influenced by customer spending and customer lifestyle. In recent years, consumer behaviour has altered with customers becoming more health conscious. As a result of this, business within the cereal industry have introduced new products and modified existing products to appeal to health conscious customers.

Based on research conducted, the following trends were identified within the cereal industry:

Consumer behaviour changes

Health conscious customers

The main businesses within the cereal industry are Kellogg's, Nestlé, Weetabix, Flahavan's and Odlums.

Breakfast apart from being a necessity for breaking the fast, it is also seen as a social ritual amongst the majority of cultures around the world.[1]

Three main trends emerge from an analysis of the industry: Acquisitions, Automation and Consolidation. The nature of the cereal industry is oligopoly as there are just a few firms dominating the industry.

The key players were identified as Kellogg's, Origin Enterprises (Odlums), Nestle, Weetabix and Finegrove Holdings Ltd. (Flahavan's). The breakfast cereal industry can be divided into two categories; hot breakfast cereals and

Ready to Eat (RTE). The key drivers to operate in this industry were identified as: Reformulation of nutritional ingredient, Product differentiation, Contracts for raw materials, Economies of Scale and Creative advertising.

The industry as a whole has an abundance external macro environment factors which are clearly seen in the PESTLE.

Porter's five forces identified medium barriers to entry, threat of substitutions and supplier power, but highlighted high buyer power and competitive rivalry. From using strategic mapping it was emphasised that players in the industry modernised /changed their strategies to respond to key trends in the industry. From analysing the five key players in the industry, it is clear that all have similar product diversification, product development (Ansoff growth matrix) Strengths, weaknesses, opportunities and threats(SWOT Framework).

## **Industry Landscape**

There were three key trends found from the players in the cereal industry. Kellogg's have consolidated 42 business websites into one website in order to give a clearer brand identity and to enhance the customer experience. In relation to automation, these players currently use technological advanced machinery to aid them in production and packaging. Finally in May 2012, 60% of shares from the Weetabix Food Company have been acquired by China's Bright Food Group while the remaining 40% is owned by Lion Capital.

From these trends, there are issues that affect these players, in terms of market saturation and fluctuating prices for wheat and oats. These are

potential threats for this industry as reported by Business Insights which <https://assignbuster.com/the-strategic-group-mapping-model-marketing-essay/>

states; “ cereal products have reached a level of saturation in many Western markets, so adding value and following consumer desires will be key to successful product lines”. In order to combat this market saturation, businesses need to research, understand and acknowledge consumers requirements.

The fluctuating prices of oats and wheat could affect each business within the cereal industry. The price fluctuations are a result of difficulties experienced during the growing seasonal period.

Rising prices due to increasing costs for logistics and ingredients are primarily going to affect the breakfast cereal industry and its key players in the future. Cereal products could be sourced globally; however, there is a decline in international cereal production due to weather conditions[2]. If this continues, it could lead to cereal prices escalating and increases being passed down the distribution channel.

There is increasing pressure for new product development amongst the industries key players. This could potentially increase market share and enhance revenue for the niche players such as Flahavan’s and Odlums, while allowing market leaders such as Kellogg’s the opportunity to prevent smaller businesses from obtaining market growth. There is an increase in health conscious customers and in the future, this may define the product lines produced by the key players.

From the acquisition of Weetabix, Bright Food Group has vowed to globally expand the Weetabix business by entering the growing breakfast cereal market within Asia. Changes to food consumption patterns within Asia have <https://assignbuster.com/the-strategic-group-mapping-model-marketing-essay/>

resulted in businesses entering Asian regions and selling food and beverages to consumers.

Nationally, the cereal industry is worth €200 million per year with a profit between 40 - 45%.

In relation to the current market position of these players, Kellogg's would be classed as the leader due to a 44% market share. With Nestle and Weetabix as the market followers, these businesses have a sizeable market share and remain competitive within this industry. The niche players, Flahavan's and Odlums, are not as profitable as competitors, particularly Odlums who do not provide an extensive range of products.

Competitive rivalries could arise between these industry players, as all competitors have similar products aiming at similar target markets. The threat of substitutes is also an issue for these players; as there is a rise in own brand products, such as Dunnes Stores and Tesco. These products are being introduced into the market due to the changing consumer spending habits. As this industry could be seen as oligopolistic, the power over suppliers and buyer could potentially increase, however for the niche players, the competition could intensify.

Generally the cereal industry targets family oriented markets. In relation to Kellogg's and Nestle, they could be seen to target children, as these players introduce characters to their brands in order for the children to be attracted to these products. Weetabix, Flahavan's and Odlums target mature audiences which can be seen to be under the family orientated market.

For each key player, they must hold competitive advantage in order to sustain the market. The threshold resources that any player should have to operate within this industry include; finance, customer loyalty, brand awareness and a wide product range. Unique resources, such as Flahavan's and Odlums, are particularly focused on the Irish aspects of the product. This involves the methods of producing the product and jobs that are created within the country. Irish consumers are value driven, however Irish products are important to these consumers.

In previous years, Kelloggs's held a very dominant position within the industry, however this has changed substantially as more competitors have entered the market and have impacted the profit obtained by Kellogg's.

In 2010, there was a net income rise of Kelloggs's, which has since fallen from \$1.2 billion to \$961 million and emphasises a dramatic decrease. In 2012, the share price of the business was volatile as it declined to \$46.33 in July, however increased to an acceptable price of approximately \$60 in December. The size of Kellogg's reduces the threat of a takeover occurring and exiting the market would not be foreseeable for Kellogg's.

Kellogg's use of Corporate Social Responsibility (CSR) is at the forefront when communicating with customers. This is highly evident in "Give a child a breakfast" campaign launched in October 2011 as this campaign highlighted the benefits of children eating breakfast. By highlighting this campaign, it improved the public perception of the company.

Financial reports released for 2012, illustrated that the Nestle group as a whole had a successful financial year. It shows an increase in profit for the <https://assignbuster.com/the-strategic-group-mapping-model-marketing-essay/>

year by \$1.8 billion. The cereal range of the business is represented in this figure which displays a positive financial performance for Nestle.

Previously, Nestle has experienced a negative public image; “ Nestlé attempts to divert criticism of its baby food marketing activities”[3]. Nestle continuously attempt to improve their CSR identity within the eyes of the public.

Bright Food Group generated revenues of approximately £7.5 billion last year which indicates it has a large resource base to expand the Weetabix brand into more foreign markets. The acquisition of Weetabix would indicate that there is a high demand for cereal products globally as well as within its existing markets.

The Weetabix brand has a long association with the British and Irish markets and has successfully reflected a positive brand image. However, the recent acquisition could have a positive and negative impact as it could be viewed as the loss of another indigenous company to a foreign multinational and may dilute the brand value.

As Flahavan’s is a privately owned family operated business and similar to Weetabix, is not listed on any stock exchange. Flahavan’s is an established brand and retains the majority of the market share in relation to hot cereal breakfast in Ireland. This brand has a positive image among Irish customers and assisted the expansion into markets such as the UK and US.

Flahavan’s is associated with Bord Bia and outlines the nutritional value of eating porridge as part of a healthy balanced diet. As the business is proud

of its heritage and is a small player within the industry, the possibility of an acquisition may be unattractive to an established player.

Odlums is part of the Origin Enterprise Group, which is listed on the Irish Stock Exchange and experienced an increased share price within the last year.

The Odlums brand is well known within Ireland, primarily for their baking products. It could be perceived that the public have less recognition for the porridge range. The brand image is viewed positively and is also associated with Bord Bia.

Within the cereal industry, there are certain aspects which could affect key players in the future. In terms of Kellogg's, they have primarily grown through merger and acquisitions. If all the key players follow this trend and grow like Kellogg's, they could possibly maintain market share growth.

Further brand building of key players, could allow for growth in new divisions, for example Weetabix introducing a new range of biscuits.

The majority of dominating businesses have a strong portfolio of products with great brand identity amongst its market share. If the key players continue to invest and grow their brand portfolio, it would be expected to have a positive long-term effect on those businesses.

There is a possibility of a new pecking order in terms of the hot breakfast cereal market segment. At present, Flahavan's is the market leader in this category. However, Kellogg's have developed a product, "Kellogg's Corn Flake Porridge"[4], to compete against Flahavan's porridge. This product has



not been launched in Ireland, but could potentially dominate the market in the future.

Currently, the key players are extending the life of their consumer recognisable products rather than removing them from the market place. [5]Customers would be willing to purchase familiar products and be more inclined to purchase new products launched by a trusted brand.

The key players have adopted an extension strategy of their products. From analysis of the Ansoff Matrix[6]on the key players, it was evident that they had the same strategy which included the retention of existing customers and attraction of new customers by means of product development and product diversification.

The key players are currently adopting marketing strategies to ensure that their brands are in the evoked set of their target markets while going through the decision making process and the customer chooses their product.

## **HRM Strategies**

Nestle's mergers and acquisitions provides the business with a wider selection of employees which can be used strategically to further develop the company's competitive advantage. However, this method may not be feasible as employees may feel their opinions to be underappreciated and lack participation with front line decisions.

In the case of Weetabix, their use of motivational goals drives their use of HRM, which furthers their competitive advantage by providing a recognised

and admirable work environment, which could be then used strategically to attract additional talented candidates.

In comparison to its competitors, Flavaghans is a considerably smaller company, mainly because of its family ethos. These sorts of companies generally limit new additions of staffing in order to reduce costs. However with the utilisation of their flat hierarchy which enables all departments to work together closely, this allows for a competitive advantage, which does not directly affect necessary recruitment and selection. In a sense Flavaghans has used their limit of recruiting for a more quality staffing experience which then follows through to competitive advantage.

Odlums have used their HRM strategies competitively in order to gain talented managerial staff in the company. This can be seen in their quality staff members, who have all had quality previous employment and education. This is a clear competitive advantage for odlums, and has formed them as an elite group of staff.

Kellogg's, although they use extensive research and development which effectively provides solid results and provides a clear competitive advantage. It has been recognised that although management positions are favourable, their staff motivation and drives are low, therefore we can indicate that HRM strategies are not of concern to Kellogg's.

### **• Are the Strategic HRM policies of the key players in alignment with its overall strategy?**

In essence Nestle's vision of " good food, good life" is very much in allignment with its strategic HRM policies. Through the use of mergers and acquistions, <https://assignbuster.com/the-strategic-group-mapping-model-marketing-essay/>

Nestle has managed to collect different types of talent, in order to provide quality behind its overall strategy of “ good life, good food” in its product.

## **External Environmental Analysis**

### **Strategic Group Mapping Model**

#### **Strategic Group Mapping Analysis**

Nestle is identified with having a high variety of products coupled with a high average price of €3. 53per 500g Kelloggs is on par with Nestle however Kelloggs have a larger variety of products and slightly higher average price of € 3. 54per 500g. Both breakfast cereal companies are positioned as having a large variety of products with a high retail price targeting the same market segments. Kelloggs target families with products such as cornflakes, rice crispies , frosties , all bran, crunchy nut and coco pops as well as the health conscious adult woman with their special k range[7]. Nestle target families with products such as nestle cornflakes, cheerios. Target kids and teens with nesquick, cookie crisp, cocoa puffs products and their adult with their fitness range.[8]

Weetabix is more differentiated from Nestle and Kellogg's. Weetabix primarily targets the health conscience consumer market segment whereas Nestle and Kelloggs target a proportion of that segment. Weetabix is identified with having a low variety of products combined with a high average price €3. 49per 500g. Weetabix is a market leader with a 12% market share[9](just behind Kellogg which leads brand sales with a 42% value share)[10]

Flahavans is a market leader in the hot breakfast market segment with a 65% share of the hot breakfast cereal market[11]and a 7 % share of the overall breakfast market[12]. they have undertaken a hybrid strategy since 2008 by extending their product range and making their product more convenient to the consumer i. e quick oats. flahavans is identified with having a low variety of products (i. e hot oats) coupled with a low average price €1. 25 per 500g. flahavans solely targets the health conscience individual/families.

Odlums holds a relatively small proportion of the hot breakfast cereal market and is identified with having a low variety of products combined with a low average price of €1. 15 per 500g.

Kelloggs and Nestle are the most expensive of the companies, their higher price is justified by their larger variety of product offered. Weetabix, Flahavans and Odlums are the least expensive of the companies with is due to their low product range however their prices may increase in the further due to the perceived customer benefits of their products.

## **Internal Strategic Capability Analysis**

### **Kellogg's Company Background**

The Kellogg's Company was established in 1906 by W. K. Kellogg. By continuing to use the same technique in producing the product since this time, the Kellogg's brand has grown successfully over the last 100 years with products reaching 180 countries worldwide. Kellogg's primarily produce breakfast cereal products, along with toaster pastries and snacks, such as, cereal bars and winders.

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In 1922, the Kellogg's company arrived in Ireland with products being sold throughout the country. As Kellogg's now is the leading brand in the breakfast cereal industry in Ireland and the UK, the business was one of the first to introduce nutritional labelling on their packaging, back in the 1930's.

With their successful launch in the 1950's of the cereal products Frosties and Special K, in the 1980's new products, such as Crunchy Nut Corn Flakes, was launched into the Irish market.

The W. K. Kellogg Institute for Food and Nutrition Research was opened in 1997. This is where the engineers, nutritionists and food scientists would investigate the quality of the produce used. This facility also catered for the alternation in the reduction of salt used in breakfast cereals in 2010, along with vitamin D been added for children in 2011.

The Kellogg's Company have various locations worldwide including North America, Europe & Middle East, Asia, Africa, Oceania and Latin & South America. The Headquarters for Kellogg's is located in Michigan.

## **Kellogg's Cultural Web Model**

## **Kellogg's Ansoff Product / Market Growth Matrix**

### **Market Penetration**

By utilising this strategy, this would benefit Kellogg's in terms of continuing to remain competitive within the market and stabilising their position as a market leader within Ireland and UK. Over the years Kellogg's have dramatically increased their product range to cater for a wider customer

base. Kellogg's provides cereals for children and adults to accommodate for their different lifestyle requirements.

By continuing to penetration this market at a relatively low risk for the business, Kellogg's would need to implement a strategy in order to maintain their market share by using their existing products while retaining their current customers. This strategy would need to be developed by increasing brand awareness of their products, for example charity events or competitions, in order to remind customer their products.

Product re-launch could be another penetration for Kellogg's in terms of retaining their existing customers. Through customer involvement and push marketing strategies, these methods could help Kellogg's to secure their market share or have the possibility of increasing their customer base.

## **New Products and Services**

As the cereal industry is a competitive market and developing the ability to be distinctive from the existing competitors could be a challenge for Kellogg's. In order to increase the customer base, Kellogg's developed products in the areas if toaster pastries and snacks. These developments allowed the business to explore new products while retaining their existing customers.

## **Market development**

Market development is an important aspect for Kellogg's to grow within the cereal market. Currently Kellogg's offer a porridge product which is available in South Africa however are not obtainable within Ireland and the UK. Gluten

free products from the US are also not available within these countries.

These products could have a dramatic effect if Kellogg's introduced these products into the Irish and UK market, as it could heighten the competition amongst competitors and attract new customers to their products.

## **Conglomerate Diversification**

In order for Kellogg's to diversify into an unrelated market would be a difficult challenge for the business. A market that Kellogg's have diversified into is the snack food market. This is evident from the acquisition of Pringles in early 2012. This market could be seen to be difficult to operate as it does not relate to the cereal industry and the business may not have the necessary knowledge of the snack food industry.

## **Nestle**

### **Nestle Company Background**

Nestle was founded in 1866. As the company began to grow, it merged with another established company, Anglo-Swiss Condensed Milk Company in 1905. From this merger, Nestle acquired Rowntree's of York in 1988.

Within Ireland and UK, Nestle is one of the key players in the food industry with 19 locations employing over 7000 staff. Nestle is also one of the key exporters for these two countries, with exporting products over £300 million worth to 50 countries worldwide every year.

With the mergers and acquisitions previously mentioned, this gave Nestle the ability to diversify their product portfolio to cater to a wider target audience. Nestle Ireland and UK expanded to sister companies such as

Nestle Professional, Nestle Waters, Nestle Nutrition, Nestle Purina Petcare, Lactalis Nestle Chilled Dairy Company Ltd, Cereal Partners UK, Nespresso and Jenny Craig.

With these sister companies, Nestle was able to produce popular brands such as, breakfast cereals Shreddies and Cheerios, Go Cat pet food, Nescafe, Kit Kat and beverages Nestle water and Nesquik.

Nestle have Headquarters in Ireland and UK, with their factories primarily in the UK. Globally, Nestle are located in Africa, Oceania, Europe, and Asia and North and South America.

## **Nestle Cultural Web Model**

### **Nestle Cultural Web Analysis**

#### **Paradigm**

Nestles ethos “ Good food, good life” is a clear indicator of where nestles drive originates. This can be clearly defined as Nestles collective experience which is applied to situations in order to make sense of strategy. For example nestles acquisition of Alcon Laboratories Inc. provided an increase of food technology competencies behind their foods thus confirming their initial ethos of “ good food, good life”.

#### **Stories:**

Nestlé’s is regarded as the largest food business company in the world; this has been experienced through the use of mergers and acquisitions and primary food nutrition values. Nestle acquired Crosse & Blackwell in 1950 and Rowntree Mackintosh in 1988 to name a few. It operates in 86 countries



and is the largest shareholder of L’Oreal. It has also been ranked at 1 in the fortune global 500.

However, Nestle cereals received bad press in 2011, with the accusations of incorrect nutritional information on their cereal products. This apposed their believes of nutritional value in good food.

### **Symbols:**

Nestle is a Swiss made multinational country which strives in power and direction. It is a professional company, which has used mergers and acquisitions to its advantage in its early years and continues in this fashion today. Nestle receives great admiration publicly.

### **Power:**

Nestles power structure is very hierarchical, many field employees feel like progression is limited and not balanced for all employees. However when we consider their previous paths to this power (mergers and acquisitions) we can interpret their power drive as continuous and dedicated. Also another interesting fact is that Nestle is primarily a Male dominated organisation, which creates the concerns of the “ glass ceiling” effect for women, which can be regarded as discouraging and an imbalance on gender equality.

### **Organisational structure:**

Nestles Organisational structure is revolved around innovation and expansion. Innovation through their ethos of “ good food, good life”, this can also be seen in their portfolio of innovating products such as baby formula and instant coffee. Their constant collaboration makes their company quiet

segmented, however this approach has proven to be successful. In addition to this organisational structure, employees felt that quick decision making is not a competency of Nestles senior managers. This could potentially bring up the issue of potential lose in employee involvement, which can in most circumstances be valuable.

### **Control systems:**

Nestle offer attractive pension plans in order to control employee systems. This is a lot more attractive for long term employees who are in the office. However, a majority of employees expressed that there is no work life balance plans to keep employees motivated and balanced in home and work activities. In contrast to their attractive pension plans, it can be assumed that Nestle is clearly monitory focused with employees.

In addition we found that Nestle do not micro manage their employees, although this is more enjoyable for the employee, it can be interpreted that nestle need to grasp control systems in order to keep employee focus in activities.

### **Routines & Rituals:**

On a day to day basis, Nestle offer flexible working schedules for their staff. This communicates a laid back working environment, however due such hierarchical stances, strategy and direction is driven from headquarters. This tells us that on field employees are not driven on performance, as that type of belief is left to the senior managers in the company.

It can be widely assumed of how advantageous it is for all employees to have access to Nestlé's international training centre in Switzerland. This can be seen as a prestigious opportunity for all Nestlé's employees to excel in. "Creating Shared Value and meeting our commitments" is Nestlé's view on expansion into different countries and reaching further customer segments globally.

## **Nestle Ansoff Product / Market Growth Matrix**

### **Market Penetration:**

Like all cereal brands, Nestle is no different in wanting to expand further within markets such as the UK and Ireland. In order to do this they face a major obstacle in that they are the second largest behind Kellogg's who have a 45% market share of the breakfast cereal market. However, as revealed late last year, the company is looking to expand its brand further within the region of Northern Ireland and in order to help achieve its objectives they have enlisted the services of GM marketing to help expand the brand through the use of online technologies and refined marketing strategies. The first phase within the marketing strategy will see the core brands used to help identify the Nestle brand as well as using pre priced cereal boxes which may be cheaper or the same price as their competitors.

Even though this is a low risk strategy the level of success of such a strategy can also be miniscule. If this strategy vastly increases the market share of Nestle it will have an impact on the market share of their competitors but at the same time it may not increase the market share of Nestle sufficiently to have a major impact on their competitors. It may take a considerable

amount of time and may cause an impact within other areas that Nestle focus time and resources on. This strategy should be taken with a prudent approach in mind so as not to harm other categories that Nestle positions its brand.

### **New Product & Services:**

Research and development is an integral part within the Nestle company as they look to introduce product development within all of the categories that it positions its brand. This is clearly evident within the company as they employ 4,500 people globally within its R&D departments as well as using external research provided by scientists, doctors who work within world renowned universities. This aspect of building bridges externally allows the company to further innovate within the area such of nutritional and healthy foods as well as numerous other categories.

A core belief that exists within the Nestle group is to “think global - act local”. When looking for new ways in which to introduce new products within existing markets they place the customer at the core of the product. This is recognisable in the way that they cater to various customer groups with breakfast cereal brands such as Nestle Multi Grain Cheerios focusing on all members of the family, Nesquik for teenagers and children and Nestle Fitness for people who place a high importance on keeping in shape. Nutrition is a vital element within the Nestle core beliefs and values but they also put a lot of effort into ensuring that good quality taste is never sacrificed in the cereals that they provide.

Product development is a strategy that Nestle have continuously looked to improve upon since it identified that nutrition, health and wellness was to be the core strategy that it developed its products upon. Although it is a costly strategy the financial benefits on a global scale seem to outweigh the costs for Nestle.

### **Market Development:**

“ Organisations would ideally like to operate as if the world were one large market, ignoring superficial regional and national differences but still making sure that marketing activities fit to the practices and cultural characteristics of genuinely different markets” (Lee and Carter, 2008)

The Nestle brand is recognised on a global scale and has a vast portfolio as it does not primarily focus on cereals which can be identified due to its large divergence into similar but also unrelated areas such as baby food, chocolate bars, beverages and many other various categories. However, they do not focus each of these categories on a global scale as not all of their products would be successful within each of the segmented markets.

Even though each of the categories are not launched on a global scale it does not mean that they would not be successful within different markets as alterations could be made in relation to;

How the product is packaged and designed

The type of market