

Food and beverage analysis marketing essay



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Urbanization, globalisation and agro-industrialization put increasing demands on the organization of food and beverage chains and networks. Food and beverage supply chains and networks – once characterized by independence and autonomy of performers – are now quickly moving in the direction of globally interrelated systems with a large diversity of difficult relationships. This is also touching the ways food is processed, produced and delivered at the market (Reardon and Barrett 2000; Van der Laan et al. 1999).

Perishable food products can at the moment be shipped from halfway around the world at justly competitive prices. The market exerts a dual pressure on agro-food chains, constraining towards continuous agency coordination and innovation. Traditional price and quality issues are more significant than ever, since consumers can choose from a cumulative amount of products offered by challenging chains.

“ Patterns of food production and consumption are at the core of all human ecology”

(Dietz et al. 1996: 181).

The food production and dietary habits procedures that support them obviously have consequently affected the global environment and economy (Goodland 1997). Nearly 37% of the land surface of the Earth is used for agricultural production, including both cropland and grazing land (Harrison and Pearce 2000). Because of the environmental effects of food operation, development, production and consumption, it is important to understand both the factors that influence the human diet and the aspects of food production that are most harmful to the environment. Here we mainly focus

on food and beverages operational and development issues, social and cultural factors that influence the production and consumption of food as well as how those issues influence on the production and consumption of food.

Food and Beverages operational and development issues

Food and beverages chains are seriously affected by consumers' apprehensions regarding the quality, the safety and the sustainability of handling methods and food production. Public concerns regarding GMOs, environmental impact and chemical residues have to be met in an increasingly, competitive global environment. Greater consumer demands regarding the traceability, quality, and environmental friendliness of products and processes call for fundamentally new ways of producing, developing, and marketing products (Humphrey and Oetero 2000; Omta et al. 2001). This activates the growth of grades, agreements and standards regarding management practices and good production, over and above suitable monitoring systems to promise rapid responses and quality compliance. Supply-chain analysis is becoming an interdisciplinary activity. Distribution and production processes involve a mixture of PESTL (politic, socioeconomic, technological, legal and standards that are highly balancing in explaining overall food and beverages chain performance (see Figure 1 below).

Figure 1. Analytical perspectives on food chains

Integrated logistics, production, innovation and information systems become of serious prominence for sustaining a competitive market position. In order

to attain international collaboration between farmers, retail companies and agro-industries, cross-cultural alignment and strategic, compliance to national and relational trust and international regulations have become key issues. Reciprocal learning techniques and feed-back mechanisms are important to assure such global alliances.

Although, in recent decades, the world has seen a cumulative integration of developing-country firms into geographically spread commodity chains or supply networks. These chains connect together traders, producers and processors from developing countries with consumers and retailers in urban centres and in the developed countries (Gereffi and Korzeniewitz 1994). Companies and firms involved in global food and beverages chains networks are facing rapid changes in the business environment, to which they must respond over continuous innovation. Practices and new procedures for organizing food supply networks – with direct ties between primary producers, processors and retailers – emerged to cope with health demands and food safety. Improving the specific stages in a chain typically results in sub-optimal total chain performance. Meant for this reason, agro-food companies attempt to implement regulations to all actors in the chain that become part of the global market and institutional environment (Jongen 2000; Van der Laan et al. 1999). Firms in developing countries face, however, particular restraints linked to limited access to (market and technical) information and reduced borrowing opportunities (Harris-White 1999). Chain integration can formerly be helpful to expand forecasts for sustainable resource management based on more stable access to

information and markets that allow further investment in food quality management (Kuyvenhoven and Bigman 2001).

Current studies concerning development and trade focus responsiveness on evolving barriers to agricultural exports from developing countries due to rigorous sanitary and phytosanitary necessities (Henson and Loader 2001; Otsuki et al. 2001).

Liberalization of global trade is gradually accompanied by technical measures

that enforce quality standards regarding residues, additives and microbiological contamination. Moreover, fast attentiveness takes place in the retail sectors for food products – both in less-developed and developed countries – where US- or EU-owned supermarket chains such as (e. g., Royal Ahold, Carrefour, Tesco, Sainsbury's, WalMart etc...) control an increasing share of food supply to urban consumers. Retailers are also dedicating more shelf space to suitable high-quality fresh products (selfservice) that are critical to retain middle-class and attract customers (Fearne and Hughes 1998; Marsden and Wrigley 1996). This poses further demands on processors and producers to satisfy uniform, high quality standards and recurrent delivery requirements (Reardon et al. 1999). International sourcing of perishable products to secure year-around supply (under private label) can be assured over long-term contracts and partnerships. Presence of smallholders from developing countries into global supply chains that satisfy these conditions used to be based on processes for sub-contracting and outsourcing under strict investigation with frequent audit of local practices

and facilities (Dolan et al. 1999). However, in practice a cumulative degree of vertical integration within food, beverages and agribusiness networks can be noticed, based on complex predetermined measures for monitoring process standards and product quality. Consequently, producers can only maintain their market position if credible measures are taken to enhance product quality and safety. The complex connections between the before-mentioned processes of market globalization and integration, complemented by tendencies of changing consumption patterns and growing urbanization, bring about a number of essential changes in the organization of agro-food chains and networks. The rapid growth of supermarkets in both developing countries and developed (See appendix 1: 25) extremely transforms the institutional landscape of exchange and agro-food production systems. Main tests as how to assure the participation of smallholder producers in these more and new demanding sourcing networks need to be addressed. Thoughtfulness should also be given to the institutional necessities that empower smallholders to meet the more rigorous quality regulations and food safety. International competition is increasingly taking place around the implementation of (private and public) regimes of standards and grades. Positioning the values of chain reversal in practice implies that innovative methods are required that address the required conditions for equitable integration and successful of developing countries' producers into sustainable agro-food chains and networks that are capable to satisfy these changing consumer demands.

Supermarket procurement regimes for sourcing of vegetables, fruits, meat and dairy intensely impact the organization of the supply chain. The market

requires continuous deliveries, product homogeneity, stable shelf life and quality upgrading. Procurement dependence on wholesale markets is quickly substituted by specialized wholesales, subcontracting with preferred consolidated and suppliers purchase in regional warehouses. Supermarkets therefore increasingly control downstream segments of the private standards, chain through contracts and sourcing networks.

A typical example can be seen on particular food and beverage such as fast moving consumer goods where it's not surprising that this industry cite a long list of high-priority concerns for their supply chains. Reducing logistics costs is the recurrent number one goal across all industries in the Annual 3PL Study, nonetheless additional main concern speak to the particular challenges of the fast-moving consumer goods category, including perfect order completion quickly identifying and reacting to changes in consumer demand and shortening new product time to- market and supply chain integration.

British foods retailer manufacturer Tesco, for example, delivers direct-to-consumer within 24 hours of when the order is placed; in some markets that means delivery to one home on behalf of a number of customers or home delivery, while other markets kindness pickup at a kiosk or service centre. That's challenging the food production manufacturer to upturn order accuracy and work to avoid out-of-stocks while managing with the costs incurred by operating so many delivery models.

Fast-moving consumer goods manufacturers are acting on growing global awareness of the need to mitigate the environmental impact of

manufacturing and logistics processes, by placing first priority on structure sustainability into the supply chain. Green is no longer leading edge or pioneering; it is now a normal part of a company's operations, driving the need for manufacturers and others to develop cohesive and comprehensive earth-friendly sourcing strategies. Improving shipment density and load utilization is one of these strategies, enabling manufacturers to maximize use of shipment capacity to reduce emissions, wasted capacity and potentially costs as well. Limited Brands Logistics Services, for example, continues to work on new configurations of its carton proportions to fit as much merchandise into containers as possible. "Sustainability is a mandate to do a better job in the logistics area," says one FMCG (Fast Moving Consumer Goods) executive, whose company has been testing hybrid electric delivery trucks and working to comply with emerging sustainability.

Shippers want 3PLs (Third Party Logistics) to help improve shipment density/load utilization, reduce logistics costs and establish a supply chain disruption/mitigation strategy, but they consider them less often for goals such as shortening new product time-to-market and supply chain integration. Shippers are also involving 3PLs in cost-reduction strategies less often than one might expect, with the biggest gaps in improved forecasting and inventory capabilities, rationalizing SKUs and redesigning the supply chain network. 3PLs see their role as much larger in these and other services. The trust issues that have consistently slowed the evolution of shipper-3PL relationships may be a factor in these gaps. Some shippers have tested sharing warehousing and transportation as a green and cost reduction strategy, with most reporting savings of less than 5%.

Nevertheless, superiority in Operations remains an illusion for most food and beverage companies. This will be lasting as long as they stay limited within the mindsets associated and the organizational structures with today's vertically combined business model.

According to a McKinsey report based on problems and opportunities relating to operational excellence, the study comes out with the following findings: –

1. Operations issues get deserted from top-management two main business processes of consumer management and customer management. It suggests that operations issues get a lot less than 20% of the Executive Committee's agenda time. To multifaceted the problem, only around 10% of top executives in food and beverage companies have straight personal experience in operations. It is barely surprising; however, that the promise to drive radical change may not be as resilient in operations as it is in the other two business processes.

2. Around 10% of FMCG companies have a global operations director with full responsibility for both operational development and strategic resource allocation.

3. Most of the top quartile talent is tapped for handling marketing or finance functions. Operations functions are short of management talent. High potential generalists often find food and beverage operations too internally focused and too technical. At the other end of the scale, senior operations experts are often attracted to other industries – such as electronics, automotive or engineering – where operations is both more highly rewarded and more highly regarded. These difficulties are not new. What is new is that

a possible solution – the mixture of organizational separation and value chain de-verticalisation.

Deverticalisation

International food and beverages companies that are able to attain organizational functionally and separation organized national companies – This efficiently means outsourcing your supply chain actions to a third party. Naturally this will involve selling the existing activities and operations assets, as well as manufacturing, procurement, process R&D and primary distribution, a third party manufacturer, financial buyer or a joint venture with other food and beverage companies. In essence, this leaves an ‘asset light’ food and beverage company and an ‘asset heavy’ supply company.

How will it create value?

From the perception of the food and beverage Company, the supply company of its will now be in a position to address the above-mentioned operational issues. A strongly incentivized management team frequently directly responsible to the capital markets. Although it will be better able to motivate and attract talented operations managers, emphasis 100% of its attention on operational skills and operations issues. However, operational distinction will translate directly into bottom-line impact.

Accordingly deverticalisation allows the management of the food and beverages company to emphasis completely on consumer and customer management – the key engines of growth – though sharing in progressive operations cost developments over either an equity stake or ‘open book’

supply contracts. From the financial outlook this would also help the food and beverage Company get a significant bound in return on capital employed.

Social and cultural factors that influence the consumption of foods

Influences on Food Choices

There are many factors that determine what foods a person eats. In addition to personal preferences, there are cultural, social, religious, economic, environmental, and even political factors.

Cultural influences

A cultural group provides guidelines regarding acceptable foods, food combinations, eating patterns, and eating behaviors. Compliance with these guidelines creates a sense of identity and belonging for the individual Kittler (1998). Within large cultural groups, subgroups exist that may practice variations of the group's eating behaviors, though they are still considered part of the larger group (Haviland, William A. 1990). For example, a hamburger, French fries, and a soda are considered a typical American meal. Schlosser, Eric (2001). Someone who is repeatedly exposed to certain foods is less hesitant to eat them. For example, lobster traditionally was only available on the coasts, and is much more likely to be accepted as food by coastal dwellers. States, however, eat "veggie-burgers" made from mashed beans, pureed vegetables, or soy, and people on diets may eat a burger made from lean turkey. In the United States these are appropriate cultural substitutions, but a burger made from horsemeat would be unacceptable (Klimis-Zacas et al: 2001).

Religious proscriptions choice from a few to many, from relaxed to highly restrictive. This will affect a supporter's food selections and behaviors. For example, in some religions specific foods are prohibited, such as pork among Jewish and Muslim adherents. Within Christianity, the Seventh-day Adventists dispirit "stimulating" beverages such as alcohol, which is not prohibited among Catholics.

Social influences

Members of a social group depend on each other, share a common culture, and influence each other's behaviors and values. A person's membership in particular peer, work, or community groups impacts food behaviors. For example, a young person at a basketball game may eat certain foods when accompanied by friends and other foods when accompanied by his or her teacher.

The Social Significance of Meat Consumption

While vegetarianism is on the increase in Western societies (Amato and Partridge (1989); Beardsworth and Keil (1997); Dietz et al. (1995)), meat consumption is still a central part of the Western societies diet (Beardsworth and Keil (1997)). So far there is considerable indication that meat is not only unnecessary for a healthy diet, it is a leading contributor to many health problems (Amato and Partridge (1989); Lappé (1991); Marcus (1998); Melina et al. (1995); Robbins (1987)). Given that general meat-eating behaviour in prosperous societies cannot be readily explained by biological necessity, other factors must play a major role in defining individual dietary habits. A critical macro-level approach suggests that the production of meat cannot simply be explained as a direct response to consumer demand, since

production is affected by government subventions and industry groups, such as the pork and beef councils. Political economists argue that the economic elite control consumer preferences through means of social, psychological, and cultural manipulation – for example, by the use of advertising (Schnaiberg (1980); Schnaiberg and Gould (1994)). Therefore, production may generate consumption because processors, producers, and marketers have cultural hegemony, that is, control over the beliefs and values of a culture. Consequently, from this perspective, the operational power of the meat industry is expected to be a major element of stages of meat consumption. Cronon's (1991) analysis of how the U. S. meat industry grew throughout the 19th Century by transforming American agriculture provides clear support for the argument that consumer habits are greatly influenced by powerful corporate interests. However, although this viewpoint may explain aggregate levels of production and consumption in a society, it does not explain variation of consumer behaviour among individuals within a shared political economic context.

However, a micro-level approach to understanding consumer patterns focuses on the social psychological factors that lead to food consumption. Dietz et al. (1995) and Kalof et al. (1999) argue that social psychological factors, such as beliefs and values, have a significant influence on consumer demand for various food types. The results of their analyses suggest that values and beliefs have a greater influence on the choice of a vegetarian diet than do demographic factors. Reliable with these results, other researchers have found that social psychological factors have a more effect on consumer request than do demographic and economic factors (Breidenstein (1988);

Guseman et al. (1987); Sapp and Harrod (1989)). However, social structural factors form the context in which psychological factors operate. Social structural position such as (gender, race and class) probable plays an important role in determining each individual's life experiences, socialization, and psychological attributes. Distinguishing the intertwined reputation of psychology and social structure is necessary to appreciate behaviour. Both the critical the social psychological perspective and macro -level perspective have made significant contributions to our understanding of food and beverage in general and meat consumptions.

The environmental literature recognizes industrial meat production as a prominent source of many environmental problems (Durning and Brough 1991; Ehrlich, Ehrlich and Daily 1995; Goodland 1997; Pimentel and Pimentel 1996; Rifkin 1992; Subak 1999). Nowadays, intensive meat production places a problem on ecosystems as it necessitates the usage of large quantities of natural resources – mostly energy, land, and water used to produce feed grain (Durning and Brough 1991; Dutilh and Kramer 2000; Fiddes 1991). Comparative to the production of other vegetables and grain, problem for human consumption, the production of meat is tremendously resource ineffective – several times more people can subsist on a vegetarian diet than can on a meat centered diet (Durning and Brough 1991; Dutilh and Kramer 2000; Ehrlich, Ehrlich and Daily 1995; Lappé 1991; Rifkin 1992). Beef production is mostly supply intensive, having an even bigger impact on the environment than is recommended by the amount of grain – and the resources that goes into generating grain – that it needs (Subak 1999). Beef grazing contributes to many environmental problems including

desertification, soil erosion, loss of biological diversity and water pollution, (Durning and Brough 1991; Ehrlich, Ehrlich and Daily 1995; Pimentel and Pimentel 1996; Rifkin 1992). For example, millions of acres of tropical forest in Latin America have been empty for cattle grazing (Durning and Brough 1991; Harrison and Pearce 2000; Myers 1981). Moreover, due to their digestive physiology, cattle also emit a large quantity of a greenhouse gas, a methane, and their manure expels gaseous ammonia into the air, contributing to acid rain (Durning and Brough 1991; Harrison and Pearce 2000; Subak 1999).

Changing Profile and Mind Set of Consumer

People are becoming aware about hygienic and health. There is a transformation in the mind-set of the Consumer and now looking at “ Money for Value” rather than “ Value for Money”. We have seen inclination in consumers to move to advanced products/ brands, because of shifting lifestyles, growing disposable income etc. Consumers are switching from economy to premium product even we have witnessed a sharp increase in the sales of packaged water and water purifier.

Porters five forces analysis of the food and beverage

Source: Valuenotes. com, (2010)

The intensity of rivalry is very high among the competitor of food and beverages Industry. There is a threat for new entrants as well as for substitute.

Even there is high bargaining power for Suppliers as well as for Buyers.

Rivalry among Competing Firms

In the food and beverages industry, rivalry between competitors is very fierce. There are uncommon customers because the industry is highly saturated and the competitors try to seize their share of market. Market Players use all sorts of activities and tactics from intensive advertisement campaigns to price wars and promotional stuff etc. Therefore the intensity of rivalry is very high.

Potential Entry of New Competitors

Food and beverages industry does not have any methods which can control the entry of new firms. The conflict is very low and the structure of the industry is so multifaceted that new firms can easily enter and also offer tough competition due to cost effectiveness. Therefore prospective entry of new firms is extremely viable.

Potential Development of Substitute Products

There are never ending and complex consumer needs and no firm can satisfy all sorts of needs alone. There are adequately of substitute goods available in the market that can be re-placed if consumers are not satisfied with one. The varied range of needs and choices give an appropriate room for new product development that can substitute current goods. Every other day there is some short of new product, design and variants. This leads to higher consumer's expectation.

Bargaining Power of Suppliers

The bargaining power of suppliers of intermediate goods and raw materials is not very high. There is ample number of substitute suppliers available and

the raw materials are also willingly accessible and most of the raw materials are homogeneous. There is no monopoly situation in the supplier side as the suppliers are also challenging among themselves.

Bargaining Power of Consumers

Bargaining power of consumers is also very high. This is because in food and beverages industry the substituting costs of most of the goods is very low and there is no threat of buying one product over other. Customers are never unwilling to buy or attempt new things off the shelf.

SWOT Analysis

Strengths:

Presence of well-known distribution networks in both urban and rural areas

Low Operational Costs

Occurrence of well-known brands in food and beverages sector

Accessibility of raw materials

Weaknesses:

“ Me-too” products which unlawfully mimic the brands and labels of the recognized brands Lower scope of investing in technology and achieving economies of scale, especially in small sectors

Low exports levels

Opportunities:

Large domestic market – over a billion populations

Unexploited countryside market

Increasing income levels, i. e. increase in purchasing power of consumers

Trade potential and tax & duty benefits for implementing exports units

Threats:

Regulatory and tax structure

Exclusion of import restrictions ensuing in replacing of domestic brands

Temporary Slowdown in Economy can have an impact on food and beverages industry

Source: Valuenotes. com (2011)

Conclusions

With low margins and large volumes, food and beverages companies must react fast to deliver in-demand, on-trend products to shoppers where and when they want them, to avoid getting held with unwanted merchandise.

The increasing integration of local and cross-border agro-food chains can be considered both a threat and a challenge for rural development. Poor farmers in developing countries who have limited resources and scarce access to markets and a more cautious, less faithful customer has arisen in the global recession, stimulating consumer goods manufacturers and their supplier and retailer partners to develop more responsive and demand-

driven. A value-conscious customer is particularly challenging for producers of food and beverages.