United cereal case study essay

The European Market

Do an analysis of UC´s environment in Europe by following the information given in the case! Use Porter´s 5 Forces as well as a SWOT analysis! The multinational breakfast foods company United Cereal entered European markets in 1952. By the year 2010 Europe´s breakfast cereal market has grown to a $7 billion business which has proven to be a profitable market segment and therefore attracted various competitors. Only four actors account for 70% of market share in the European markets. Among them are Kellogg which is regarded as UC´s strongest competitor, ranked first with a 26% share, Cereal Partners, a joint venture between General Mills and Nestlé, with a 17%, and Weetabix with a 7% share in the market. United Cereal itself holds a market share of 20% and is therefore the second largest breakfast foods company.

The remaining 30% are divided between various smaller companies. For creating a successful strategy, a keen understanding of a company´s resource capabilities and deficiencies, its market opportunities, and the external threats to its future well-being is essential. Therefore the following SWOT analysis draws a conclusion about the company´s current overall situation and performance taking into account United Cereal´s strategy as well as external market opportunities and threats . Figure 1: SWOT analysis of UC´s environment in Europe (own representation) Beginning with United Cereal´s strengths, its shared corporate values known as “ The UC way” represent the company´s foundation and all other characteristics UC stands for. Focusing on customers and implementing innovative marketing and product development strategies are just two characteristics that represents

the commitment to the company´s origins. As one of the widely recognized market leaders that represents itself through strong corporate values, UC keeps a clear position in the market. Additionally, making use of existing know-how by acquiring established companies when entering new markets gives UC the ability to maintain and build a competitive advantage.

Local market distribution channels are already existing which facilitates the market entry. United Cereal´s Country managers (CMs) structure, on the other hand, is regarded as a weakness for the company since it currently has no central management that keeps the focus on the different brands and products across the region. The " Wake Up!" instant coffee example has proven that this kind of strategy is unfavorable: Increasing differences in product profiles and market strategies led to differences in the product positioning in many countries. Furthermore " The Pod Café debacle" is another example that shows clearly that the CM structure is not a driver of success for UC: The product was pushed to a third-place share due to a lack of consistent strategy throughout the different European countries. Consequently the product placement is currently a weakness due to UC´s limited focus on Europe as a whole. In addition, the CM structure leads to SG&A costs that by far exceed the expenses the U. S. operations have to cover. Resulting from high costs of product launches and development, introducing new products takes more time and UC runs the risk of being outrun by its competitors when it comes to be the first mover launching innovative profit-maximizing products.

Being too slow in releasing new products does not just give competitors the opportunity to work the European market first but it does also jeopardize UC

´s ability to reply to consumer trends at the given time. Another problem UC faces due to high spending is a lack of (financial) resources for market testing or new products launches which is the basis for staying competitive and successful in the long-term. Therefore a high number of CMs prefer extensions of products instead of new introductions. In addition to stay profitable many CMs count on cost reductions in existing portfolios. The cereal market in Europe has proven to be profitable according to sales volumes in the year 2010, which amounted $7 billion dollars. An increased demand for healthy and natural foods in the U. S. as well as in Europe creates new opportunities for UC and its competitors. By reorganizing the company´s organizational structure, UC would be given the opportunity of reducing the number of employees and cutting marketing and product development costs by 10% to 15% within just three years.

The global recession in 2008/2009 did not just lead to a change in consumption towards an increasing demand for cheaper products in the product range but it was also responsible for a decrease in market growth that resulted in a growth rate less than 1% annually. However UC faces the threat of strong competitors. The largest competitors is Kellogg which is the market leader with a share of 26%. Kellogg has the advantage to lower operating costs due to its volume. Along with this increased market competition in Europe, UC was also threatened by a price and promotion pressure outgoing from its major rivals Kellogg and United Cereal. An ongoing fight for market share, and high costs and investment of time in order to develop new brands are just two more factors that UC and its competitors face in daily business.

Another market condition that can be identified as an external threat (and opportunity) is the great variation in consumption. Consumers´ cereal consumption varies greatly throughout Europe. While approximately 8/kg year were consumed by UK citizen, Italians only ate 0. 5 kg/year. Throughout Europe the point of sale also varies significantly: in Germany 80% of cereal is sold in super/hypermarkets while in Italy it is only17%. These market-generated numbers imply that consumers view products very differently from one European country to another.

By analyzing all five competitive forces, a complete picture of what is influencing profitability in the industry can be gained . Rivalry among existing competitors: Competing for position and consumer loyalty is usually the strongest of the five competitive forces . According to Porter, “ The intensity of rivalry is greatest if competitors […] are roughly equal in size and power” . That is the case in the breakfast cereal market between Kellogg and United Cereal, the two largest competitors in the European market. This situation makes it even harder for both to win the competitive battle and therefore dominate the market . A second indicator of active rivalry is cost competition that pressurizes industry members to drive costs down and threatens the survival of high-cost companies. United Cereal´s high SG&A costs within Europe decrease the profitability of the business giving competitors the chance to outrun UC. Additionally the slow market growth (1% annually) caters for a strong rivalry and precipitates fights for market share.

Buyers:

Buyers in the market are powerful, especially because they are price sensitive and make use of their impact primarily to pressure price reductions.

Which was the standard way UC did expand its business in Europe? What were advantages/risks associated with this approach? The giant multinational breakfast foods company United Cereal expanded continuously within Europe by acquiring local companies. After the acquisition of the established firms, UC made these companies grow by adding products that were originally from the U. S. line. Since major differences across European markets emerged, UC decided to create national subsidiaries that were led by individual country managers (CMs). These CMs are allowed to make decisions concerning product development and marketing strategies as long as the outcome is profitable.

Additionally, by being able to decide how to run the business in the country, the CM are given great latitude in making adjustments in production processes, adapting promotion campaigns, customizing products and adapting them to the local conditions. In the course of these processes, the CMs have to respect “ The UC way” and internalize corporate values and policies within the subsidiaries so that replicas of the parent organization are formed which are called “ mini UC´s”. In the short term this strategy led to positive results within national markets while in the long run discrepancies regarding product profiles and market strategies led to complications. The positioning of the same product in different national markets did not have a high measure of consistency and therefore the CMs face severe problems.

When the cereal market in Europe became more and more competitive resulting in increasing price and promotion pressure, UC´s high costs for sales, general and administrative expenses turned out to be a major disadvantage. Localizing products goes ahead with the need of various national teams that are specialized in terms of marketing and product development within the individual countries. As a result SG&A expenses in Europe exceeded the ones of U. S. operations by 25%. Amongst others these high costs cause a slowing down in the pace of launching new products which in return give UC´s major competitors the opportunity to outrun the company when it comes to introductions of new products. Furthermore the high cost result in a shortage of resources for large-scale market testing and product releases. This gives reason for CM´s rather to extend products than launching new ones. Cost reductions and a high measure of efficiency in the existing product portfolios are seen as the main driver to guarantee profitability.

Another major risk associated with the CM approach is the lack of large-scale market testing. Without being able to determine which region shows the highest potential to buy and how many consumers are willing to consume new products, UC faces the risk of being outrun by competitors that have more and better market information.

Trying to integrate one cereal into such a diverse region like Europe may be extremely difficult. Consumers view products very differently from one country to another. Having one brand, will not allow UC to promote and price the product specific to the region being targeted.