

Analyse and discuss strategic issues in unilever food marketing essay



Introduction

Because the market in which the world of business operates is highly dynamic, it is essential for a company performing in this industry to understand its background and structure in order to develop a business strategy.

This essay focuses on strategic issues in one of the foods business giants, Unilever Food Division and based on the Porter's five forces of competition framework, the aim will be to analyse the strategic positioning of Unilever food division.

Porter's Five Forces of Competition Framework

In order to cope with the competition, it is necessary to understand the rivals and the industry in which the company performs. In addition to the knowledge about competitors, the knowledge about suppliers, customers, potential entrants and substitute products has a major role in developing strategic issues in a company. (Porter, 2006, 2008)

In order to analyze and comprehend Unilever Food Division's strategy, the five forces of competition framework is chosen since it recognizes the main influences in industry.

(Porter, 2008, p. 80)

Rivalry among existing competitors

Unilever Food Division has numerous competitors -transnational companies such as Nestlé, Kraft Foods or Mars Food which are generally equal in size.

All these companies offer a wide range of products to a customer, which <https://assignbuster.com/analyse-and-discuss-strategic-issues-in-unilever-food-marketing-essay/>

leads to an intensive rivalry. The Unilever products are divided into strategic groups: ‘edible fats, ice-cream, beverages, meals and meal components.’

(Maljers, 1992, p. 47) These are represented by brands such as Flora, The Heartbrand, Lipton, Bertolli and Knorr, respectively. (Unilever, 2010)

Although Unilever Food Division owns such premium brands, the products of its competitors are in most cases nearly identical, e. g. Maggi, a Nestlé solutions brand (Nestlé, 2010) or Mars Food’s Uncle Ben’s brand providing ready meals (Mars, 2009). Moreover, for the food products are perishable, there is a relatively urgent need to sell them before their value is lost.

‘Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements.’ (Porter, 2006, 2008)

It can be thus concluded that the competition from established rivals does play a large role and is worth considering while developing a strategy.

The bargaining power of buyers

The buyers play a vital role in the industry – by ‘forcing prices down, demanding better quality or more service (thereby driving up costs), and generally playing industry participants off against one another.’ (Porter, 2006, 2008)

With regards to all the Unilever’s competitors, a customer has a wide range of products to choose from. It is to be acknowledged that although one customer might stay loyal to one particular product or brand, the buyer’s costs of switching from one product to another is not high. This is, however,

relative since for Unilever supplies with food retailers such as Tesco’s or <https://assignbuster.com/analyse-and-discuss-strategic-issues-in-unilever-food-marketing-essay/>

Carrefour, such distributors risk losing their customers (thus decrease in profits) by not providing Unilever food products.

In many cases, the importance of the buyers' price sensitivity needs to be emphasized. Given that a consumer is offered two similar products of the same quality but different prices, there is a higher possibility that the cheaper product will be chosen. Even though one might stay loyal to the brand, the other can incline to try a rival product.

The power of buyers is therefore of high importance.

The bargaining power of suppliers

' Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services.'

(Porter, 2006, 2008)

Even though every company is dependent on its suppliers, it can be stated that in terms of food production there is a wide range of raw materials providers that Unilever can choose from. In this case, Unilever becomes the buyer. Hence, it is suggested that Unilever has a wide range of substitutes at disposal and a strong bargaining power.

Moreover, what Unilever might need in order to perform is office and technical equipment, means of transportation and spaces for production. As previously discussed, Unilever in the position of a large customer can choose and negotiate prices.

The emphasis should be instead put on labour suppliers since the workforces in warehouses play a vital role in production processes. Having understanding of the scope of the employment can avoid many complications. Other workforces also play a vital role. In order to develop new tasteful and healthy options of solutions, cooks and specialists are needed. Unilever, in term of its Foodsolutions division trains its people, thus ensuring development of its employees' knowledge. (Unilever Foodsolutions, 2010)

It is suggested that the bargaining power of the suppliers shapes the strategy only to some extent, given that the price of suppliers drives the price of products as well. However, for Unilever has many substitutes for use, in this case the prices are not driven significantly.

Threat of substitutes

As stated, ' a substitute performs the same or similar function as an industry product by a different means.'[1](Porter, 2006, 2008)

In case of Unilever Foods, one of the possible substitutes would be a homemade product. The customers might use alternates due to various reasons; due to the belief that the costs of e. g. preparing a homemade pasta sauce will be lower than actually buying a Bertolli pasta sauce. (Unilever, 2010) Other buyers might switch to this alternative in order to live healthier. Nevertheless, homemade products do not signify a huge competition to the food giant Unilever.

Recently, there is an increasing trend of eating out. Using services can also be considered to be a substitute to purchasing food. The foodservice division <https://assignbuster.com/analyse-and-discuss-strategic-issues-in-unilever-food-marketing-essay/>

of Unilever – Unilever Foodsolutions, therefore co-operates with restaurants and caterers, by providing them with its brands and products. In doing so, Unilever benefits from people's using services.

It can be thus concluded that the threat of substitutes to Unilever Foods is not high.

Threat of Entry

' New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete.' (Porter, 2006, 2008)

The threat of entry in food industry is, however, low. As already mentioned, Unilever is one of the leading companies in food business. It already competes with other food giants (Nestlé, Kraft Foods or Mars Foods). Due to positions of the mentioned companies, it would be difficult for new companies to enter the market. Relatively high barriers to entry will have to be overcome in order to succeed. Besides restrictive government policies and the need of large financial resources or diversification of products, there will be also lack of tradition, experience and advantages that incumbents already possess.

The competition from entrants is thus relatively insignificant.

Conclusion

Whilst not underestimating the threat of new entrants, the power of suppliers and the threat of substitute products or services, it can be concluded though

that mainly the power of buyers and the rivalry among existing competitors shape the strategy of Unilever Food Division.