

Birds eye and the uk frozen food industry marketing essay



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INTRODUCTION:

Birds Eye Foods Ltd was incorporated in the United Kingdom in 1938 in response to the interest that Robert Lucas, the chairman of Winget Ltd developed in the product while in the USA. On incorporation, it was owned by General foods corporation (their parent company in the USA), Robert Lucas and Chivas and sons Ltd (a British canner and jam maker).

Birds Eye was subsequently acquired in March 1943 by Unilever, who identified its potential to serve their current business interests in the three main categories: fish (Mac fisheries), fruits and vegetables (Batchelors peas), and poultry (Poulton & Noel Ltd). Their strategy was to grow the business along those 3 areas and to push for global expansion.

The dearth of infrastructure and the meticulous needs of quick-freezing implied that to guarantee the quality of their products, Birds Eye had to invest across their entire supply chain and build their own system. In essence, they were geared towards establishing an organisation that was fully integrated from controlling food production (raw materials sourcing, harvesting equipment, production equipment, location and construction of plants) to distribution up to the retailers frozen food cabinet (cold storage, insulated vehicles) via their sister company SPD (Grant, 2010).

Birds Eye is considered to be one of the founders of the modern frozen food industry and, is credited with many innovations in food processing, freezing techniques, quality management, vegetable cultivation techniques and harvesting equipments as it sought to secure competitive advantage.

Some of the other players in the frozen foods market included: Smedley's (National Canning), Smethurst Ltd, Mudd and Son, etc. From humble beginnings, Birds Eyes' market share reached 70% in the 1950s and 1960s. Their RoCE in the same period was highest in the industry, with 16.2% in 1964. However, the 1970s and 1980s ushered in a change in the dynamics of the industry. Falling barriers to entry (blast freezers) led to a reduction in production processes and costs of production, and change in the retail industry (counter-service to self-service and the emergence of large supermarkets/retail chains). The influx of new entrants to different parts of the supply chain (from distribution to marketing) led to the decline of Birds Eyes' market share and its profitability; 18.5% market share in 1983.

Based on the information given this report seeks to answer the following questions:

1. Why did Birds Eye develop as a vertically integrated producer?
2. In sourcing raw materials, explain why Bird's Eye adopted different arrangements for peas, fish, and meat?
3. Why did specialized intermediaries emerge?
4. Did a vertically integrated producer have a competitive advantage over more vertically specialized suppliers of frozen foods during the early 1980s?
5. What should Birds Eye have done in 1979?

LITERATURE REVIEW:

Corporate level strategy is the conduct of drafting, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. It is the process of specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives and then allocating resources to implement the policies, and plans, projects and programs.

Firms can develop strategies that ensures that they have a competitive advantage in the market and this can be done in the following ways

Internal development: This is a process where the firm looks within itself and builds up its own resources and capabilities internally. The problem with this approach is that it might take a lot of time to build up the required capacity. Some of the reasons why a firm would want to internally build up its capacity are:

they might want to develop product internally to form core competence.

they may seek to avoid culture clash with the merging partner.

they might be unable to find a suitable acquisition target.

Mergers and Acquisition: This is a process where a firm either merges with other firms or out-rightly acquires the firm in question to increase their capacity. Some of the benefits of M&A are stated below:

Economies of scale: This refers to the situation where a firm's cost can be reduced due to expansion. The expansion results in a decrease in per unit cost associated with production.

Economies of scope: This is similar to economies of scale but it's related to the efficiencies derivable from the production of two different goods together, rather than separately and it can be attributed to the products using common technology or common marketing channel.

Create value/Increased revenue or market share: When a firm merges or acquires another firm it is probably a competitor or a firm along its supply chain. Integrations like these help firms to secure their supplies, reduce transaction times and create revenue and savings opportunities across the chain. So the buyer is basically increasing its revenue market share when it takes over another.

STRATEGIC ALLIANCES: This is a cooperative relationship between firms involving the sharing of resources in pursuit of common goals. Firms can go into a contract/relationship with another firm in the actualization of its goals. These alliances could be in any of the three forms:

Analytical Framework:

Birds Eye joined the UK frozen food industry when it was novel and stayed on till it became mature and saturated. For strategic reasons Birds Eye opted for a vertically integrated business model as shown in figure 1.0. Given the changes that continued to hit the UK frozen food industry in the time under consideration it was paramount that Birds Eye continued to assess its

position in the market relative to other players and emerging factors. For <https://assignbuster.com/birds-eye-and-the-uk-frozen-food-industry-marketing-essay/>

much of the 1950s and 1960s, the barriers to entry were prohibitive enough to restrict the number of players. Factors ranging from the cost of setting up machinery, distribution costs, marketing costs were significant enough to deter other investors. The Porters 5 Forces Analysis shown in figure 2. 0 shows how Birds Eye was squeezed from all sides as all the forces worked against them simultaneously:

The farmers grew developed the capabilities needed to raise high quality vegetables.

Technological innovations reduced the costs of raising and processing food, this led to new entrants.

Most entrants couldn't afford massive investments in marketing so they aimed to deliver mainstream or even unbranded foods that will compete on functionality.

Changes in the retail industry introduced customers to more options and more savings. The caterers who bought in bulk preferred the basic brands that weren't expensive.

Verdict = The industry had become saturated and unattractive.

The BCG Matrix

The BCG matrix helps us to dissect a business into its different component parts and evaluate them objectively on the basis of the state of the market (whether there is growth, low or high) and the firms share of the market (whether low or high). Table 1. 0 in the appendix summarises the position of

the different aspects of Birds Eyes' businesses across its supply chain. On the strength of the analysis and the case we make recommendations in the next section.

Recommendation:

Birds eye develop as vertically integrated producer for the following reasons:

- Firstly, adequate infrastructure for deep freezing was absent at the time so Birds Eye had to develop theirs. This warranted them investing across their supply chain.
- Secondly, Birds Eye needed to control their entire supply chain to guarantee consistent supply of high quality raw materials, and also regular supply of products to customers.
- Thirdly, they wanted to ensure that all process within the production and supply chain is efficiently optimised.
- Fourthly, the structure of their supply chain delivered economies of scale that helped to optimize costs.

In sourcing raw materials, explain why Bird's Eye adopted different arrangements for peas, fish, and meat?:

The sourcing arrangements that Birds Eye adopted for the different raw materials was dependent:

- Vegetables: Birds Eye adopted their chosen strategy for vegetables because the seeds, cultivation, fertilization, treatment and harvestation practices available to farmers of the time could not guarantee a high quality
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final product. The farmers didn't have the equipment to harvest vegetables fast enough for them to be freezed in good time.

- Fish: Due to the nature of whitefish and where they are found, Birds Eye couldn't control their production. Inability to control their breeding left them with the option of sourcing for the best of the available supplies; buying fish fresh from dock side auctions or buying fishes that were frozen at sea.

Between 1965 and 1969 they had a majority stake in a fishing company in a bid to ensure their cod supplies.

- Meat: Meat was primarily poultry and because this process could be controlled from start to finish Birds Eye acquired poultry farms and subjected them to their strict standards.

Why did specialized intermediaries emerge?: The specialized intermediaries in this case refer to the specialist storage, freezing and transportation companies. Some of the reason for their emergence include:

The availability of infrastructure: invention of blast freezers: The invention of blast freezers among other technologies made production cheaper and more efficient. This meant most of the costly barriers to entry had disappeared.

Diversification to create value and spread risk: Companies who had competitive advantage in a certain segment of food production merely started offering their products in frozen form to enter the growing market.

Processing to increase value added: Firms that originated from agricultural cooperative realized that if they added value to their produce they could command more returns on them.

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Most of the intermediaries were flexible: The intermediaries offered their services on very flexible contractual terms.

The costs of building a vertically integrated was high so firms concentrated on one or two parts of the supply chain.

Vertically integrated producers: Vertically integrated suppliers were better placed than vertically integrated producers of frozen food in the 1980s. In the early days of the industry owning all aspects of the supply chain was expedient as there was a dearth of infrastructure; firms needed to build competitive advantage on the basis of their products quality and also control their costs - so, it was key to own the entire chain. However, the 1980s ushered in new and cheaper technologies that made production cheaper and more efficient. Also, competition grew from more specialized and efficient firms entered the market to compete thereby reducing margins. Therefore, we believe it would have paid Birds Eye more to concentrate on its core capabilities, seek to control its supply entire supply chain by means of long term contracts with firms specialized in areas where it was weak in, instead of owning them.

What should Birds Eye have done in 1979?: Having identified that the vertically integrated approach to supply chain management that helped them grow in the 1950s and 1960s was no longer the best (as shown above), Birds Eye should have sold off their under-performing divisions and concentrated on the profitable sections as shown by the BCG matrix in table 1. 0. In detail, Birds Eye should have sought to:

Divest its physical investment in the fish/meat/seed sourcing, cultivation and harvesting , and instead activate a contractual strategic alliance with the co-operatives.

Free up its resources tied up in the distribution business and instead contract the distribution out to other more efficient firms.

Among their brands, they should concentrate on the frozen foods that they have a competitive advantage and leave the British grocery segment.

Stop cutting prices.

Appendix:

Figure 1. 0: Birds Eye Supply Chain

Figure 2. 0: Porters 5 forces analysis

Portfolio Management Analysis: The BCG Matrix:

Table 1. 0

HIGH MARKET SHARE LOW

LOW MARKET GROWTH HIGH

Stars

Question Marks

Prepared meals

Transport & Distribution

Freezing & Processing

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Cash Cows

Frozen fish

Frozen meat

Storage

Dogs

Vegetable

Fruit