

Picard's pest and  
porter's analysis. the  
potential of a french  
company  
expanding ...



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CONTENTS PAGE 1. EXECUTIVE SUMMARY 2 2. INTRODUCTION 2 2. 1 Picard overview 4 2. 2 Picard's corporate strategy 5 2. 3 SWOT analysis 6 3. PEST ANALYSIS 6 4. PORTER'S FIVE FORCES Analysis of entering the UK Market 7 5. CONCLUSION 11 6. BIBLIOGRAPHY 12 7. APPENDICES 13

1. EXECUTIVE SUMMARY The aim of this report is to analyse Picard's market performance as well as challenges in its operating market using the PEST analysis tool, in order to identify if the company has prospects of entering and succeeding in the UK based on Porter's five forces model.

Picard is a French frozen food retailer focusing exclusively on its own brand product lines. The company has grown to be France's leading frozen food specialist capturing 20% market share with a network of over 800 stores, and it is also the largest specialised network of frozen food in Italy. Picard also offers a leading home delivery service from internet and telephone orders, including in other countries such as Spain, Luxemburg and Belgium. The retailer's overall strategy is characterised as a premium proposition with a vision of convenience, quality and innovation, firmly positioning itself on the high end of the market.

Picard currently aims to continue opening approximately 50 new stores per year given its successful and consistent performance, allowing the company to potentially expand further overseas. Using the PEST analysis tool it was identified that Picard's major challenges in its operating market are the increased competition with other retailers in the convenience sector, the extent to which the products are adapted for each country, the frozen food quality perception and association to a premium offering, and the lack of a loyalty card scheme.

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It was identified in this research that the level of competition in the UK frozen food sector was intermediate given Picard's differentiated premium frozen food advantage against competitors such as Iceland and Tesco, however there are several barriers to enter the market owing to powerful large supermarket chains, building a challenge to establish a brand name in the UK. In addition to this supermarkets are increasingly developing their own label range and investing further in the convenience format. On the other hand Picard's vertically integrated supply chain and close geographical location to the current distribution network is considered a significant advantage. Furthermore UK consumers are the one of the largest frozen food buyers globally and Picard has a leading home delivery channel already established in 6 countries from online and telephone orders. It is therefore concluded that the UK is an attractive proposition for Picard. 2.

INTRODUCTION In these straitened economic times, frozen food is a sector that is growing as consumers recognise two main factors.

Firstly it offers value for money, and secondly it helps to reduce food waste. The UK frozen food market is worth around ? 5. 1 billion a year and accounts for 8% of the UK Grocery Industry (Kantar Worldpanel, 2010). Although in 2010 the market remained flat, it has shown 11. 3% value growth between 2007-2010, with indication that the market will continue to grow this year. [pic] Souce: Kantar Worldpanel, September 2010 Convenience is driving the frozen market sales globally as consumers are looking for healthy and less time-consuming meals (Seth and Randall, 2011).

Private label is performing extremely well, consistently increasing its share creating a challenge for major brands in the current market. Additionally as <https://assignbuster.com/picards-pest-and-porters-analysis-the-pontetial-of-a-french-company-expanding-into-the-uk/>

recession kicked in the UK, the frozen food chain Iceland reported double-digit sales growth while another supermarket seeing incredible growth in the freezer aisles today is Waitrose, revealing two contrasting retailers market positioning. Chart 1: Manufacturer's frozen market share [pic] Source: Kantar Worldpanel. Data to 12th June 2011 Chart 2: Retailer frozen market share [pic] Source: Kantar Worldpanel. Data to 12th June 2011

Combining the growth in the frozen food market, the over performance of private label and the trend towards convenience, this research will focus on this particular market sector and analyse Picard, a premium French frozen food retailer, and its potential to expand internationally into the UK. 1. Picard overview Picard is a limited company (SA) owned by Lion Capital, a private equity investment firm, and it is today the number one frozen food retailer in France, with a product range that covers over 1, 100 SKUs across nine product categories, from starters to desserts and from raw ingredients to prepared meals.

Picard has distinguished itself through a commitment to high quality and innovation with over 98% of its products developed in-house exclusively for the company, and sold under the Picard brand. Picard also has retail stores in Italy and offers a home delivery service from Internet shopping and telephone orders to other countries such as Luxemburg, Belgium and Spain. |

| | Chart 3: Picard La part de marche de Picard de 2004 a 2009? market share in France from 2004| | to 2009 | |[pic] | | Source: www. Picard. fr | | | |

Chart 4: Picard Total Store Number from 2000 to 2010 | [pic] Source:

Syndigel, Kantar Consumer Panel 2. Picard? s corporate strategy Picard?

focus on a single segment of the market has positioned the company as the <https://assignbuster.com/picards-pest-and-porters-analysis-the-pontetial-of-a-french-company-expanding-into-the-uk/>

market leader in frozen food in France, with the vision of convenience, innovation and quality at affordable prices to everyone. Following this defined marketing strategy Picard management developed their position from 12.5% market share in 2002 to 20% in France today (Picard. fr, 2010), running approximately 800 stores and a plan to continue to expand, opening around 50 stores per year. Almost a million households buy frozen food from Picard with a wide audience ranging from large families to pensioners, students and foodies.

In Italy, “ Picard i Surgelati” is the largest specialised network of frozen food sales, with a portfolio of 700 SKUs tailored to its market needs, selling mostly frozen raw products, differently to the wide range of dishes in France. Picard's main values here are proximity, quality and service, and the market is identified as growing with plans to continue opening new stores and expanding geographically (Picard. it, 2011). In 1999 the company bought the Italian subsidiary Gel 2000 to open its 28 stores in Italy, using a strategy of internationalization through acquisition.

Picard overall price strategy is characterised as a premium proposition. The retailer is known to offer high quality and services to customers, firmly positioning itself on the high end of the market. Picard's high-end range includes sashimi, foie gras and rooster with truffle shavings, alongside standard frozen fare like pizza and fries. The company promotes about seventy products as the selection of the month with up to 15% off with the aim to encourage customers to try new items and to reinforce the value brand image.

### 3. SWOT Analysis [pic] 3. PEST ANALYSIS

In this section, it will be outlined the challenges Picard currently faces using the PEST analysis which is concerned with the key external environmental influences on the business, identifying and evaluating the Political, Economic, Social and Technological factors summarising the external environment in which the business operates, mostly focusing on its domestic market in France and other operating countries.

**Political** • The convenience sector in France has offered great opportunities to retailers following President Nicolas Sarkozy's liberalisation of the retail sector in June 2008 (Hall, FT. com, 2008), aimed to break down barriers to entry and to remove price regulation, consequently allowing the German discounters in, such as Aldi and Lidl. This has led to increased price competition and Picard must highlight their differentiation message to all consumers to win in the convenience sector.

• The labour regulations are many in France, and the society emphasizes the well being of the workers. The French "work to live" and appreciate time to spend with their family.

They have a legal system set forth by the French labour code (Code du Travail) that is built to protect the workforce rather than the enterprises (Global Politics, 2009). Nonetheless the company is affected by the civil unrest and sense of economic hopelessness by the population, and Picard is currently under pressure by the Union on wage level.

**Economic** • As noted at the latest IGD France country presentation (June 2011), France's GDP growth is projected to pick up slowly towards an annualised pace of 2% by 2012, led by business investment and exports.

The unemployment rate has peaked but is set to decline only slightly, while price pressures will remain subdued, with underlying inflation at about 1%

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per year. In Picard's case the downturn time represented an opportunity and the challenge now is to keep the momentum going and through a potential economic recovery. • Picard is present in countries member of the European Union which is both a free trade area and a customs union, which means trade is neither restricted nor subdued to customs duties.

Its distribution network is therefore made easy to countries such as Italy, Luxemburg, Belgium and Spain where a home delivery service is available, however consumer confidence and inflation rates are contrastingly different and Picard does not adapt the price of products to reflect each country economic factors. Social • The type of goods and services demanded by consumers is a function of their social conditioning and their consequent attitudes and beliefs.

Consumers' attitude towards food in Europe is constantly changing as they have become more health-conscious and concerned about sustainable production methods (Lancaster & Reynolds, 2005). However it is still a barrier for Picard that only 38. 2% of adults consider frozen foods as being as good for you as fresh food, although this figure has increased from 28. 7% in 2005 (Mintel, September 2010). • The demographic changes such as the aging population is discouraging for the food retailers as older people tend to eat less, have a tighter food shopping budget and are also less likely to visit shops on a regular basis.

To overcome this, Picard supply products with suitable portion sizes to meet the consumer needs, in addition to providing a home delivery service not only from internet but also from telephone orders, representing a total of 2,

5% of Picard's sales from all operating countries (Picard. fr, 2011).

Technological • One of the key macro-environmental variables that have directly influenced the supply chain, operations and processes of grocery and food retailers is technology. The share of households with broadband internet access has doubled since 2006 (eGovernment Resource Centre, 2010).

Picard currently has a website with its entire range available to be ordered and delivered within 48 hours, accounting for 20% of its total sales, however the website is only in French and Italian, limiting customers to use and understand the website to shop. • Loyalty cards provide an important route through which to differentiate offers from those of the competition and this is a growing feature of the grocery retail market (IGD, 2011). In France most retailers have adopted this as a promotional strategy however Picard has not yet shown signs of a scheme.

This is nowadays an important element in the wider promotional mix and is a competitive disadvantage for Picard. 4. PORTER'S FIVE FORCES – Analysis of entering the UK Market Porter's Five Forces Model (1980) holds the purpose to analyse an industry in order to determine the level of intensity regarding the competition and attractiveness of the industry, in this case the UK. They consist of those forces close to Picard that affect its ability to serve its customers and make a profit. The nature of competitiveness of Picard in the UK industry can be viewed as a combination of the following five forces: [pic]

Figure 1: Porter's Five Forces Competitive Rivalry The intensity of competitive rivalry for Picard in the UK frozen food retail sector is medium.

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There is a constant battle between firms competing in the same industry in order to win customer share (IGD, 2011). There are many significant firms in the UK supermarket industry with the five most dominant in the frozen food sector being Tesco, Asda, Iceland, Morrisons and Sainsbury's (see chart 2). This highly competitive market has fostered an accelerated level of development, resulting in a situation where Picard has to be innovative to build market share. Picard's strategy is focused on quality and innovation therefore its key competitor would be Waitrose, with an increasing number of convenience stores in the UK. According to Seth and Randall (2011), grocery trading margins in the UK have been markedly higher than in Europe - currently, they are on average three times higher than in France, for example. UK consumers have been prepared to pay for the difference and the quality of the shopping experience in the best UK superstores. Thus Picard premium frozen food shows an advantage against potential strong competitors such as Iceland and Tesco where the focus is value and volume drivers.

**Threat of Potential New Entrants** There are numerous barriers and challenges for Picard to enter the UK frozen retail industry, resulting in a high threat to enter and compete against existing players. Over the last 30 years, the grocery market has been transformed into the supermarket-dominated business, according to Ritz (2005). Most of the large chains have built their power due to operating efficiency, one-stop shopping and major marketing-mix expenditure. The industry now possesses a strong barrier for new entrants, being a significant disadvantage for Picard to establish a brand name in the UK.

It makes it rather difficult for Picard to raise sufficient capital, especially being a private company, because of large fixed costs and marketing communications necessary to set up the brand's success. Another likely disadvantage of entering the UK market is the cultural barrier. The nature of French cuisine is very different to that expected by the UK market, making it difficult for Picard to charge a premium for its frozen products, a channel that until now has sat firmly in the discount and value areas of the market. Threat of Substitutes

The threat of substitutes in the specific frozen retail market is low to medium. Given the current consumer trends of increased eating at home and a desire for reduced wastage and better value for money in the UK (BFFF, 2011), Picard's broad range of more sophisticated products fits perfectly with the trend of dinner parties in addition to providing a long shelf-life, proving an alternative to restaurants. In the food retail market, the substitutes of Picard would be convenience stores, particularly in local towns and city centres, creating a hurdle for Picard to enter and succeed in the market.

Picard's innovative store format with high quality frozen products is a differentiated approach which stands a competitive advantage against all retailers in the UK. On the other hand existing supermarket chains are increasingly developing and promoting their premium own label product range with a noteworthy value message, though it still lacks the assortment of raw products and innovative dishes sold in Picard. Bargaining Power of Suppliers The bargaining power of suppliers is low. Picard's strategy is a vertical integration supply chain as it is currently implemented.

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According to Scott (2011) this offers great bargaining power over suppliers, consistent quality and reduced risk of supply disruption. However, it can also reduce operational flexibility and limit access to the best suppliers. The company currently uses over 200 suppliers of which approximately 70% are French to manufacture its own label range which represents 98% of products sold in stores. The geographical location and continuing service of current suppliers is therefore a significant advantage for Picard? expansion in the UK. Suppliers are still expected to comply with strict quality standards and to meet increased demand as required, consequently meeting greater economies of scale and gaining greater margins, being able to offer more competitive prices to consumers.

**Bargaining Power of Customers** The bargaining power of buyers is low to medium. Customer power also acts to force prices down (Porter, 1980). If chips are too expensive in Picard, buyers will exercise their power and move to Iceland. However Picard? premium range is unseen in any other retailers in the UK, so customers will not be able to find a frozen Japanese dinner party set of quality frozen food anywhere else for example. In customising its service with better and innovative choices, Picard has the advantage to control and retain a customer base. In the UK there is a growing tendency of shoppers to use a wider repertoire of formats to support their grocery shopping needs, with convenience outperforming the market (IGD, 2011). This is an advantage to Picard as their target is urban areas mostly city centres within walking reach.

On the other hand Picard is unable to compete with larger format stores in the UK where shoppers can find a wide range of products from chilled to non-food items, possibly satisfying their shopping needs in one go. Online is

another channel to meet different aspects of shopper demand for more convenient shopping solution. IGD forecast the online channel in the UK to grow by 14.4% from 2010 to 2015, becoming 5.2% of the total grocery market. Picard would appear to have an advantage over the UK market as online shopping already accounts for 20% of its total sales in current operating countries. pic] 5. CONCLUSION In the light of the above analysis, it can be concluded that Picard's lean operations, successful business model and differentiated approach allows potential for the company to expand into the UK. The "hit-and-run" gastronomy concept would re-invigorated the UK frozen food market and become a strong competitor in the convenience sector, but to succeed Picard must spend heavily on opening stores focused in urban areas and on advertising to gain levels of brand awareness. 6.

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7. APPENDICES APPENDIX 1

Picard: | Criteria | Characteristics | | Home Country | France | | Total Sales (€mn), and year-on-year growth (%) | €1, 285m, 4. % | | Total operating profit (€mn), and year-on-year growth (%) | N/A\* | | Number of countries in which present | 5 | | Home market as a % of total sales | 95% | | Price positioning (1-5, where 1= value and 5= premium) | 3-4 | | Quality positioning (1-5, where 1= low and 5= high) | 4-5 | | Main price/promotion strategy (EDLP, Hi-Lo, combination) | Premium | | Non-food as a % of total sales | 0% | | Number of different store formats | 1 | \* Data not published

APPENDIX 2 –

Photographs Picard's product examples: [pic][pic][pic] [pic] [pic][pic] [pic] [pic] [pic] Store: [pic]