CORPORATE CONCENTRATION AND SUPPLY CHAIN MANAGEMENT IN A GLOBAL FOOD INDUSTRY

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Summary

Competition in the food industry of the 21st Century is being played on a global field, with fewer, larger, global players battling for market share. The stalemate which results from global retailers confronting global manufacturers has been broken by the introduction of Efficient Consumer Response (ECR) and the realisation that co-operation between trading partners is more effective than confrontation. Traditional inter-firm competition is being superseded by competition between supply chains, as retailers and manufacturers alike seek competitive advantage through strategic supply chain partnerships. The food industry has been slow to emulate the success of the motor industry and it is only in recent years that supply chain management has made its way onto the boardroom agendas of the world's leading food manufacturers. However, the introduction of ECR in the 1990s, represented a paradigm shift in the operation of the food supply chain, with adversarial trading relationships being replaced by co-operation and co-ordination, facilitated by a willingness to exchange information of both strategic and operational importance. As a result, the world's leading food manufacturers are shaving days off of production lead times, weeks off of inventory levels and months off of New Product Development (NPD) cycles, delivering a more effectively managed range of carefully targeted products and services to increasingly diverse groups of consumers, at substantially lower costs. The commodity sectors have still a long way to

catch up, but it is evident that throughout the global food industry supply chain management is here to stay and likely to remain a key point of focus for the leading players in the future.

1. Introduction

Less than a decade ago, the days of the giant conglomerate seemed over; they were too big, too complacent and too inflexible. However, the US economy has grown fast since 1992 with many big organisations becoming flatter, less bureaucratic and hierarchical in structure. The big corporation of the 21st Century looks like being a loose alliance, a confederation of small entities, held together by knowledge and competencies, shared values and integrated missions. The edges of these amorphous organisations will become more fuzzy, but, their control, through patents and contractual agreements seems likely to grow. The knowledge economy requires 'big science' and only big corporations with big R&D budgets look likely to be able to afford it. Of course the human brain cannot continue to accommodate an exponential growth of knowledge and the 300 year old explosion of knowledge was flattening off by the 1960s. It is this diminishing returns to Research and Development that means the future belongs to the big corporation with deep pockets.

This paper is concerned with the battle for supremacy in a food industry in which competition is played on a global field, with fewer, larger, global players battling for market share. The stalemate which results from global retailers confronting global manufacturers has been broken by the introduction of Efficient Consumer Response (ECR) and the realisation that co-operation between trading partners is more effective than confrontation. Traditional inter-firm competition is being superseded by competition between supply chains, as retailers and manufacturers alike seek competitive advantage through strategic supply chain partnerships.

The paper is in three parts. We begin by looking at the retail sector, the process of globalisation and the emergence of food retailers as the dominant force in the food supply chain. The second part turns to the food manufacturing sector, in pursuit of a strategic response to retailer domination, with particular emphasis on the process of concentration and the changing competitive environment. Supply chain partnerships are explored in part three.

2. Globalisation of Grocery Retailing

The latter half of the 20^{th} Century, in both Europe and North America, has seen the emergence of the supermarket as the dominant grocery retail form. The reasons why supermarkets have come to dominate food retailing are not hard to find. The search for convenience in food shopping and consumption, coupled to car ownership, led to the birth of the supermarket. As incomes rose and shoppers sought both convenience and new tastes and stimulation, supermarkets were able to expand the products offered. The invention of the bar code allowed a store to manage thousands of items and their prices and led to 'just-in-time' store replenishment and the ability to carry tens of thousands of individual items. Computer-operated depots and logistical systems integrated store replenishment with consumer demand in a single electronic system. The superstore was born**.**

The expansion of retailers across European borders has been one characteristic of structural change in industry in general and the food industry in particular (Table 1). Starting slowly in the 1970's, retail firms sought to extend their market territories within Europe. The pace of expansion accelerated in the 1980's and 1990's, with over half of post World War II retail firm moves within Europe being initiated during the 1990's:

The 1980's was a decade of "border hopping" where firms from many sectors expanded into adjacent markets – fashion retailers were most active in the first half; followed by the French grocery hypermarket companies (e.g. Carrefour) expanding into Spain, Italy and Greece, and German hard discount chains (e.g. Aldi) moving into adjacent countries in the second half. Cross-border alliances between non-competing national grocery retail firms were initiated with the intent of enhancing purchasing power and developing new product sourcing opportunities; for example, the European Retail Alliance/Associated Marketing Services. In North America, Wal-Mart experienced significant sales growth and expanded into Mexico. In South East Asia, Dairy Farm International started to build a strong regional presence;

	Pre-1980s	**1980s**	**1990s**
Percentage of Cross Border Retail Moves	11	34	55
Top 5 Destinations	Belgium France Austria Netherlands Switzerland	Belgium Spain Germany UK Netherlands	UK Spain Germany France Czech Rep.
Top 5 Initiators	UK Germany France Netherlands Sweden	France UK Germany Outside Europe Italy	UK France Germany Outside Europe Netherlands
Most Active Sectors	Fashion/Footwear Grocery	Fashion/Footwear Grocery Health/Beauty	Grocery Fashion/Footwear Health/Beauty Household

Source: Oxford Institute of Retail Management and James Lang Wooton. 1997. *Shopping for New Markets: Retailers Expansion Across Europe's Borders*. Oxford Institute of Retail Management, Templeton College, University of Oxford. November, 1997.

Table 1: Retailers' Expansion Across European Borders, pre-1980s to 1997

In Europe, and led by grocery retailers, the "border hopping" accelerated during the 1990's, despite the economic recession early in the decade. With the end of the "Cold War", German and other Northern European retailers expanded into Eastern and Central European countries. Firms from Germany (e.g. Tengelmann), France (e.g. Carrefour), Belgium (e.g. Delhaize Le Lion) and the Netherlands (e.g. Royal Ahold) have taken a global perspective on trading. The major U.K. retailers have had less of an international presence – J Sainsbury in the USA; Tesco faltering in Northern France and, then, acquiring retail businesses in Eastern Europe and Thailand; although, Marks & Spencer had established a network of franchises in selected major European centres in the previous decade;

The late-1990's has seen a flurry of merger and acquisition activity in the grocery retailing sector in North America as traditional supermarket companies restructure to counter the Wal-Mart competitive threat - Wal-Mart, diversifying from its highly successful, but, non-food product dominated "big shed" (Sam's Club) format, started experimenting with smaller-scale retail formats and a comprehensive grocery product offer in 1998. In late-1997, Safeway took over Vons and, in 1998, Kroger's purchased Fred Meyer. In Canada, Loblaw's acquired Provigo and part of the Oshawa Group, while Sobey's (Empire) purchased the Eastern Canadian parts of Oshawa.

At the end of the Twentieth Century, there are three grocery retail firms – Wal-Mart, Carrefour, and Royal Ahold - who have strikingly similar global aspirations. For example, Royal Ahold's mission statement is "to grow quickly and profitably to become the world's leading supermarket company", a statement that is strikingly similar to that espoused by the other two major international players. However, the three firms have differing views on the preferred format for international expansion (viz. Ahold's supermarkets, Carrefour's hypermarkets, and Wal-Mart's "big shed" Sam's Club and smaller-scale super center formats).

Both "push" and "pull" factors (Table 2) explain the rationale for retail firms seeking to expand internationally. In northern Europe: push factors include the following: economic growth rates are, typically, modest and the population growth rate across the EU, for example, is barely at the replacement rate (average for the EU: 0.2% per annum); if not actually saturated, domestic markets are highly competitive, have a high cost structure, reflecting high labour, construction costs etc., and expansion is constrained by strict planning regulations that seek to control, even curtail, the expansion of out-of-town shopping centres (e.g. Germany, the Netherlands, France and, latterly, the U.K.), and/or competition policy legislation that is designed to protect the interests of consumers and suppliers.

Push	**Pull**
· Market saturation at home	· Low retail concentration
· Slow growth at home	· Strong economic growth
· Adverse demography	· Pre-empt rivals
· Competitive market place	· Large population
· High cost structure at home	· High population growth
· Strict planning regulations	· Gain economies of scale
· Shareholder pressure to grow	· Relaxed regulatory environment
· Company ethos to go global	· Removal of entry barriers
· "Me too or I'll get left behind"	· Suitable acquisition targets
· Financial markets encourage expansion	· Favourable cost structure
· Political instability	· Diversify to spread risk
· Leverage supplier relations	· Access to new capital
· Transfer know-how and extend core competencies	· Favourable exchange rates
	. Improved international communications

Source: Adapted from Oxford Institute of Retail Management and James Lang Wooton. 1997. *Shopping for New Markets: Retailers Expansion Across Europe's Borders*. Oxford Institute of Retail Management, Templeton College, University of Oxford. November, 1997.

Table 2: Factors Explaining Global Expansion Initiatives by Major Grocery Retailers

Pull factors, in part, are the other side of the coin to the push factors identified above. Retailers seek countries that: have low retail concentration, albeit, with the prospects of high growth in supermarket sales; large populations and high population growth rate; incomes at or above the level that consumers start to discriminate between brands and have the income to exercise choice and in countries where income growth rate is high; and have favourable cost structures (e.g. low labour and construction costs), attractive exchange rates with the prospect of exchange rate gains over time, relaxed regulatory environments, and/or where entry barriers have been removed.

Other push and pull considerations underpinning an international expansion strategy include: gaining economies of scale in purchasing; a diversification mechanism for spreading commercial risk; gaining access to new ideas pertaining to supply chain management and retailing; transferring know-how and extending core competencies; and gaining leverage from the supply base established in countries that have become slow growth markets.

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Biographical Sketches

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