

Food Marketing Strategies for Firms

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Marketing, in an agricultural context, has traditionally referred to activities that take place from the farm gate to the final consumer. Business firms think of marketing differently. To them, it relates to activities that influence sales of their products. Marketing strategies used by firms in the food industry use this concept of marketing. Marketing strategies position products so these firms can win the battle for the food dollar.

The marketing strategies used by food firms affect many people. They influence the price, volume, and mix of commodities sold by farmers as well as the return and risk on capital provided by investors. They influence the price, quality, and variety of products available to consumers. The strategies available to firms marketing food are different from those farmers can use, but not greatly different from those that firms marketing nonfood products use.

Firms have many goals, one of which is growth. Growth requires an adequate financial return in order to be pursued on a sustained basis, but it also influences financial return. Marketing strategies are developed to achieve the growth objective, which is a major concern of firms in the food industry.

Marketing Strategies

A firm must answer the question, "What business should I be in?" The business of a firm is defined by the scope of its products and markets and by the product and market segments it serves. Scope refers to the customers to be served and the functions to be performed. Segments are based on differences in customer needs and ways of satisfying those needs.

The following types of marketing strategies influence sales growth in products and markets selected by the firm. These strategies are highly interrelated, and consistency in their use is essential to achieve growth objectives.

Geographic Diversification

Expansion of the sales area increases consumer exposure to food products and leads to increased sales. With larger sales, economies of advertising, selling, and production also may be realized. However, a larger sales area can bring out regional differences in customer preferences, which must be accommodated.

Product Diversification

The desired product diversification can be achieved by developing new products or by reformulating and repackaging an existing product. Food marketing firms now introduce about 2,500 new food products each year, many of which are later withdrawn. Firms must develop new products or modify existing ones because most products have a life cycle: Sales increase after introduction, but reach a plateau and then decline. Total sales of the firm would thus decline if new products were not introduced.

A firm will market a mix of products that vary in design, packaging, ingredients, quality, or other product and service attributes. Each product or variation of a product is targeted to a specific group of customers. This mix of sales is supposed to achieve sales goals and protect the firm from loss of sales to rivals. Although product diversification strategies increase the variety of food products available to consumers, they can result in a proliferation of products with only minor differences in quality or other attributes. The firm may preserve or expand its market share by producing and marketing several variations of a product that might otherwise be introduced by a rival firm.

Branding

Food manufacturers may label products with their brands, or with distributor brands (private label), or sell unbranded products (ingredients and generic). This decision is greatly influenced by the channels of trade that will be used and by product characteristics. (There is much less branding for highly standardized products such as milk, which are often subject to Government-imposed identity standards.) The firm must be able to differentiate its branded products from those of rivals and to communicate these differences to consumers.

As a result of these communications, consumers develop brand loyalty, which provides some bargaining power with buyers (wholesalers and retailers) and assures processors that their products will find their way to retail shelves. Development of strong brands requires paying attention to packaging and positioning the product with an eye to the competition.

Private label and unbranded products are often those which are difficult to differentiate and for which there may be few direct buyers. Efficiency and low cost are important to firms selling these types of products.

Advertising and Promotion

More than \$9 billion—more than 2 percent of sales—is spent annually on advertising and promoting food products. Advertising expenditures as a percent of sales for food products are about double those for other consumer products, but they vary widely among food product groups.

Advertising expenditure is less intensive and its content more informative for food products that are less differentiable, such as milk, meat, lettuce. For products that are differentiable, more persuasive advertising content is used. Advertising informs consumers about product attributes and is often targeted to appeal to specific groups of consumers. Establishing a consumer franchise (loyalty to a product) through brands and introducing new products requires large expenditures for advertising and promotion.

Promotions may take many forms. Point of purchase displays, in-store demonstrations, and coupons are particularly effective in getting the consumer to try a new or modified product. Salespersons may be needed to provide technical information to wholesale and retail buyers, to arrange displays, and



Some supermarkets have coupon-producing machines at the cash register. As the shopper's order is processed, the coupon dispenser determines if there are related or competing items in the system and prints out corresponding coupons that can be redeemed on the next shopping trip. (Giant Food, Inc.)

to inform the buyers about the merits of a firm's products. Trade allowances and deals may be offered to buyers as incentives to stock the products. Some of the trade allowances and deals may require the buyer to advertise or offer coupons for the product locally. Some trade allowances and deals can be viewed as price concessions used to move products, especially where inventory imbalances occur.

Pricing

The prices that food manufacturers are able to obtain may yield thin profit margins for products that are difficult to differentiate, unbranded products, and private label products. Efficiency and low production and distribution costs are thus important for survival.

Pricing branded products is more flexible, but manufacturers are still subject to competitive forces by rival firms. The uncertainty about how rival firms will react to pricing strategy means that the firm must be prepared to make countermoves. Pricing is influenced by the design of the product and the segment of the market for which the product is targeted.

Foodstores and eating places likewise establish prices that are consistent with the mix of products and services they have targeted. Foodstores use the concept of blending margins (a margin is the difference between what the retailers pays for an item and what he or she sells it for) within departments and among departments to achieve an overall gross margin that will achieve the profit objective. This involves weighing changes in margins by product movement to determine the impact of margin changes on the total margin for the department or store.

Customer Focus

Food manufacturers can choose to place products in four basic channels of trade: 1) other processors (ingredients or industrial products, 2) foodservice, 3) private label, generic, and unbranded products sold through foodstores, and 4) manufacturer-branded products sold through foodstores.

The appropriate market strategies differ greatly among these channels. Market segments (groups of consumers that are somewhat homogeneous) within a channel may require different product design, pricing, and advertising. Product differentiation varies among trade channels—with low differentiation for ingredients, moderate differentiation for foodservice and distributor-branded products, and high differentiation for manufacturer-branded products.

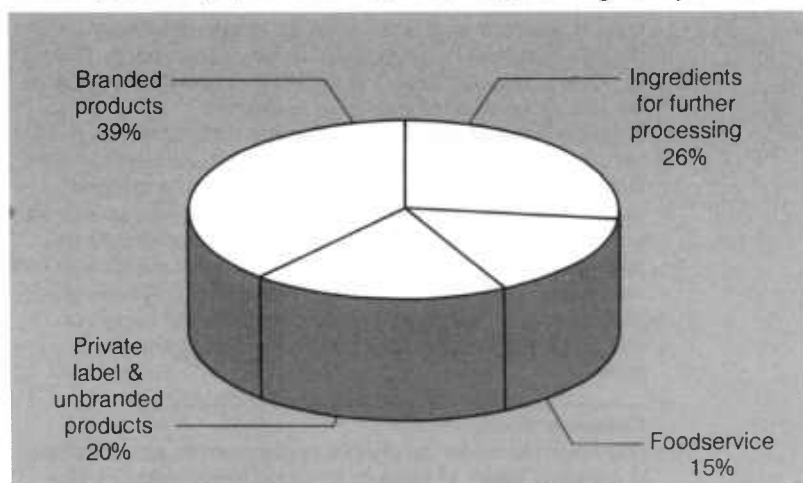
Each firm determines its market niche by its choice of trade channels and market segments and by positioning its products relative to rivals. This selection relies on detailed information about customer needs, motivations, and preferences, as well as knowledge of the technological, marketing, and other attributes of the firm which give it an advantage in exploiting that

niche. Firms thus concentrate their efforts in one or two channels of trade. A firm would rarely sell products in all four channels or have sales evenly spread among several, even though this might reduce risk. The advantages of specialization apparently outweigh risk reduction.

Strategies of Food Manufacturers in Various Channels

Annual sales of the 16,000 food manufacturers total \$315 billion. For many industries, such as breakfast cereals and wet corn milling, sales are concentrated in a few firms. The particular marketing strategies used by food manufacturers vary among industries and channels of trade.

Channels of Trade for U.S. food manufacturing companies



Ingredient Channel

The products of some industries, such as sugar and soybean milling, are used as ingredients by other manufacturers. The ingredient channel accounts for about 26 percent of shipments by food manufacturers. Direct buyers are few, and purchases are made in very large quantities. The products may meet rigid specifications but are undifferentiated and thus not advertised. Prices usually result in narrow margins, which places a premium on efficiency.

Foodservice Channel

The 700,000 foodservice establishments vary from snack bars to large plant cafeterias, and their product and service requirements are equally diverse. Brands are often not important to foodservice firms, but rigid product specifications, including portion control, may be required by institutional buyers and

fast food chains. Price competition for these large accounts is intense. Small processors, who may be unable to handle the volume required by some foodservice firms, concentrate on the many eating places where service is more important. About 15 percent of food manufacturer sales are in the foodservice channel.

Private Label and Unbranded Products Channel

Entry into the private label and unbranded products channel (for example, fresh produce and fresh meat) is relatively easy. There is moderate product differentiation and little or no required advertising. Shelf space does not have to be gained by overcoming the brand loyalty of competing products; it is allocated by the buyer. Buyers specify product quality and packaging requirements for many private label products.

Price competition in this channel is intense and resembles bidding for a contract. Firms do not have to pay the cost of establishing a consumer franchise and are thus willing to accept lower prices. They have low involvement with marketing decisions and little power in negotiations with buyers.

Some food retailers have integrated back into food manufacturing. They process their own brands, especially in dairy and bakery products. This happens where food retailers can achieve lower costs in processing or distribution than the food manufacturers who are willing to bid for their business.

Food manufacturer sales in the private label and unbranded products channel are about 20 percent of the total.

Manufacturer-Branded Product Channel

In contrast, the emphasis of firms in the branded products channel is on marketing strategies which establish their consumer franchise. The consumer franchise is the basis for favorable shelf space and location in retail stores.

Developing a consumer franchise is not a simple task. It is also very expensive. Extensive information must be obtained about consumers, the portfolio of products offered by rival firms, and their marketing strategies. Research is conducted on consumer motivations, needs, desires, and attitudes relating to categories of products to identify voids in existing product mixes that a new or modified product might fill. The research also identifies market segments and groups of consumers who will buy or might be persuaded to buy a product with the specified attributes. Firms need intelligence about the products that rivals market in various market segments, and the rivals' strategies must be understood.

Suppose a firm decides to develop a new product. It may be tested by panels of consumers during the development phase, and it is usually test marketed before a general introduction. The test marketing may cost more than the development of the product, but it provides an indication of the product's sales potential and the effectiveness of marketing strategies that have

been planned for the product. On the basis of test-market results, the product may be abandoned, redesigned, or introduced for general distribution. If the test market results reveal major flaws in product design or marketing strategies, the product might be modified and go through the test market phase again to obtain more data.

All of the marketing strategies are employed when a product is introduced and a consumer franchise established. The penetration of the product in various market channels and segments is monitored through sales data of the firm and from movement and market share data supplied by research firms. Based on this information, the firm may reposition the product, adjust marketing strategies, continue current strategies, or withdraw the product. This monitoring continues over the life cycle of the product.

Branded products comprise 39 percent of food manufacturers' sales. About two-thirds of processed food products sold in food stores are manufacturers' brands, but the shares vary among product lines from less than half to almost 100 percent.

Strategies of Other Food Marketing Firms

Wholesalers, foodstores, and foodservice firms employ essentially the same marketing strategies as food manufacturers. They target a mix of products and services for specific market segments and groups of consumers and use the appropriate advertising and pricing strategies. For example, foodstores may be just as successful with high prices and extensive services as with low prices and minimum services. Different types of customers with different needs will be attracted by the two sets of strategies. Strategies of fast food chains are designed to attract different people than those of elegant restaurants. Many of the foodservice product lines have matured and are undergoing modification with new product or service introductions. Food product life cycles also apply to foodservice products.

Some foodservice firms specialize in products that have uniform characteristics (for example, hamburgers of the same shape and weight), just as products in the private label channel do. Some eating places such as hospitals, office cafeterias, airlines, vendors, and fast food chains may purchase partially or fully prepared meals that meet their specifications at negotiated prices. In such cases, the selling firm focuses on efficiency so it can compete on the basis of price and reliability, rather than on marketing strategies.

Marketing Environment

The firm develops marketing strategies to achieve its growth objectives, given its own resources, capabilities, and skills. The premier marketers consider more than just their own attributes and domestic markets in setting strategies. They anticipate

changes that will permit the creation of new products and that influence the demand for products. Recognizing that domestic markets are not isolated, they position their products and activities in a global context. Marketing strategies are thus shaped by external forces such as the following:

Technology

Developments in technology are changing the characteristics of both raw and finished products. Membrane technology (a filtration technique used in food processing) permits concentration and purification. Irradiation and aseptic processing and packaging extend shelf life. Biotechnology can alter the characteristics of products. Computerized process control and robotics can improve quality and reduce cost. Technology can thus be used to create new products or modify existing ones so that they better satisfy the needs and preferences of consumers in different segments of the market.

Trends in Consumer Behavior

Consumer needs and preferences are continuously changing as a consequence of demographic and psychological factors, assimilation of new knowledge about foods, fads and fashions, concerns about health and nutrition, and many other forces. Demographic factors can be accurately projected so their effects on consumer behavior can be anticipated. Marketing strategies will call for the development of new or modified products that are positioned in channels and market segments where growth will be most rapid and where the firm will benefit most from changes in consumer buying patterns. For example, softer, more easily digested products might be developed for an aging population; package size might be reduced to accommodate the needs of single-occupant households.

International Competition

U.S. markets for raw and finished products have become more open to foreign competition, so that marketing strategies must consider the international perspective. U.S. food marketing firms must weigh the advantages and disadvantages of procuring and processing raw products here rather than elsewhere. To enter foreign markets, they can acquire firms in other countries, export finished products, or license the production of their products in foreign countries. Foreign firms have been active in the acquisition of U.S. food marketing firms and in licensing the production they control.

The competitive position of U.S. products is constantly changing. There are many instances of the use of a raw product shifting from one finished product to another because of changes in competitive position. Marketing strategies position the products of the firm so that they have a competitive advantage in a global market.