

RESEARCH REPORTS & UPDATES

The Industry: Trends and Observations

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U P D A T E S

A Pilot Study of Strategic Issues Facing

The Food Industry in the United States

by

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Problem

The U.S. food industry has been facing many challenging new demands that are dramatically affecting the way it conducts business. In an attempt to better understand the importance of these demands to the food industry and what it is doing to respond to these challenges, a pilot study was undertaken to determine the relative importance of several strategic issues to the largest food processing companies in the United States and the responsive tactics that these food companies are following.

Methodology

During the last quarter of 1988, a mail survey of chief executive officers of the 100 largest food processing companies in the United States were asked to rate in importance on a scale of from 1 to 5 (1=extremely; 2=very; 3=moderately; 4=hardly; 5=unimportant) nine identified strategic issues and 28 sub-issues facing

their firms. They were also asked to match from among 31 actions or tactics those that were most applicable in their companies for dealing with the strategic issues.

The total food sales of these 100 companies represents approximately 65 percent of the value of shipments in food processing in the United States.

Results

Based on a 30 percent response rate of varying usability, the strategic issues the companies ranked in the order of importance were:

- (1) health and nutrition (1.46);
- (2) economic growth and profitability (1.69);
- (3) accelerating pace of technological change (2.00)
- (4) demographic changes (2.09);

- (5) high cost and failure rate of new product development (2.15);
- (6) mergers and acquisitions (2.38);
- (7) government regulations (2.43);
- (8) divestitures (2.85);
- (9) foreign activity (3.04).

The tactic that is mentioned most for responding to the identified strategic issues is the development of a range of products in the following descending order of importance:

- (1) refrigerated, packaged dry, aseptic, formulations for older people;
- (2) fresh;
- (3) convenience;
- (4) formulations for exercisers, healthy foods;
- (5) gourmet, microwaveable;
- (6) food service;
- (7) world tastes, snacks;
- (8) cereals;
- (9) medical foods, seafoods.

The next eight most mentioned tactics in descending order are:

- (1) develop joint ventures/strategic alliances;
- (2) emphasize strong brand franchises;
- (3) increase emphasis on line extensions/reformulations/repackaging/category expansion;
- (4) product superiority;
- (5) accelerate new product introductions;
- (6) acquire food companies;
- (7) develop new ingredients;
- (8) increase efforts in new technologies.

The tactics mentioned the least often as having applicability to the strategic issues are: acquire non-food companies, decrease prices, develop defense tactics to discourage acquisitions, reverse diversification, and safety studies.

Major Findings and Implications

The most important strategic issue, health and nutrition, which included sub-issues such as links between diet and disease and findings related to calcium, sodium, dietary fiber, fat, etc., generated the largest number of tactical programs (11). The primary tactical program that these companies are following is the development of

products such as healthy foods, formulations for older people and people who exercise. Other tactical programs of importance were the development of new ingredients such as low calorie fats and high intensity sweeteners, and nutritional labeling.

As a strategic issue, economic growth and profitability ran a close second to health and nutrition and was considered very important. The companies seemed to approach dealing with this issue in a balanced fashion. For example, the development of the whole range of products except medical foods was mentioned. Also stated often was an increased emphasis on line extensions/reformulations/repackaging/category expansion. On the cost savings and pricing side, the following tactical programs were most often mentioned: decrease the advertising budget, reduce debt, cut costs, and increase prices.

Product development was the most mentioned tactic to deal with demographic changes. Products such as gourmet, refrigerated, convenience, packaged dry products, aseptic packaged, formulations for older people and food service were mentioned most often. Other tactical programs most mentioned for dealing with demographic changes are emphasis on strong brand franchises, increasing the advertising budget and increasing emphasis on line extensions/reformulations/repackaging and category expansion.

Surprisingly, there were six strategic issues that were of more importance to the responding companies than government regulations. Indeed, government regulations as a total strategic issue was only of moderate importance to the companies. However, two sub-issues (the labeling of ingredients and safety warnings, e.g., "Proposition 65") were considered very important. Irradiation, as a government regulation, was considered hardly important. This finding can be considered unexpected when one reflects on the press coverage of irradiation. The way that these companies are dealing with this strategic issue is through warnings on labels as to risks and consequences and close communication with the F.D.A.

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