2 Changing food marketing systems in western countries

M.T.G. Meulenberg and J. Viaene

2.1 Introduction

Agricultural and food products have traditionally been marketed through institutionalized markets, such as commodity exchanges, auctions and wholesale markets. Prices are the central coordination mechanisms in such markets. However, agricultural and food markets have changed drastically in the last few decades. Perhaps the most fundamental change is the shift from production to market orientation. In order to establish a strong competitive position in their market, agricultural and food companies have to produce goods and services which match the wants and needs of consumers. In this context the coordination of company decisions in the food marketing system has become extremely important. Consumer orientation, competitive strength and marketing efficiency are key words in agricultural and food marketing. In conjunction with this development, food marketing systems have become more diverse and more sophisticated.

This chapter is concerned with changes in the food marketing system, in particular in the European Union (EU). First, a framework of the marketing system is proposed in order to analyse marketing and markets of agricultural and food products. Afterwards developments in the environment of the food marketing system are reviewed. Subsequently structural developments in food marketing systems are analysed. Attention will be paid to actors in the marketing channel, such as farmers, wholesalers, the food industry and retailers. Marketing strategies which have become important in the European food marketing systems are reviewed. The chapter ends with some conclusions.

2.2 The food marketing system: a framework

Direct marketing from farmer to consumer is the exception rather than the rule in Western countries. Agricultural marketing channels have evolved into food marketing systems consisting of different actors, such as farmer, wholesaler, the food industry and retailer.

Figure 2.1 Basic patterns of food marketing channels

Farmer	Farmer	Farmer	Farmer	Industry
Consumer	Middleman	Wholesaler	Wholesaler	Farmer
	Consumer	Retailer	Industry	Industry
		Consumer	Retailer	Retailer
			Consumer	Consumer

These actors, sometimes organized in a specific way, such as cooperatives, have emerged in the food marketing channel for reasons of effectiveness, efficiency or equity. For instance, dairy cooperatives have been set up in the past in order to: (a) increase marketing *effectiveness*, e.g. by product innovation and better product quality; (b) improve marketing *efficiency* e.g. by economies of scale in processing and logistics, and (c) enlarge *equity* by strengthening farmers' bargaining power vis-à-vis other actors in the marketing channel.

The exchange process for food and agricultural products can take place through institutionalized markets, such as commodity exchanges, auctions and wholesale markets. Other types of exchange processes, such as a direct relationship between producer and retailer, are becoming more popular. The structure of markets and marketing channels has become more diverse and depends on the marketing strategy pursued by the actors of the food marketing system. In some cases food marketing systems need specific inputs within the context of their product policy, and for that reason agribusiness companies, such as mixed feed or seed companies, are becoming a part of the system. In other cases food marketing systems shrink by excluding or integrating companies, e.g. the exclusion or integration of a wholesale company in the exchange process between producer and retailer.

The analysis of food marketing and markets should cover the system of actors involved in the marketing of a food product. In real life there is a great variety of food marketing systems ranging from *conventional marketing channels*, where actors are connected by markets and coordinated by market prices, to *vertical marketing systems*, where actors operate on the basis of a coordinated marketing plan.

Essentially an analysis of food marketing systems is based on the following questions: Which marketing functions are performed? How is the performance of these functions institutionalised? What kind of relationship exists between these institutions? This framework can structure the analysis of current dynamic food marketing systems.

2.2.1 Functions

The performance of marketing functions should be based on a thorough knowledge of the environment of the marketing system. Various aspects of the environment can be differentiated: the *general environment*, which influences medium and long term marketing policies of a company, and the *task environment*, which is relevant in a specific product-market combination. Within the *general environment* a distinction can be made between the economic, demographic, social, political, physical and technological environments. On the demand side, trends in the general environment cause changes in consumer wants and needs with respect to food products and services, and, on the supply side, new systems of production and information. For instance, many agricultural and food companies are interested in future

developments in biotechnology and in their acceptance by consumers. These environmental trends determine the opportunities for and threats to food marketing systems in the medium and/or long run.

The *task environment* of a food marketing system consists of: (a) consumers or customers, as well as consumer groups and lobby groups representing societal interests, (b) competitors who operate in the same target market; (c) a government, which both stimulates and regulates agricultural and food marketing. Every product/market combination has a specific task environment. However, task environments of many product-market combinations have developments in common since they result from the same general environment. These common changes in the task environment will be included in our discussion of the general environment.

2.2.2 Institutions

How should the fulfilment of marketing functions be institutionalized, in order to best serve the chosen target group? Should companies differentiate or integrate specific marketing functions and which criteria should be applied for that purpose? In general, such decisions are based on the criteria of *effectiveness, efficiency and equity*. Theories about marketing channel structure use specific criteria which essentially are related to these three basic criteria. For instance, marketing theories about the length of marketing channels, use efficiency/costs criteria (Stigler, 1951; Bucklin, 1965; Mallen, 1977). Effectiveness criteria, such as sales volume and margins, have also been used in theories about channel length (Aspinwall, 1962). Equity criteria, in particular channel power, have been applied in the behavioural analysis of marketing channels (Stern, 1969; Brown et al., 1995).

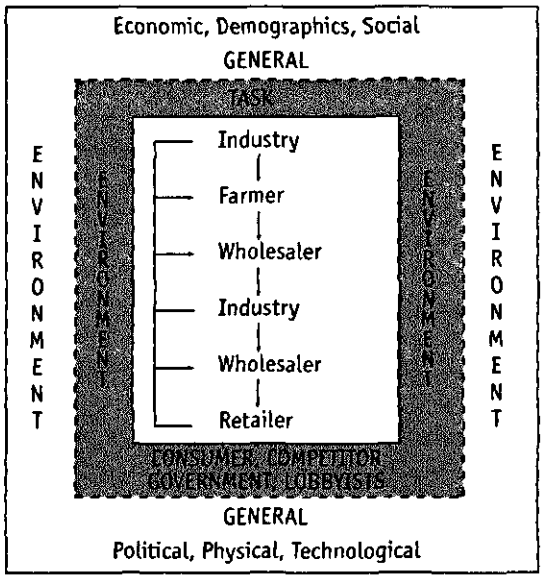
2.2.3 Relationships

The relationship between actors in the food marketing system is a correlate of the marketing strategy and marketing functions to be performed. In spot markets relationships between actors are weak. They are close in food marketing systems when marketing policies have to be coordinated precisely, such as in the case of marketing private brand names. These relationships between actors in the food marketing system can be informal or legally binding. Consequently, an analysis of food marketing systems has to consider the implications of changing marketing strategies for the relationship between actors in the system.

In summary, the proposed framework for analysing changing food marketing systems perceives the actors involved in the marketing of food products as members of a *marketing system* which has to respond to changes in its environment with an effective marketing strategy. Also, autonomous developments within companies of the system, such as the development of new retail concepts, new processing technologies and breeding methods, will

have a strong impact on food marketing. Good *relationships* between the actors of a food marketing system are crucial for good performance.

Figure 2.2
A framework for food marketing systems



2.3 Developments in the environment of the food marketing system

Changes in the environment of the food marketing system are opportunities and threats for marketing strategies. We will discuss these changes concisely and elaborate some topics. In our exposition we follow the classification outlined in Section 2.2, of economic, demographic, social, political, physical and technological environments.

2.3.1 Economic environment

The economic environment influences marketing strategies of the food system in various ways. Per capita disposable income is a basic determinant of food consumption. Its quantitative impact can be expressed in the income elasticity of food demand. Income elasticities of the demand for generic food products are small in Western countries. This is one of the reasons for saturation in food consumption: the well-known Engel's law states that with increasing income the percentage of consumers' disposable income spent on food decreases (see table 2.1). However, it should be kept in mind that consumer demand for built-in services and for quality is more sensitive to income changes than the demand for food in terms of volume.

Table 2.1 Per capita consumption of food, drink and tobacco in EU (EEC), expressed in ECU and as a % of the total consumption in EEC

Year	Food, drink and tobacco (ECU)	Total consumption (ECU)	Food, drink and tobacco as a % of total consumption
1982 [1]	1137	5059	22,47%
1985 [2]	1169	5613	20,83%
1989 [2]	1661	8227	20,19%
1993 [3]	1852	9924	18,66%

[1] EUR10 [2] EUR12 [3] EUR15 *Source: Eurostat*

The volume of gross domestic product in the EU increased by 2.75% in 1994, and by 3.0% in both 1995 and 1996 (Centraal Planbureau, 1995, p. 38). It is expected that per capita income in Western countries and in many other parts of the world will still increase substantially yet. Some middle and east European countries also realized substantial increases in gross national product, e.g. the gross domestic product of the Visegrad countries (Czech Republic, Hungary, Poland and Slovak Republic) increased by 4.0% in both 1994 and 1995 %, and by 4.5% in 1996 (Centraal Planbureau, 1995, p. 44). The expected future income growth in Western countries creates only modest opportunities for a volume increase of per capita food demand, because of low income elasticities of demand. The Dutch Planning Bureau (Centraal Planbureau, 1992, p. 160) projected an annual increase in food consumption in the Netherlands of between 1.6-2.6% for the period 1991-2015.

Food sales in a country not only depend on average per capita disposable income, but also on income distribution. In fact, it is argued that income distribution in many Western countries is becoming more skewed. While there is a large number of consumers who earn substantial incomes in booming Western economies, the number of low income consumers, such as unemployed people, immigrants and single mothers, is increasing. Greater income inequality increases opportunities for market segmentation in food marketing, such as by providing price conscious consumers with low prices or by providing quality conscious consumers with high quality products.

Another change in the economic environment of food marketing systems is the shift away from government intervention towards the primacy of the market. This is reflected in changing agricultural policies. This point will be elaborated further in our discussion of the political environment.

2.3.2 Demographic environment

The EU population is expected to increase only slightly in the period 1995 to 2000, from 371.5 million to 375.0 million, and is projected to decrease in the first half of the next century, to 337.3 million by 2050 (Euromonitor, 1997, p. 128). This stability (albeit with a slight decrease in population size), reinforces the tendency towards saturation in EU food markets. However, the

total world population is expected to grow substantially from 5.7 billion in 1995 to 8.1 billion by 2025 (Bos et al., 1994), which will stimulate global food demand considerably.

Another important demographic development is a greying population: while in the period 1990 - 1995 the EU population increased from 365.7 million to 371.5 million, the number of persons aged 65 years and over increased from 52.7 million to 56.0 million (Euromonitor, 1997, p. 123, 128).

Studies in the United States suggest that there is no fundamental difference between the food consumption pattern of elderly people and of other consumers, except that they normally have a lower and less nutritious food intake and that they need less energy (Senauer, 1991). In the Netherlands the intake of calcium and phosphate by elderly people has been lower than the recommended quantities (Westenbrink, et al., 1989). The greater need of elderly people for food products accompanied by services, both in the stage of purchasing and of preparation, is also important.

Other demographic developments in the EU which are relevant to food marketing systems include smaller families, better education and an increasingly multiracial society.

The trend towards smaller families, where both partners have a job, stimulates the demand for convenience and 'away from home' consumption. In 1991 expenditure on 'away from home' consumption in the EU was highest in Mediterranean countries: per capita expenditure on 'away from home' consumption in 1991 amounted to $760 in Spain, $600 in France and Italy and $460 in Germany and United Kingdom (quoted from Euromonitor by Gaasbeek, 1996, p. 9,10). However, it appears that expenditure on snacks and fast food is higher in Germany and the UK than in Mediterranean countries. The Mediterranean consumers owe their leading position in 'away from home' consumption to frequent visits to restaurants and hotels. European markets for fast food and takeaway meals are expanding.

It has also been observed that per capita consumption of fresh products such as milk, eggs, and potatoes, is negatively correlated with household size. Whether this is the consequence of a higher consumption level or the consequence of more waste is not yet clear (De Hoog, 1992). Food marketing systems respond to the trend toward smaller households, where both partners have a job, by providing better services such as smaller packages and more attractive opening hours of shops. The mushrooming of fast food restaurants in Western countries is also related to demographic developments.

People are becoming better educated. For instance, while 22.7 % of the bread winners of Dutch households had at least high school education in 1983, this figure increased to 31.4% in 1996 (AGB, 1992; GFK, 1996). As a result, consumers are better equipped to understand and integrate information from commercial and non-commercial sources. However, there is not necessarily a strong correlation between education and food consumption behaviour. For instance, no consistent relationship was found between the level of education and quality consciousness with respect to meat consumption (Steenkamp, 1989).

An important demographic development in Western Europe is that society is becoming increasingly multiracial, at least in the big cities. This development stimulates variety in food supply. It increases opportunities for ethnic food marketing.

2.3.3 Social environment

Socio-cultural changes in the EU which are relevant for food consumption are substantial. Heilig (1993, p. 81) draws attention to three major trends in food preferences, which are related to changing values and life styles: the replacement of simple traditional dishes prepared from raw products in the household with refined, industrially produced food; the disappearing seasonal cycle in food consumption and a trend towards 'exotic' food. Future changes in values and lifestyles will have a great impact on food consumption. Popcorn (1992) suggested social trends for the US economy, which seem relevant for the Western food consumer too: cashing out, cocooning, down-ageing, economics, fantasy adventure, 99 lives, save our society (S.O.S.), small indulgences, staying alive, and the vigilante consumer. 'Fantasy adventure' refers to opportunities for emotional values in food products (exotic food, regional products), '99 lives' refers to the fact that consumers like to have a range of foods available which fit specific consumption situations. The 'S.O.S.' trend stimulates the need for sustainably produced food, 'small indulgences' offer opportunities for delicatessen and speciality foods, 'staying alive' fosters consumer interest in healthy food, and the 'vigilante consumer' requires good quality and safe food.

We will discuss two elements of the changing social environment of food marketing systems, namely changes in values and changes in life styles. These seem particularly relevant to innovation in food marketing systems.

Changes in values

Values are the mental representations of important life goals that consumers are trying to achieve. Rokeach (1973) makes a distinction between terminal values, the preferred end state of being (e.g. freedom, self-respect, happiness) and instrumental values, cognitive representations of preferred modes of conduct or behaviour (e.g. competent, courteous, self-reliant) (see Table 2.2).

Various studies have been made of the value systems of European consumers. One study observed much similarity in the ranking of terminal values: happiness, nice family, a world of peace and true friendship ranked highest in the Netherlands, Great Britain, Germany and Italy. Interestingly there was a substantial difference in the ranking of the value 'a beautiful world': 9th in the Netherlands, 6th in Germany, 9th in Italy and lower than 10th in Great Britain (De Waard, 1990, as quoted by Steenkamp, 1992, p. 14).

Discussing changing values in Western civilization, Plummer argues that the self-fulfilment ethic, better quality of life, and 'work to live' are of increasing

Table 2.2 Instrumental and Terminal Values according to Rokeach

Instrumental Values (Preferred modes of behavior)	Terminal Values (Preferred end states of being)
Competence	Social Harmony
Compassion	Personal Gratification
Sociality	Self-actualization
Integrity	Security
	Love and Affection
	Personal contentedness

Source: Rokeach (1973) as quoted by Peter and Olson (1993, p. 98)

importance (Plummer, as quoted by Engel et al. 1995, p. 627). Increasing importance of these values influences consumers' perception and evaluation of product and production systems, in particular the importance of sustainability (animal welfare, food safety, package waste and manure problems) in product evaluation. Consumers do not only demonstrate their environmental concern by their food consumption behaviour, but also articulate their concern by joining consumers' groups and environmental lobbies (e.g. Rifkin, 1992). The impact of these groups on environmentally friendly food production and marketing is substantial.

Understanding the impact of values on food consumption is important for marketing strategy. A model which centres on the relationship between values and product characteristics is the means-end chain model. According to Peter and Olson (1993, p. 100): 'Researchers have developed several means-end chain models of consumers' knowledge structure. Despite different terminology, each model includes the three levels of product meaning discussed above - knowledge about attributes, consequences (benefits or risks), and values. Each means-end model proposes that consumers form meaningful associations that link product attributes with consequences and values.'

Attributes ——— Consequences ——— Values

Many means-end chain analyses have been made for food products (e.g. van den Abeele, 1992).

Changes in life styles

Life styles, a summary construct defined as *'patterns in which people live and spend time and money'* (Engel, et al., 1995, p. 449), are related to consumption patterns. While values are relatively enduring, life styles change more rapidly (Engel, et al., 1995, p. 449). They are measured on the basis of activities, interests and opinions of people. Food-related life styles have been analysed in some detail. For instance, it has been reported that the

company General Foods identified a segment of health-conscious consumers and repositioned its Sanka brand of decaffeinated coffee towards that group of consumers (Engel, et al., 1995, p. 454). Recently research has been done by Grunert et al. on food related life styles, defined as: '...non-product specific traits of people's purchasing motives, quality aspects, shopping habits, cooking methods, and consumption situations with regard to food.' (Grunert, et al. 1996, p. 49). On the basis of data from France, Germany and Great Britain these authors differentiated seven food-related life styles: the uninvolved food consumer, the careless food consumer, the moderate food consumer, the conservative food consumer, the rational food consumer, the hedonistic food consumer, the adventurous food consumer. The French consumer appeared to be a more hedonistic, and uninvolved or careless consumer, and the adventurous consumer was more important in Germany and Great Britain (Grunert, et al., op. cit.).

Fischler (1993, p. 58) summarized socio-cultural trends in food consumption: 'The socio-cultural context of culinary systems ...which traditionally determined what should be eaten, by whom, and when, has rapidly changed. Social norms are eroding or loosening. In all developed countries, market research shows the existence of a trend towards apparently unstructured food intake. In France, for instance, in a growing part of the population, the structure of the traditional food pattern tends to become less constraining (length of meals, number of dishes, snacking, skipping courses or meals, etc.).'

These socio-cultural changes create opportunities for and threats to the food marketing system. They stimulate new product development, repositioning of products and the addition of services with the product.

2.3.4 Political environment

The following changes in the political environment of the food marketing system seem important for marketing strategies: (a) more open international markets; (b) decreasing government support to agriculture; and (c) increasing concern of government about environment and health issues.

a) The rules to which member countries of the GATT are committed by the Uruguay Round, concluded in December 1993, lead to more open world markets. The main commitments are (see Anania, 1997, p. 162):
   - reduction of market intervention (measured by an Aggregate Measure of Support) by 20% over the six-year implementation period;
   - improved market access through replacement of non-tariff barriers by 'equivalent' tariffs, and through reduction of the tariff's unweighted average by at least 36% within a period of six years;
   - reduction of subsidised exports by 21% and reduction of the subsidy expenditure by 36% over a period of six years up till 2001.

b) Total Common Agricultural Policy (CAP)-related expenditure amounted to about 40 billion ECU in 1995, within an overall budget of about 75 billion ECU. The agricultural expenditure of the EU is criticized by some

member states because of the excessive costs of the CAP.

The CAP reform of 1992, the 'MacSharry' reform, consisted of three parts: a reduction of the market intervention price for cereals by approximately 30 %, combined with compensatory income support payments per ha; a 15 % reduction in the market intervention price for beef within three years; a number of accompanying measures related to environmentally friendly production, afforestation of farm land and early retirement schemes (SER, 1996).

The costs of CAP will, *other things remaining equal*, increase as a result of the forthcoming EU membership of some middle and east European states. As a result, more changes are in the offing and the CAP will probably shift further from market intervention to income support. Total agricultural expenditures of the CAP are projected by the European Commission to increase from 43.3 million ECU in 1990, to 50.0 billion ECU in 2005 (Commissie van de Europese Gemeenschappen, 1997, p. 95).

c) Governments are becoming increasingly concerned about the sustainability of the physical environment and the viability of rural areas. Agricultural policies are complemented by rural and environmental policies. Environmental policies of governments comprise constraints to production and marketing (environmental rights), eco-taxes, environmental covenants, and eco-labelling programmes. There is no one way solution for environmental problems. Many governments combine different types of policies: 'push strategies' which stimulate businesses to pursue environmentally friendly methods of production and marketing; 'pull strategies' which stimulate consumers to search for environmentally friendly products and 'interface strategies' which try to make market supply more transparent with respect to environmental friendliness.

2.3.5 Physical environment

The degradation of the ecological environment is a societal problem, which is relevant to agriculture, the food industry and society at large. Many consumers are aware of environmental problems, but are not knowledgeable in this respect, let alone behave in an environmentally friendly way. Consumers cannot distinguish the environmental friendliness of a product as such. It is a 'credence' attribute which has to be differentiated in the market by information provided with the product (such as by a label or a type of shop). Since environmental friendliness offers no hedonistic utility, but satisfaction from socially responsible behaviour, this attribute is difficult to market. However, consumers appreciate environmental friendliness also, since this product attribute is perceived to be associated with animal friendliness and health (Oude Ophuis, 1992, p. 37) Limited consumer awareness and appreciation of environmental friendliness of food products makes the promotion of environmentally friendly behaviour by consumer groups and by environmental lobbies important.

In this context it should be noted that environmental friendliness is not only difficult to evaluate for consumers but also for experts. Experts some-

times have different opinions about the urgency of environmental problems, such as global warming, and about the methodology of measuring environmental problems, e.g. life cycle analysis (e.g. Guinée, et al., 1993, as quoted in Simmons, p.254). Simmons (1996, p 252) argues: '..environmental problems cannot be defined exclusively in terms of objective physical processes. Just as they have their origins in particular patterns of social activity, so their significance and meaning for us is socially negotiated. The 'environment' is no longer something external to society but is, in a very real sense, implicated in the complex patterns of social and economic activity in which we engage.'

Ecological aspects are particularly important for specific food marketing systems, such as the production and marketing of pigs and poultry. The wave of biotechnological inventions has also triggered discussion about the sustainability of food marketing systems.

2.3.6 Technological environment

During the past fifty years food marketing systems have experienced a great many innovations, both process and product innovations. Technological developments are expected to change future food marketing systems a great deal. New findings in the fields of information technology (IT), computer science, biotechnology, and transportation methods will be introduced into the food marketing system. Key areas in food preservation and processing include irradiation, micro filtration, microwave pasteurisation, extrusion cooking and high-pressure processing. In addition, biotechnology offers a new spectrum of opportunities. A major packaging trend is packaging under modified and controlled atmosphere, preferably using recyclable or biodegradable materials.

These technological developments create opportunities for new products and services, and are instrumental in decreasing marketing and production costs. Advances in information technology will also improve the speed and precision of exchange processes. New exchange methods, such as marketing through the Internet, will emerge. Computerization of production and logistical processes will further reduce production and marketing costs and increase the flexibility of food marketing systems. Advances in biotechnology enlarge opportunities for new products which fit specific needs, e.g. with respect to health and environment. However, many European consumers (or at least consumer groups) seem to be suspicious about the health characteristics of food produced by modern biotechnological methods. The enormous potential of new technologies in food preservation, processing and packaging have to be analysed, taking into account relations with the consumer and the market structure (Viaene & Gellynck, 1996). It is of major importance to the food industry that consumer resistance and prejudice concerning innovation be overcome. It is vital to know whether a technologically new food product or packaging responds to consumers' needs or will be accepted by the consumer in order to determine its economic feasibility. A major task lies in closing the

communication gap between the scientist, technologist, and the consumer. The technological know-how has to be translated in understandable and acceptable terms for the consumer. The consumer has to be able to make choices based on credible and widely available information.

2.4 Changing actors in the food marketing system

Changes of actors in food marketing systems are to a large extent a response to a changing environment. Food marketing systems are also changing because of autonomous developments of actors themselves: companies invent new technologies and concepts which are transformed into product/process innovations in the food marketing system.

There is a great diversity of actors in Western food marketing systems. Nevertheless many actors show similar developments. An important one is the move towards consumer orientation. Therefore we start our discussion of actors in the food marketing system with the food retailer, being nearest to the consumer.

2.4.1 Food retailers

Trends in European food retailing since World War II basically concern the effectiveness and efficiency of policies, processes and organizations.

Effectiveness of food retailers: marketing policies

Food retail companies have become more market oriented. They are increasingly concerned with how to serve customers best through specific marketing policies. The width and depth of the product assortment are the cornerstone of the marketing policy of a food retailer. This marketing policy is reflected in the type of store, such as supermarket, hypermarket, speciality shop or discount store (see Figure 2.3).

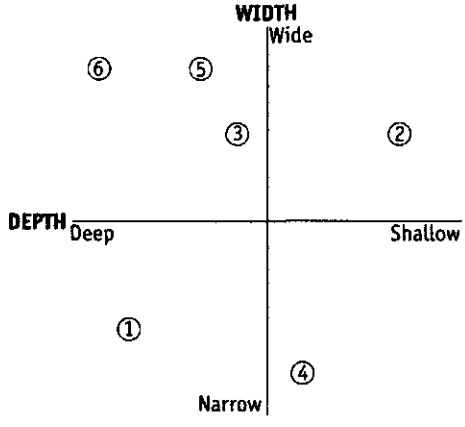


Figure 2.3 Store type as a function of Width and Depth of assortment

Decisions with respect to the assortment, and its 'width and depth', have implications for other marketing instruments, such as price, promotion, location and opening hours. For instance, the wide and shallow assortment of discount stores goes along with a low retail price. The policy of a narrow and deep assortment by speciality shops leads to high retail prices.

Targeting of specific market segments, such as 'hurried consumers' or 'price-conscious consumers', is a core element of many retailers' strategies. Positioning vis-à-vis competitors in the target market has become a strategic issue too.

Food retailers are constantly searching for new products and services, and adapt to changing markets. Options include longer opening hours, delivery at home, selling prepared meals and a location at convenient spots (e.g. petrol stations).

While mass distribution by supermarkets has become the dominant type of food retailing, the speciality shop has expanded to complement mass distribution by supermarkets. The increasing attention paid by food retailers to fresh produce is often implemented by setting up shops within the shop, which carry wide and sometimes even deep assortments. In this way retailers respond to consumer demand for the convenience of one-stop shopping and to the need for quality and variety.

Retailers benefit from new opportunities by introducing innovative retail formulas. Recent developments include home-delivery, drive-ins, automatic food dispensers, food shops in petrol and railway stations. These new distribution formulas offer a wide variety of choices and respond to the demand for availability of food wherever and whenever the consumer wishes.

Although retailing through the Internet is still at a very early stage in Europe, it is expected to have potential for the future. The consumer is also becoming increasingly familiar with technology, which offers new opportunities for technology-based in-store promotions and advertising.

Efficiency of food retailing; efficient logistics

Retail costs per unit of product will (other things remaining equal) increase when assortments are broadened and services are increased. Consequently the shift towards larger supermarkets is reinforcing the efficiency drive of supermarkets. Low price strategies, such as discounting, also stimulate efficiency and the search for low purchase prices by food retailers.

Efficiency improvements in food retailing are in particular pursued by logistical planning. The paramount importance of logistical efficiency is obvious in view of the large number of items per store and the number of outlets per food chain. Aldi have about 600 lines, Warehouse clubs typically about 3500, Carrefour about 5000 grocery lines, Casino about 9000, Sainsbury and Tesco stores between 10,000 and 20,000 lines (Corstjens and Corstjens, 1995, p. 197). Albert Heijn, a food chain of the Dutch holding Ahold, had 665 stores in 1997. Minimizing inventory costs, e.g. by converting storage floor space in supermarkets to sales floor space, by efficient

transport routing, standardization of pallets and package size are devices to improve logistical efficiency. Technological innovations are helpful in this respect. For instance, advances in Information Technology, such as the use of bar-codes, scanning at check-outs and electronic data interchange have contributed to efficient sales monitoring and ordering processes.

In logistical planning, concepts and models such as Just in Time (JIT), and route planning models contribute to higher efficiency. Logistical efforts of food retailers have decreased the lead time from supplier to food store substantially. (Table 2.3)

Table 2.3 Lead-time from supplier to distribution centre (DC) and from distribution centre (DC) to store in the Dutch food chain Albert Heijn

Leadtime	Supplier/DC	DC/Store
Past	120-48 hours	48-36 hours
Present	48-24 hours	18-12 hours
Future	12- 4 hours	18- 4 hours

Source: Willemse, J.N. (1996)

Logistical costs have also decreased through contracting-out of logistical functions. This is particularly the case in the UK, where already in 1989 specialist contractors were responsible for about 44% of retail logistics for grocery multiples (Cooper, et al., 1994, p.114).

Low purchase prices are an important ingredient of a low-cost retail strategy. The strong bargaining power of retail chains vis-à-vis suppliers is important in this respect. In fact, food retail chains have substantial bargaining power because:

Table 2.4 European food retailing groups: top 10 by turnover

Company	Listing	Turnover billion US $	Net income million US $	Mkt. cap. billion US $
Metro [1]	Germany	31.19	235.72	4.97
Carrefour	France	27.82	680.17	13.13
Promodès	France	19.24	192.74	4.76
Karstadt	Germany	17.51	123.01	3.09
J. Sainsbury	UK	17.15	808.61	10.47
Ahold	Netherlands	16.86	238.27	6.22
Tesco	UK	15.25	573.8	9.11
P'Printemps	France	14.97	290.46	6.81
Casino	France	12.33	121.76	2.41

[1] formerly Asko and Kaufhof

Source: Poole (1997, p. 8) Adapted from Financial Times (1996a)

- food retail chains have become big companies purchasing products in oligopsonistic markets. As a result they are attractive clients for food manufacturers.
  In some cases concentration of purchasing by retail chains has been even extended to international alliances of retail companies, such as the German group Gedelfi, consisting of the chains DAGAB, Spar, Karstadt, Allkauf, Norma and Unigro (Patt, 1993, p. 86).
- there is a surplus of production capacity in Western agriculture and food industry. The CAP of the EU has stimulated production. Notwithstanding the production limitation by quota (milk, sugar), and the recent shift from market support to income support, there is still productive overcapacity. In the discussion paper of the European commission for the year 2000 it is argued that overproduction in agriculture should be further decreased by reducing price support (Commissie van de Europese Gemeenschappen, 1997).
- most food producers supply products to the market which are only to a limited extent unique. Many innovations are modifications of existing products. Competitors imitate successful products before long. As a result food retail chains can select from a great many alternatives.

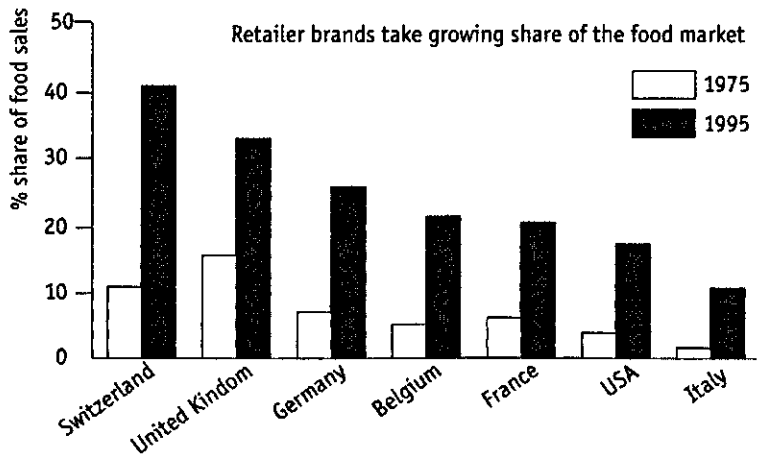
In view of the strong bargaining power of retail chains it is extremely important for food manufacturers to build a close relationship with food retailers. The Food Marketing Institute argues that this relationship should be guided by the following principles: 'Focus on providing better value to consumers,...Move from win/lose to win/win...Develop accurate and timely information....Maximize value-adding processes....Develop a common and consistent performance and reward system...'. ECR (Efficient Consumer Response) has become an important concept to frame the relationship between supplier and food retailers. The cost and financial savings to be made by ECR are categorized as efficient assortment, efficient replenishment, efficient promotion, and efficient product introduction (Kahn and McAlister, 1997, p. 64, 66).

The market share of own brands is steadily increasing. While own brands in leading UK food chains, such as Sainsbury, Tesco and Marks and Spencer, already accounted for more than 50% of total turnover in 1991, this figure was still substantially lower in other West European countries (quoted by Corstjens and Corstjens, op. cit., p. 146, 149). Own brands increasingly dominate in many generic food and beverage categories. Own brands are lower priced, but nevertheless, because of low purchasing costs, carry attractive margins for retailers. While in the past own brands were introduced as the cheap alternative to many cheap producer brands, there is currently a growing tendency to position these as products of good quality, which are cheaper than national brands.

Figure 2.4 (Datamonitor, 1996) indicates how the market share of retailer brands in the food market increased during the period 1975-1995.

Figure 2.4
Own brand share of grocery business 1995 vs 1975

Source: Datamonitor (1996, p. 40)



Organisation of food retailing: institutional dynamics

A dynamic organisational structure is also a characteristic of modern food retailing. Food retailing has shifted from small independent outlets, grocery stores, greengrocers, butchers' shops or bakeries to large food chains. During the period 1984 - 1994, large and middle-sized distribution chains (both big retail companies and voluntary chains) continuously increased their market share in many Western countries. This increase in market share is at the expense of the market share of the small independent and traditional shops, whose share in the retail market decreased, e.g. the market share of small independents and traditional shops in Belgium decreased from 19.2% in 1984 to 12.1% in 1994, while the market share of the two largest food retail groups (GIB and Delhaize) increased from 31% in 1982 to about 50% in 1996.

The dominant type of enterprise in food retailing has become the food chain operating in national and international markets. Some food retail chains are in turn a member of a holding company which owns different types of retail chains, sometimes even other types of business. A minor group of small independents remains competitive as speciality shops.

Wholesaler sponsored voluntary chains, such as Spar, have become important in food retailing: independent food retailers often have a contractually binding relationship with a food wholesaler. This relationship between independent retailers and a wholesaler combines the advantages of central planning and purchasing by the wholesaler with the personal motivation of retailers who own their store. In some instances policies of wholesaler and retailers have not been coordinated sufficiently to make voluntary food chains competitive.

Other independent food retailers have joined a *retailer-sponsored volun-*

tary chain, in order to compete with large food chains. In this type of voluntary chain retailers not only cooperate in purchasing but also in marketing strategy and management.

Still other independents have joined a *franchise organization* in order to survive. A franchise organization consists of:

- a *franchiser*, e.g. McDonald's which owns a franchise concept in fast-food selling, or a big retail chain which owns a franchise concept in mass food retailing.
- *franchisees*, independent entrepreneurs who lease the franchise concept.

Franchisers select franchisees on the basis of criteria which are related to the sales potential of the franchisee, such as location of the outlet and managerial capacities of the franchisee. Franchise contracts specify marketing and management procedures to be implemented by the franchisee. These include the product assortment, price level, service, store atmosphere and trade name. Franchisees pay an entrance fee and royalties to the franchiser. A precise specification of the relationship is very helpful to position a franchise organization in its target market.

Consumer cooperatives in food retailing, which started in Rochdale UK in 1844, are still important in Scandinavia and in Switzerland and Italy, but are only of minor importance in many other European countries.

Internationalisation, both international expansion of retail companies and international purchasing agreements through buying groups and alliances, is another organisational feature of modern food retailing. Retail chains such as Aldi (Germany), Intermarché (France), Marks & Spencer (U.K.), Delhaize (Belgium) and Ahold (Netherlands) have internationalized substantially. This process reinforces competition in food retailing.

2.4.2 Food manufacturers

The size of the EU food, drink and tobacco industry is substantial. Its growth rate, however, is decreasing (Table 2.5).

Table 2.5 The EU food, drink and tobacco industry (billions of ECUs, current prices)

	1980	1985	1990	1992	1993	annual change (%) 1983-1988	forecast annual (%) 1988-1992	1993-1997
Production	256	338	412	454	456	3.2	3.0	1.5
Exports to outside EU	N.A.	25	25	28	25	2.3	4.2	3.5
Trade balance	1	4	5	7	5			
Apparent consumption	255	334	407	447	452	2.1	3.0	1.5

Source: Heijbroek, et al. 1995, p. 25

In 1988 Linda (1988, p.130) characterized the European food industry as follows: '(a) widely diversified, this process having dramatically accelerated since 1980; (b) diversification may take place in the form of *product extensions*, limited to a single geographical area. ... more frequently the main objective is to enter a spatially distinct market geographic diversification; it is more appropriate to speak of a functional diversification process propelled by multiple interdependent industrial commercial and financial factors; (c) diversification is the only reliable and practical means for increasing the size as well as the global power of the firm; (d) in the present world of *global competition* research and development is the real *engine* of competitive performance and growth. As a matter of fact, R&D is increasingly *converging* and *commonly orientated*, since it is possible and even economically necessary to *split up* the R&D output between a wide and growing number of market sectors and countries; (e) with respect to the performance of food manufacturing firms, it is evident that they are highly connected with the competitiveness of market structures, the retailing and distributive networks.' Mergers, joint companies and new ventures in the food manufacturing industries represent the means for materializing the diversification process. Linda (1988, p. 143, 144) distinguished different degrees of diversification: (a) *monosectoral firms* dealing either in foods or in drinks only; (b) food and drinks conglomerates; (c) mega firms which are 'distribution and services' orientated; (d) *Polycentric groups*. Their growth is based upon two or more 'poles' of diversified activity, one of which is food and/or drink manufacturing.

About ten years later, in 1997, it looks as if the trend towards diversification is being reversed. Companies are increasingly focusing on *core competencies* and expanding in international markets. For instance, the Anglo-Dutch multinational Unilever shed its chemical activities and is concentrating on food and human-care products. The Dutch company Nutricia is focusing on baby- and health foods in international markets. The UK holding Hillsdown specialises in chilled food production.

It looks as if such developments will lead to further concentration within the food industry but this is not clear yet. The top 100 food companies in Europe had a turnover of 350 billion dollars in 1993, representing 62% of total production in the industry and the 15 largest had a market share of over 31% (Heijbroek, et al., 1995, p. 25). A recent study concludes, '...tales of a structural revolution in the food industry are exaggerated. ...In fact, we have found it in only two countries, Denmark and the Netherlands, and in a small number of subsectors...' (Gilpin, et al., 1997, p. 21).

Internationalisation of the food industry is continuing. Food companies, such as Danone, Nestlé and Unilever have already been operating on an international scale for a long time. Today, companies which have traditionally set up their production plants and management facilities in the domestic market are also steadily internationalizing businesses. A case in point are dairy cooperatives, such as MD foods in Denmark, Sodiaal in France, Campina Melkunie in the Netherlands and Avonmore in Ireland.

A characteristic of today's food industry is the importance of product *innovation*. One indication of this is the fact that the world's twenty leading manufacturers of packaged foods generated 28% of their current annual sales from new products introduced in the previous five years (Datamonitor, 1996).

The relationship of food companies with clients is intensified because of specific customer needs regarding products and services. While food companies in the USA, such as Kraft Food and General Mills relied in the past on their product quality and promotional skills, they now try to base their position in the market on a close relationship with the customer in so-called customer business teams (Kahn, McAlister, 1997, p. 79).

Out-sourcing, on the increase in many sectors, is also gaining importance in food manufacturing. Examples include the out-sourcing of logistical operations and the out-sourcing of food component production by food companies which produce 'ready to eat' meals.

2.4.3 Wholesale companies

Wholesalers traditionally perform important functions in food marketing systems by 'sorting out, accumulation, allocation, and assorting', the elements of the sorting principle of Alderson (1957, p.195). Wholesale companies have adapted themselves to changes in the food marketing system. The need for 'sorting out' and 'accumulation' has decreased because of concentration and standardization in agricultural production. For instance, in egg marketing there is no longer a need for an assembling wholesaler who collects eggs from poultry farms since farm size has increased substantially. In some sectors the wholesale functions of 'allocation' and 'assorting' have been integrated by other channel actors, such as by food retail chains.

While losing business in some food marketing systems, wholesalers remain important actors in many others. In particular, they play an important role in markets for fresh produce and in markets with a heterogeneous product supply, such as cattle markets. They have sometimes even strengthened their market position, by responding appropriately to the market challenges. Types of evolution in wholesaling are:

- big wholesale companies, which buy and sell at an international, sometimes global scale. Their core competencies are market knowledge, international or even global relational networks and logistical capacities. They profit from more open international markets. Globally operating grain merchants are a case in point.
- wholesale companies, which have a special relationship with their suppliers can be an attractive marketing partner because of their market knowledge and their logistical capacities. Food brokers and agents operating on behalf of a foreign food company are examples.
- wholesale companies specialising in specific aspects of the exchange process, such as cash and carry wholesalers. Cash and carry wholesalers operate in the food trade, e.g. Makro, but also in the flower trade.

- wholesale companies which differentiate themselves by superior quality and/or services, sometimes even by own brands. This type of wholesaling is important in the wine and cheese trade.
- wholesale companies with both forward and backward linkages in the food marketing system. Wholesaler sponsored voluntary chains already mentioned before, are an example of forward integration by wholesalers.

2.4.4 Farmers

The trends in West European agriculture are specialisation and concentration. The number of farms is steadily decreasing and farm size is increasing. Farmers specialize in milk production, pig raising, broiler production or flower growing. Specialisation is stimulated by economies of scale in production. This is accompanied by concentration into larger farms. The degree of specialisation and concentration in farming varies between countries and regions. The trend seems important in specific parts of Europe, such as the Benelux countries, some parts of Germany, Italy, and France, whereas other parts of Europe, such as the Alpine regions, are still characterized by small mixed farms.

Since family farms are often too small to develop individual marketing policies, they often join marketing cooperatives or build special relationships with wholesalers, food manufacturers or retailers. At present these relationships are becoming increasingly based on the market orientation of farmers.
Societal concern about the viability of rural communities and about ecological problems caused by modern agricultural practices have stimulated interest in organic farming. In view of the limited size of organic farming, marketing of ecological and regional products is still a niche operation in many European countries.

2.4.5 Specific marketing institutions

In some food marketing systems specialised marketing institutions operate which perform specific marketing functions, such as price discovery, or even the total marketing operation for an agricultural/food product on behalf of a group of farmers.

- Auctions contribute to the price discovery process in agricultural markets. Dutch auctions (auction starts at an offer price higher than any bidder is willing to pay and which is lowered until a bidder accepts the offer) are used in markets for fresh horticultural products, flowers, fruits and vegetables and fish. English auctions (auctions start at a low offer price; bids are publicly made; a bidder who makes the highest bid receives the offer) are used for selling other products including cattle. Auctions also fulfil an important logistical function by concentrating physical supply and demand.
  Product differentiation and relationship-marketing diminish opportuni-

ties for selling through auctions since no special relationship between supplier and buyer can be developed. On the other hand, better communication facilities increase the accessibility of the auction process, and therefore the opportunity for auctioning a standardized product at an international scale.

- Futures markets have been popular in the US for a long time as a mechanism for hedging price risks for commodities such as corn, soybeans and wheat. Commodity futures exchanges are, as yet, of limited importance in European food marketing systems. Various developments in European food marketing systems may stimulate the interest in commodity futures trading:
  - larger, more specialized farms whose income depends on one product and which operate in more open markets and receive less price support from the CAP.
  - larger food companies, which are concerned about price risks in purchasing agricultural inputs.

  Futures markets have been started, or will start soon, in many European countries, including Hungary, Germany and Spain.

- Various marketing institutions perform marketing of agricultural products on behalf of producers. Important institutions in this respect are farmers' cooperatives. In some countries the relevant Marketing Boards market (or marketed) the product of a particular agricultural sector.

Cooperatives started out as organizations, which tried to improve farmers' product prices by increasing the bargaining power of farmers, or by introducing better quality and quality maintenance of food products. They are defined as user-owned and user-controlled businesses that distribute benefits on the basis of use (Barton, 1989). Three concepts distinguish cooperatives from other businesses: a) the user-owner principle: persons who own and finance the cooperative are those that use it, b) the user-control principle: control of the cooperative is by those who use the cooperative and c) the user-benefits principle: benefits of the cooperative are distributed to its users on the basis of their use. Cropp and Engelsbe (1989) indicate potential classifications of cooperatives based on functions performed, structural arrangements, organizational or financial structure.

The shift towards market orientation in food marketing requires cooperatives to adopt a customer oriented marketing policy. A cornerstone of such policy is an agricultural supply of farmer-members which coincides with the marketing concept of the cooperative processing or marketing company. Farmers' willingness to invest in the cooperative, in particular in its markets and R&D is also essential for the success of such a policy. Adoption of modern marketing and management procedures by cooperatives influences the cooperative structure. The following organizational changes, due to a number of factors including the shift toward market orientation, can be observed:

- increase in company size,
- quality of management improves and the rights and responsibilities of top management are better defined;
- special financial structures are developed to generate the necessary risk-bearing capital for the cooperative enterprise.
- some cooperatives have transformed their companies into limited companies, whose shares, or at least a majority of shares, are in the hands of the cooperative union/farmer-members.

These developments enhance a more rational and less emotional relationship between farmers, in particular young and modern farmers, and their cooperative.

In various countries *agricultural marketing boards* and *commodity boards* contribute to the marketing of food and agricultural products of a sector. Marketing boards which are responsible for the total marketing operation of an agricultural or food product are the exception rather than the rule in Western countries. However, promotional boards which support the marketing of generic food products have been set up in many European countries. Sopexa in France and CMA in Germany are examples. Product differentiation and large company size stimulate marketing efforts for the individual company brands at the expense of marketing efforts for the generic products of a sector. On the other hand, new marketing problems are emerging for some food products, such as the poor image of meat, and these have to be tackled by marketing activities of the sector.

Table 2.6 Market shares of agricultural cooperatives in the EU

Market shares (%)	dairy	fruit & vegetables	meat	farm inputs	credit	grain
Belgium	50	70-90	20-30			–
Denmark	93	20-25	66-93	64-59		87
Germany	55-60	60	30	50-60	–	–
Greece	20	12-51	5-30			49
Spain	35	15-40	20	–	–	20
France	49	35-50	27-88	50-60	–	75
Ireland	100	–	30-70	70		69
Italy	38	41	10-15	15	–	15
Luxembourg	80	–	25-30	75-95	–	70
Netherlands	82	70-96	35	40-50	84	
Austria	90	–	50	–	–	60
Portugal	83-90	35	–	–	–	–
Finland	94	–	68	40-60	34	–
Sweden	99	60	79-81	75	–	75
U.K.	98	35-45	± 20	20-25	–	20

Source: Bekkum, O.F. van en G. van Dijk Eds., (1997, p. 29)

2.5 Basic strategies of food marketing systems

Changes in the environment of food marketing systems and in major actors of these systems have been discussed above. Many of these changes are related to the shift of food marketing systems from selling commodities to marketing differentiated products which suit the needs of a chosen target group. Conditions which ensure the success of such a shift include market orientation and effective coordination of policies in the food marketing system. In addition to these, some other strategic developments can be observed in food marketing systems. They are briefly reviewed below.

2.5.1 Market orientation

Market orientation, '...the organization wide generation of market intelligence, pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it' (Kohli & Jaworski, 1990, p. 6, Grunert, et al., p.11), has become indispensable in food marketing systems, since food markets have become buyers' markets. A market orientation implies first of all that companies monitor and analyse their target markets in a systematic way. In the past much information on agricultural and food markets was collected and disseminated for the generic product, say butter or cheese. Since many companies in the food marketing system are trying to differentiate their product, information on specific product-market combinations has become a must. Markets are monitored on the basis of factory sales, household panel data and/or retail panel data. Many food companies use taste panels and do 'ad hoc' consumer research. Market orientation of a company does not only imply systematic collection and processing of market data, but also effective dissemination of information to decision makers. In particular, a good balance should be struck between keeping decision makers informed and avoiding information overload.

Companies which are market oriented and have a well-organized market information system (consisting of a data bank, statistical bank, model bank and a retrieval system), are still scarce in food marketing systems (Grunert, et al., 1996, 13-17, 247). Clearly, poor market information systems are not unique to food marketing systems, but are a problem in many other industries too (Campen van, et al., 1991).

An essential element of market orientation is also that a company responds effectively to market changes. Such responsiveness depends both on the attitude of management and on the production and marketing capacities of a company, all of which still require substantial improvement in food marketing systems.

2.5.2 Policy coordination, chain strategies

Market orientation enhances companies' ability to produce and market foods and services which coincide with the needs and wants of specific target groups. In order to serve the needs and wants of targeted consumer groups,

the decision making of actors in the food marketing system has to be well-coordinated. Coordination of supply and demand by market prices is often not precise enough in present markets and additional coordination mechanisms are used, such as 'mutual adjustment, direct supervision, standardization of work processes, standardization of outputs, standardization of skills/knowledge, standardization of norms' (Mintzberg, 1989; see for a concise discussion: Douma and Schreuder, 1991, p. 37). The choice of a coordination mechanism depends on the transaction costs involved.

Coordination of policies in food marketing systems may lead to a joint strategy of two or more subsequent companies in the system, say 'farmer plus marketing cooperative' or 'pig farmer plus slaughterhouse plus retailer'. Such coordination can be implemented in different ways, for instance through an informal or a contractual agreement. The distinction in the marketing channel literature between administered, contractual and corporate vertical marketing systems (see e.g. Stern, El-Ansary, 1992) has become relevant for food marketing systems too. Chain marketing, i.e. coordinated marketing policies of two or more subsequent companies in a marketing channel vis-à-vis a third party on the basis of consumer orientation, has become important in food marketing. In this context one should be aware of a potentially too rigid coordination, which might prevent an alert response to market opportunities and threats.

It should also be kept in mind that effective policy coordination does not necessarily include all actors of a food marketing system. Coordination may be restricted to specific stages of the channel, say a compound feed company and a farmer. Coordination may also focus on specific flows in the channel, such as focusing on the physical product flow in logistical planning.

2.5.3 Quality orientation

Increase in food sales has to be achieved in Western countries through increasing added value, such as higher nutritional value, better taste and more convenience. Therefore 'focusing' and 'product differentiation' seem better strategies than 'low cost production'. This message has been understood by many food marketing systems but is not so easily implemented. It requires not only changes in capacities and structure of a company but also in company culture. Marketing strategies of companies should be based on a good knowledge of consumers' quality orientation and quality perception (Steenkamp, 1989; Grunert, et al. 1996; Steenkamp and Van Trijp, 1996). Consumer led product development is a must (see Van Trijp and Steenkamp in this book). Quality control in production and in logistical processes (see De Sitter in this book) has become extremely important. Procedures, such as quality certification, Integral Quality Care Programs, and Hazard Analysis of Critical Control Points (HACCP) are applied to maintain and guarantee product quality (see chapters by Van Trijp and Steenkamp, Hoogland et al. in this book).

Product quality is also pursued by environmentally and animal friendly production methods. At the moment there is only limited demand for envi-

ronmentally friendly products, but it is steadily increasing. While there is great variation per country and type of product, the market share of organic food is in many Western countries below 5% of total food consumption yet. Differentiation of food products on the basis of region of origin is another way of improving the food quality image. The EU has enhanced marketing of regional products by giving some regions the exclusive right to market their product under a specific regional label, e.g. Parmesan cheese. The hope is that regional labels are instrumental in capitalizing on the unique features of regional products.

Product differentiation by branding has a long tradition in food marketing, such as in marketing groceries, margarine and coffee. Currently there is growing interest in branding fresh produce too. Unfortunately, some basic characteristics of a branded product, such as constant quality and stable prices, are more difficult to implement for fresh produce than for groceries. Quality control and quality maintenance of branded fresh food might be expensive and fluctuating prices might have a negative influence on consumer loyalty to a branded fresh food product.

2.5.4 Innovation

In some food marketing systems, such as those for dairy desserts, innovation has become a basic characteristic of marketing strategy: product assortments are renewed constantly, often by product modification. However, in many food companies, product innovation does not yet seem to be well integrated in marketing strategies. Features of innovative strategies are market orientation, product involvement, R&D quality, but in particular management commitment (Traill and Grunert, 1997). In many Western countries R&D for agricultural products and - to a lesser extent - for food products used to be a sector activity. Examples are government sponsored agricultural research institutes, such as INRA in France, and industry sponsored research institutes, such as the Dutch Dairy Research Institute (NIZO). However, product development in food marketing systems is increasingly becoming an activity of individual companies, while industry research institutes are focusing on basic and pre-competitive research.

2.5.5 Segmentation

Few food companies market products and services to the *average* food consumer. Most companies go for market segmentation, serving groups of consumers with specific but similar wants, needs and behaviour with respect to a product or service: discount stores focus on price conscious consumers; some food companies target health-oriented consumers; fast-food marketing systems serve convenience-oriented consumers. These developments refute the argument of Levitt (1983) that, driven by developments in technology and mass communication, consumers tend to develop homogeneous preferences around the world. Researchers have also expressed their doubts about this argument (Brunso, Grunert and Bredahl, 1996). In this context it

must be kept in mind that the same person may belong to different market segments, depending on the situation: someone may be convenience-oriented during the week, but quality-oriented when entertaining guests. Increasing interest is paid to the identification of national or cross-national consumer segments (Grunert et al., 1996, Steenkamp, 1992, 1997).

Small and medium-sized agribusinesses and farmers are also showing an increasing interest in special products and consumer groups, such as ecological food and regional products.

2.5.6 Internationalisation

International trade in food and agricultural products has a very long tradition. It is currently becoming a common feature of food businesses in western countries. Food marketing systems are becoming more concerned about their international competitiveness. Factors which influence international competitiveness are summarized by Porter (1990) as 'Factor conditions, demand conditions, related and supporting industries, firm strategy, structure and rivalry'. The competitiveness of food marketing systems depends in particular on natural conditions (climate, soil, etc.), factor costs, infrastructure, location, production, marketing skills, and quality of entrepreneurship. The potential impact of these factors on international competitiveness is influenced by government measures, such as import duties and agricultural protection. Internationalisation of food marketing systems is increasing for reasons reviewed already, such as the progress being made in the areas of IT, efficiency of logistical systems and free trade. Also changes within the food marketing system itself stimulate internationalization. For instance, as a result of concentration in food retailing, big food retail chains have emerged which have the purchasing power to search for food suppliers in international markets.

2.5.7 Market leadership

In various marketing theories market leadership is advocated as an attractive strategy. Portfolio-analysis carried out by the Boston Consulting Group suggests that a Strategic Business Unit with a relative market share (market share over the market share of the largest competitor) of less than one should either quit the market ('dogs') or should invest in order to arrive at a relative market share greater than one (known as 'question marks' or 'problem children').

It has been argued that market leadership is also a desirable strategy for food marketing systems. The advantages of such a strategy seem obvious. In comparison to the competitors, a market leader has more experience with products and markets and as a result profits more from 'economies of scale' in production, marketing and from customers' feedback. A large production volume may mean that a market leader is better placed to supply large buyers and to develop national or international brands than his competitors.

The feasibility of market leadership as a strategy depends also on the cho-

sen target market: can we do better than our competitors in a target market and is that target substantial and durable? A number of producers often focus on the same market-segment, say the market of fast-food consumers. In that case a clear positioning in the target market is necessary to become a market leader. It can be based on product quality, branding, service and price level. Being the first supplier in a market is also helpful for becoming the market leader.

2.5.8 Re-engineering markets

Changing marketing strategies influence markets of food and agricultural products a great deal. Spot markets, where products are physically handled, lose importance. Many local spot markets disappeared as a result of a decreasing need for assembling products from small farmers. The tendency towards a closer marketing relationship between big food producer and big retailer reduces the importance of spot markets too. However, (inter)national spot markets remain important for standardized agricultural commodities, such as grains and potatoes, and for live animals (pigs, cattle), fish and some horticultural products. Spot markets are still attractive for products if both the uncertainty or complexity and the asset specificity of transactions, and consequently transaction costs, are low.

Spot markets also stay in business by improving the efficiency of the exchange process. It is becoming easier to do business by electronic communication without having the physical product at hand. Many spot markets are acquiring a more international scope because of better communication and logistical facilities.

Downstream in the marketing channel spot markets lose importance since a close relationship between actors in the food marketing system, such as between the food industry and food retailer, will be preferred over coordination by market prices at spot markets.

2.6 Conclusions

- The proposed framework of food marketing systems appears to be a useful instrument for the analysis of such systems.

- Our analysis demonstrates that environmental trends - economic, demographic, social, political, physical and technological - have a substantial impact on food marketing systems. The interaction between different trends, such as between economic and social trends on the one hand and political trends on the other, is important in this context.

- Environmental trends are currently influencing food consumer behaviour a great deal:
  - food consumers place greater stress on value for money because of changes in values, as a result of more product information and better education respectively. Lack of meaningful value to the consumer

leads to low product acceptance.
- the demand for convenience in shopping, cooking and consumption is increasing because of changes in lifestyles and values. Demographic changes, such as a smaller household size and more women working outside the home are also important in this respect.
- consumer concern about health and sustainability is causing a growing interest in safe and sustainably produced food. Consumer groups and environmental lobbies are strengthening this trend.
- consumer appreciation of variety and an increasingly multiracial Western society stimulate consumer demand for variety in the food assortment on offer.

- Trends in the technological and political environments of food marketing systems have created opportunities for new products and new processes. In particular the following trends seem important:
  - developments in IT have created new opportunities for collecting, processing and disseminating information. These will lead to improvements in the efficiency of food marketing systems, but also to higher product quality and better quality maintenance.
  - new processing technologies and breeding methods create opportunities for product innovation. Consumers' distrust of specific technologies, such as biotechnology, have become important aspects in the product innovation process.
  - while food markets in Western countries have become less regulated because of changing EU policies and international trade agreements (GATT/WTO), there is more government intervention in the spheres of food production and marketing as a result of environmental problems.

- The actors in the food marketing system have evolved into bigger companies, which pay more attention to strategic issues, such as their mission and core competencies. Strategies such as market orientation, policy coordination, chain strategies, quality orientation, innovation, segmentation, internationalisation and market leadership, have become important in food marketing systems. Markets are being re-engineered as a result of organisational changes and policy changes among the actors of the food marketing system.

- Changes in food marketing systems and their environment create opportunities for new products and services. Innovation has become a strategic issue of food marketing systems. In this respect it is important that some consumers' needs, such as the need for convenience and the need for sustainably produced food, are not always compatible. It is expected that advances in research methods and technology will diminish this incompatibility of product attributes. However, more effort still needs to be made on informing consumers about the positive features of new technologies, such as biotechnology, which are regarded with suspicion by a great many consumers.

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