Module 6: Taking Stock and Looking Ahead

Llywodraeth Cymru
Welsh Government

www.gov.wales

BWYD A DIOD CYMRU
FOOD AND DRINK WALES

ERDF
Llywodraeth Cymru
Welsh Government
Ewrop & Chymru: Buddsoddi yn eich dyfodol
Cronfa Datblygu Rhanbarthol Ewrop
Europe & Wales: Investing in your future
European Regional Development Fund

Contents

OGL Digital ISBN 978 1 4734 5101 8 WG26324

Taking stock & growth opportunities

This final module looks further ahead. It assumes your business is now well established in the UK and is selling a range of products to a range of customers. Your business is relatively stable, you have good relations with your suppliers and customers, you are profitable and have sufficient financial funding. You are now looking at how to move the business further forward.

This module will consider two broad aspects:

- How can we review and improve the business we have now?
- What are the options for moving the business further forward into new product and market areas?

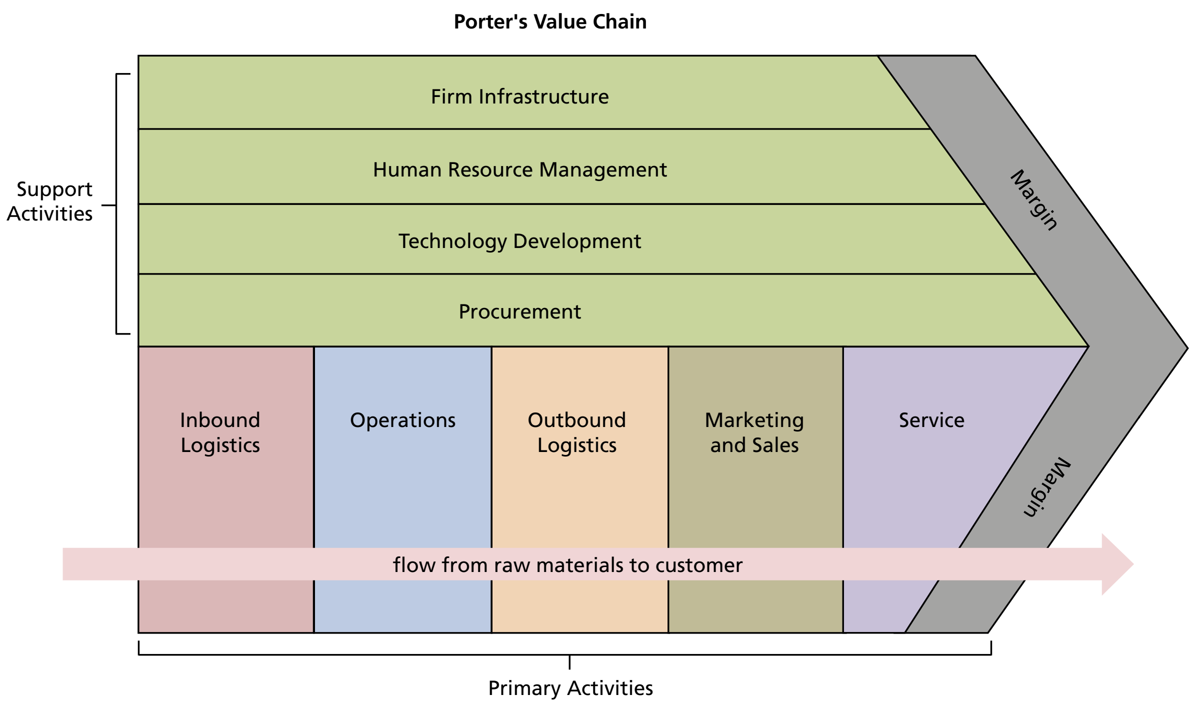
Reviewing where you are now

The last 5 modules have looked in some detail at all of the individual elements you need to consider in getting your new business established. Within each module there is often a great deal of detail that you need to get to grips with. This level of information is by its nature complex and can be somewhat daunting as a new business owner. Indeed, if large businesses have whole departments for, say Finance, it will seem difficult for you to get to grips with this aspect at the same time as marketing, production and so on.

The first part of this module will therefore look back at what should be happening throughout your business. It will look back at the key aspects of your business, recapping key elements of the preceding modules and consider how you can review each area to ensure the whole of your business is operating in a consistent and integrated way.

Porter's value chain

In order for us to review the business as a whole we will use Porter's value chain as a structure. In this way we will recap elements of the previous 5 modules within the context of a whole business. This should help you to see the big picture and the integrated nature of the activities within your business.



Michael Porter developed his Value Chain analysis at the end of the 1970s and it has since become a popular way of analysing the activities and processes of a business.

The basic concept of the analysis is that a customer will pay more for a product than the sum of the costs of producing that product creating a margin (or profit). The analysis enables businesses to identify those activities within the business that are helping create the value that the customer is paying for. In turn they can either work to enhance the value that they add, or reduce the cost to increase the margin.

The analysis divides activities into primary (which directly relate to the flow of the product or service, as shown by the red arrow in the diagram) and support, which enable the business to function but aren't directly related to the product or service.

We can use the value chain to help us stand back from the detailed activities of the business and ensure they are all consistently supporting the purpose of the business. The next sections will step through each element of the value chain in turn.

Margin – what the customer values – strategy and purpose

The starting point for a value chain analysis is to actually start at the end! Consider your customers and what in particular they value about your food or drink product i.e. why they will pay more for that product and therefore enable you to make a profit. This is also a good place to start when considering the fundamentals of your business and its strategy; if you can be clear about how you are attempting to appeal to, and therefore attract, your customers you will have a better chance of achieving it.

Having identified how you will appeal to your customers, you can set about ensuring that every aspect of your business is working towards the same ideal – this is 'how you will win' and is what we mean by strategy.

In the food industry it is important that when you think about your customer, you differentiate between your direct customer (which could be a retailer or foodservice operator) and the end-user of your product i.e. the consumer. Your product or service needs to appeal to both, but the needs of each are likely to be very different.

In module 3 – Growth Through Marketing we laid out the key components of a business's strategy and how to develop one.

Your overall strategy includes and considers the following elements:

- How we will appeal to customers and on what basis will we distinguish ourselves from competitors?
  - We could adopt a differentiator approach for instance by appealing on the basis of the quality of our product. Imagine the sort of foods that sell in Fortnum & Mason.
  - Alternatively we could adopt a cost leader approach, where we appeal by selling high volumes of low price products; in this case we must ensure all our costs are low to enable us still to make a profit.
- In which markets will we operate?
- What is our view of the environment in which we operate, both macro factors and competitive elements?
- What are our key resources, and to what extent do we need to build them?
- What are our personal objectives over the medium and long term?

SWOT analysis

In the same module 3 we demonstrated how a SWOT analysis could be used to help you capture, analyse and present these factors. Strengths and weaknesses include elements that are specific or internal to your business (e.g. resources you do have, or do not have) whereas opportunities and threats exist for other people in the market as they are external. The key value of a SWOT analysis is identifying how you put the two sides together, so you can for instance use your strengths to exploit opportunities or counter threats.

Market research

The final part of considering your customer is to formally analyse them and the market in which they exist. In module 3 – Growth Through Marketing we considered in some detail the process of market research. It is important to note that market research is a formal, structured approach to obtaining and analysing data on your customers and market. It gives you an understanding of:

- the size of the market for your product;
- the features of that market, such as affluence and trends;
- any gaps in the market;
- the needs of the market, such as product features;
- the size, number, strengths/weaknesses of competitors;
- the perceived position of your own business in the market.

Review

Once your business has been operating for some time, you should stand back and ensure you have a clear understanding of your customer and the strategy you will adopt to win in their market. It is useful to write a document that lays out your understanding, your objectives and the methods you'll use. This is a useful document for communicating with all of your departments and staff so that they also have a clear understanding of the approach. This consistency of approach is sometimes known as goal congruence.

Inbound logistics, operations and outbound logistics

These three elements are often grouped together and known as Operations Management, or sometimes just Operations. They are the essence of what your business does: sourcing raw materials and supplies, producing a product and getting that finished product to your customer.

It is important that all elements of operations are clear about the strategy and approach that the business will take. For instance if your goal is to produce high quality food products, all elements of the process must focus on this objective.

Procurement and inbound logistics

The value chain separates these two elements. Procurement is the establishment of the relationship with your suppliers. This will include ensuring that they will be able to deliver the right quantities of raw material at the right time at the right level of quality. Procurement will also include negotiation of a price or price structure. The value chain includes these activities as a support activity, envisaging that you will establish a long term relationship with your suppliers.

The second element is inbound logistics. This includes the day to day process of ordering and receiving goods from your suppliers. In Module 4 – Operational Excellence we covered the importance of supply chain management, noting the importance of trust and understanding between you and your suppliers. We also noted the importance of reliable, accurate sales forecasts on which to base your purchase orders.

Clearly the limited life of many raw materials in the food industry means that a robust, accurate and prompt process of ordering and receiving these items is paramount to ensure fresh supplies. In addition, the fact that many production processes are either continuous or large batch in nature means that you cannot afford to wait for fresh raw materials to arrive – they must arrive on time and in the right qualities and quantities.

Operations

This element covers the actual production process. Again in Module 4 – Operational Excellence we discussed key considerations of this, your core activity. These included:

- The capacity of your production process, both machinery and associated labour.
- Flexibility of this process to deal with new different products and changed quantities.
- The nature of your production process (batch, continuous, one-off, etc.).

Outbound logistics

This is the process of getting your goods to your customer. As before, in Module 4 – Operational Excellence we discussed each stage of this critical process. Due to the limited shelf life of food products and for the desire of many retailers to minimise the amount of warehousing outbound logistics is an extremely time-critical activity. The actual process of distribution is therefore often outsourced to specialists.

Review

It is critical to ensure that all three elements of your operations management are functioning in a way that is in-line with your strategy and delivering what the customer values. As this is your core activity you should have detailed metrics on the performance of each area. For instance, if high quality produce is your means of differentiation:

- Inbound logistics/procurement – can you measure reject rates, late or missed deliveries, breaches of standards by your suppliers?
- Operations – is your production line operating in line with your strategy, for instance can you measure the number of products that fall outside of tolerance, or of scrapped items?
- Outbound logistics – can you measure the number of delivery slots missed, or number of items rejected by your customer.

The first stage of assessing the effectiveness of any area of your business is to identify how you will measure that. If you do not have data, then you need to put in place processes to capture and record such data.

If you identify problem areas, you should track back as far as possible to identify the root-cause and take corrective action. For instance if a product is rejected by a customer because of poor quality raw materials, can you identify batch numbers so that you can work with your suppliers to correct the problem?

Sales and marketing

In Porters value chain this is shown after operations management. However we saw in module 3 – Growth Through Marketing that the discipline of marketing is a key element of the entire activity of your business from market research of a potential new market, through promotion, to after sales research to discover whether you are satisfying your customers' needs.

Your marketing activity will both help you to develop your overall strategy and be informed by your strategy. The key elements of your marketing activity are:

Segmentation, Targeting and Positioning

Segmentation

This is the process of identifying homogenous groups of potential customers with similar characteristics and needs in order to analyse this group effectively and efficiently and tailor your marketing approach to them. This element is not just about identifying a group of customers, but is also about identifying exactly what it is that they want from you.

Targeting

This is the process of interacting with and selling to that homogenous group.

Positioning

This is the process of establishing a perceived view of your product or service in the mind of this market by flexing your marketing mix (see below).

Review

At this stage in the growth of your business it is key that you have a clear understanding of your target segment and how you will appeal to them. It is easy in the early years of a business to chase after every potential sale you can; however doing so could result in a product of service that lacks a consistent and coherent image.

The marketing mix

In module 3 – Growth Through Marketing we described in detail the marketing mix. This is the principle tool of marketing your product. It represents the aspects that you can control or adjust in order to sell a higher volume or at a higher price or otherwise better meet your customers' needs. The first four elements of the mix are sometimes known as the 4-Ps and relate to a mainly product based company whereas the complete list is known as the 7-Ps and includes an extra 3 Ps that relate mainly to a service based company. The Ps are:

- **Product** – the flavours, other features of your product, the range offered, your brand etc.
- **Place** – where, or how your customer buys the product, including how you get it there.
- **Price** – what your customer pays, including special offers, discounts, etc.
- **Promotion** – advertising, promotional activity, etc.
- **Physical evidence** – delivery vans, stands at food fairs etc. are all physical manifestations of what your brand represents.

- **Processes** – such as the process of buying on line from your website, retailers home delivery services, how user friendly is your website.
- **People** – your service is generally delivered by people so this includes training, staff selection, etc.

Brand

Branding is a collection of elements that represent a company's products or services and convey its personality. In particular:

- Brands inspire customer loyalty leading to repeat sales and word-of mouth recommendation.
- The brand owner can usually charge higher prices.
- Retailers will want to stock top selling brands. With limited shelf space, it is more likely the top brands will be on the shelf than less well-known brands.

As your volume of sales and the scale of your activities (including marketing) has grown, so the value and benefits of a brand will have increased. It therefore makes sense to take stock of your brand and ensure that your product, marketing and packaging include the key features of your brand in a consistent way and in a form that represents your overall strategy.

Review

As your business has become established it is likely that you have simply taken advantage of opportunities as they have arisen, selling to any retailer that could be persuaded to take your product, setting prices on a deal-by-deal basis. It makes sense now to consider all 4 (or 7) aspects of your marketing mix including your brand. There should be a balance and consistent approach across them, so for instance if you are aiming to differentiate on quality, your promotional material should reflect that differentiation, and your prices will be higher than the average, and so on. You may not be able to adjust existing contracts, but you should aim to move new contracts in the right direction.

Service

In the value chain this element represents all the activities required to keep the product/service working effectively for the buyer after it is sold and delivered, i.e. it generally refers to after sales service such as warranties. In the food industry, given the limited life of the product there is little scope for long term support of the products.

However, if we consider that after sales service represents the actions that help to maintain the value of our product/service in the view of the customer then it is possible to consider activities such as Customer Relationship/Account Management within this element.

In module 5 – Managing Relationships we discussed the importance of your relationship with your direct customers. The food industry is highly competitive, there are many alternative producers for retailers to choose from. In addition it is likely that most of your customers will be significantly larger organisations than you, meaning it may be you that relies on them rather than vice versa. As such it is vital that you understand clearly the needs of your customers and nurture the relationship you have with them.

The key factors in customer relationship management boil down to information, preparation and effort.

Information – it is vital that you collect as much information about your customers as possible, for instance key facts include:

- Who are the key people in the organisation, what are their roles.
- Who else you interact with e.g. forecasting, replenishment, buyer's assistant.
- What is the customers strategy and approach to the market.
- What are their KPIs, how do they monitor and manage their business.
- What are their plans for the future.

Preparation for any meeting, conference call, presentation. Key elements include:

- An agreed agenda.
- Your objectives of the meeting.
- Structure of the meeting.
- People – who will attend, from both sides.

Effort – it takes time to build a successful relationship with your customers. You should treat the relationship like any asset that you need to nurture and maintain over the long-term and invest sufficient time.

Review

As your business grows it is important that you make the most of your ongoing relationships with your customers. You should review whether you have identified you key customers, have you documented the key facts about them, and do you have a regular programme for meeting with them to maintain the relationship? The success of the relationship can be ascertained simply by looking at the regularity and value of the sales to that customer – is it growing or shrinking?

The data gathered from the relationship you have with your key customers is a vital component of your understanding of the market and therefore should inform you strategy and decisions going forward.

Technology development

The next elements are part of the support activities in the Value chain. The issues here tend to be longer term, and obviously less closely linked to the day to day process of producing food products.

Technology development relates to the introduction, maintenance and enhancement of your IT, automation, processes and general information-processing systems.

From this perspective your business may be very different to other ones, so there are no hard and fast rules here; for instance, a producer of relatively low quality, low price pies may rely on a highly automated production line to produce large volumes at low cost, whereas a hand-made chocolatier uses an absence of automation as a key selling point. However there are a number of generic benefits of IT and automation:

- **Accuracy** – automatic systems tend to produce a more consistent result (whether that is an automated production line or a spreadsheet adding up numbers).
- **Speed and therefore Volume** – automated systems can process products/information quickly resulting in the ability to deal with high volumes.

- **Reduced Costs** – by replacing staff (one of your highest costs) with machines your average cost per unit will fall.
- **Analysis** – automated systems enable you to track performance. High quality systems should enable you to analyse data into useful information (known as slicing and dicing) and therefore understand your business better and make better quality business decisions.
- **Linkages** – automated systems often enable you to join up the different elements of your value chain – so for instance customer orders that you have received trigger purchases from suppliers, production slots in your factory and reservation of distribution slots.

Capital expenditure

In module 2 – Facilitating Growth we noted that as your business grows investment in machines and systems is likely to become more significant. Of course you will only spend money if you believe that the expenditure will result in better/more efficient processes that will justify the expense, but the risks of this not happening are clearly higher the more you spend.

Review

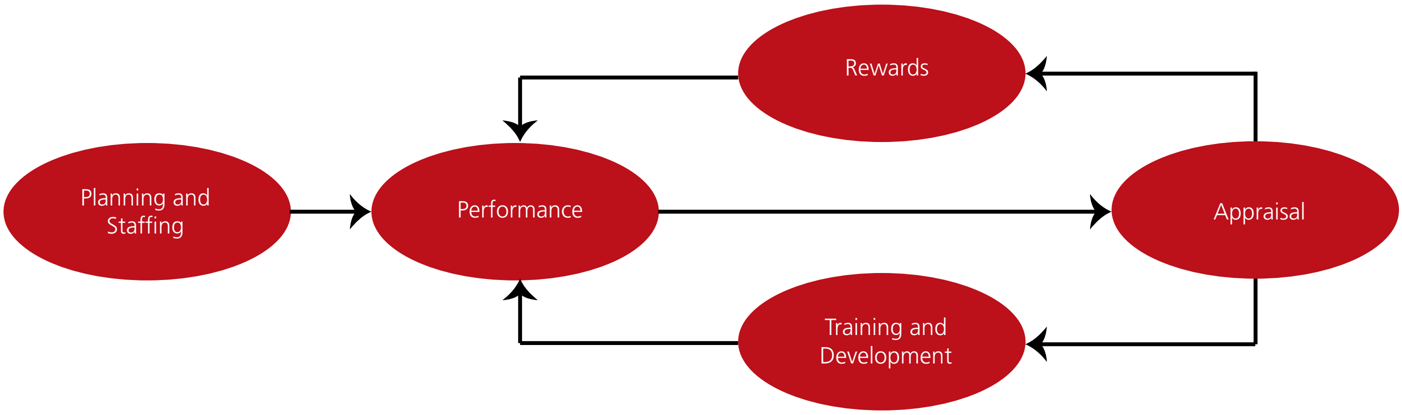
There are two broad aspects that you need to consider at this stage in relation to your systems.

- Are your current systems sufficient and suitable for your business? Once your business is operational there is a temptation to 'muddle through' with your existing factory, machines and systems. The business develops 'workarounds' to compensate for limitations in systems. You should take time to formally review your systems, identify weaknesses that are hindering you and, by considering new systems that are on offer in the environment, identify any opportunities for improvement.
- Do you have a process for formally appraising potential expenditure? In module 2 – Facilitating Growth we suggested that a payback period approach would force you to methodically consider the incremental cash flows (both out and in) to justify any significant capital expenditure. There are more sophisticated techniques such as Discounted Cash flows which can also be used as your business grows.

Human resources

As we noted in module 2 – Facilitating Growth as your business grows you will need to take on additional staff. As with the other parts of Porter's value chain, the key aspect over your staff is that they are considered as a core component of your overall business strategy. For instance, if you are a high quality food producer you need to ensure that you have sufficient staff with the correct skills required for your business. You also need to ensure that the way you manage and motivate your staff is in line with your overall approach and strategy.

In module 2 – Facilitating Growth we discussed in some detail the various aspects of human resources management. They can be succinctly summed up in Devanna's model:



This shows that HRM is a cycle, if you select the right staff, have regular appraisals that result in action to either reward and reinforce performance or address weaknesses through training, then the performance of your staff should steadily improve.

Review

As with all other aspects of your business you need to spend time taking stock of your staff. Managing staff is a long-term activity, so you need to consider the long term balance of supply and demand in relation to your workforce:

Demand – how many people will you need in the coming years? What skills will they need? This is a function of your overall business strategy and objectives, and the changing environment (both outside and inside your business). For instance, if you anticipate investing to automate a production line in the coming year you will need less manual workers, but more technicians.

Supply – how many people with skills can you call on? This is a function of your existing workforce and their aspirations. You will need to consider the number of people that may leave and also how their skills develop over time.

Gap – the difference between supply and demand will need to be bridged, either by making staff redundant or by recruiting new staff or developing existing staff. You need to put in place a plan to address any gap.

Firm infrastructure

This aspect of the value chain includes most of the remaining elements of management, direction, compliance and support such as legal, financial, and overall strategic management. It includes elements of information capture and analysis (such as production of your management accounts) and also control processes and structures (such as internal rules and procedures you have created).

It should be obvious that as your business grows you will be unable to manage it in the same ‘hands-on’ manner that you did when there were only a handful of employees, one or two products, and a small number of customers.

The key with this element of the value chain is to ensure that the structures you put in place strike a balance between providing sufficient control and visibility of the processes of your business while not being too costly or stifling.

Key aspects of firm infrastructure will include:

- **Finance** – as we saw in module 2 – Facilitating Growth as your business grows you will need to formalise the production of management accounts and an annual budget to provide a reference point for your performance. You will also need to establish regular (probably monthly) meetings to review performance and take corrective action if needed.

- **Structure and roles** – again as we saw in module 2, as your business grows it will take on more staff and it is important that people understand what is expected of them. Starting to create 'functions' (such as HR or Finance) enables specialisation and efficiency, but can also create silos and a lack of goal congruence.
- **Operational planning and reporting** – as we saw in module 4 – Operational Excellence managing a high volume production process is a complex activity. It is imperative that you establish a robust process for production of:
  - Capacity plan (the long term, 1 year anticipated production).
  - Production plan (the short term, daily or weekly plan, what will be produced when).
  - Sales and operational planning (S&OP) reviews to compare actual production to plan and take corrective action if required.

Review

In the same way as the other elements of the value chain, you should take stock of your current processes for managing the business. Much of firm infrastructure is concerned with minimising risk by giving you information. If as a manager you are constantly dealing with shocks and surprises this may indicate that your reporting and control processes are not sufficiently well developed. A robust firm infrastructure should keep you well informed about the activities of the business and enable you to have confidence that the decisions you take will be put into action effectively.

Linkages

The final factor that Porter discusses in relation to his Value chain is linkage. Porter emphasised that all elements of the value chain should be closely linked and working towards the same end goal.

You can see that many elements of the value chain overlap, for instance deciding to buy a new machine may mean that you don't need as many staff (HR), it will increase your production capacity (operations), it is in response to a closer, more lucrative relationship with a customer (marketing and service), but will require a robust financial appraisal to justify the expenditure (firm infrastructure).

Review

There are two aspects to linkages that you should ensure are operating well:

- Goal congruence – as a senior manager (perhaps the senior manager) you will have a good feel for the overall direction, objectives and values of the business. You need to ensure that everyone else is clear about these. You can go some way to accomplishing this by producing a Mission Statement as we saw in module 2.
- Communication – as the business grows and the management and reporting structures become more complex there is a tendency for staff to become separated into their functions. You cannot rely on a 'chat at the coffee machine' to ensure everyone understands your latest sales opportunity. You will therefore need to establish regular communication processes, such as a weekly email newsletter, breakfast meetings, or simply as described by managers in Hewlett Packard in the 1970s "Management by Wandering Around"!

Growth opportunities

The final stage of this module starts to look further into the future. Assuming your business is now operating effectively with robust systems throughout, it may be time to consider how the business can continue to grow.

To some extent, you could go back to the very beginning of the first module. If for instance you are considering launching a new product line, the first thing you will do is a rough financial forecast to assess its viability, you will consider whether you have the capacity to produce it (module 4), whether you need to borrow money to finance a new machine (module 2) and how to market it to new customers (module 3).

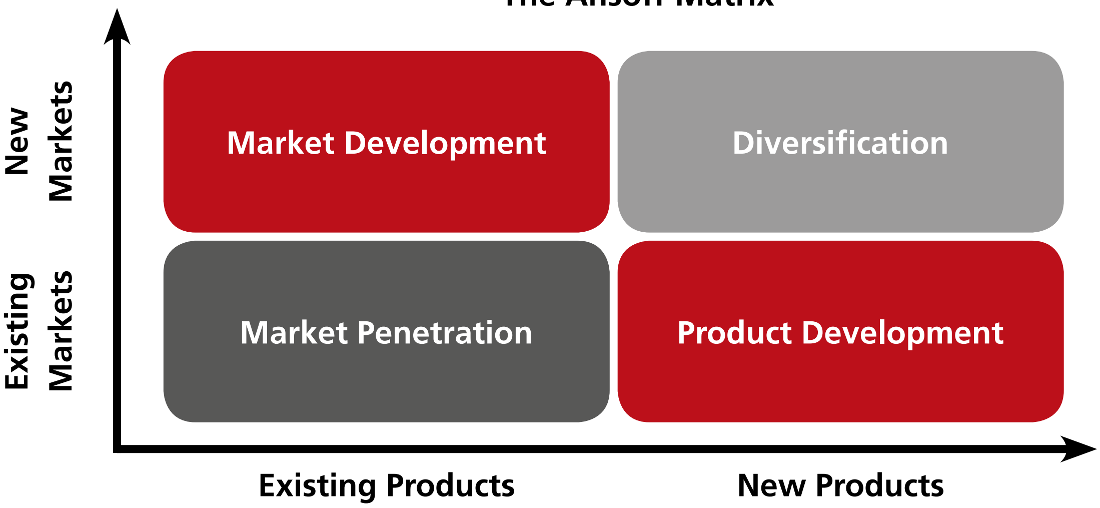
This example demonstrates the cycle of business – you could revisit every module of this toolkit whether you are simply looking to improve an existing business, or whether you are looking to new markets or products.

The remainder of this module considers the options for further growth at a top line level. The activities set out under the preceding five modules are just as relevant for the next growth stage of a business as they are to a start up. The process for identifying new growth opportunities for established companies are very similar to those involved in setting up a new business – they should start with setting out clear objectives, developing a strategy and plan based on market research and consumer insights in order to maximise the chances of success.

Ansoff's Matrix

We will use Ansoff's growth matrix as a structure for this module with particular emphasis on exporting later in the module. Igor Ansoff documented his growth matrix in late 1950s America. It does not tell a business what to do to grow, but helps a business consider all the possible alternative strategies a business can adopt.

The Ansoff Matrix



Market Penetration

Market penetration means selling more of your existing range of products to your existing market segments. Clearly, doing so will be highly beneficial as you will capture a greater market share, making it more likely that you will be able to influence the nature of the market and in particular the prices. In addition you will gain additional economies of scale (e.g. through buying raw materials in greater bulk) thereby improving your profit margins.

The danger of very significant growth is that you become somewhat of a target in the industry, or if you become ubiquitous you lose any appeal from exclusivity that you had when you were smaller. You should also note that in a stable, competitive environment such as the food industry, once you have reached a reasonably high market share, your ability to increase your market share will be limited – buyers will always want some choice and your growth will be limited by the size of the market (you can't get more than 100% market share!).

How to achieve

The obvious way of increasing sales is increase advertising or to add more sales staff to increase sales. Alternatively you can reduce your prices to increase your volume. You will recall that we discussed Price Elasticity of Demand (PED) in module 3 – a high PED means that only small reductions in price will cause a big increase in volume, you just need to be confident that your price reduction will sell increased volume and that you can still make a profit.

Before reducing prices you should carefully model the impact on profitability. Your objective is to increase profitability, not just total sales. Consider the simple example below, setting out sales for luxury box of chocolates:

Assume you sell 1000 items per year for £10 year If you reduce the price to £9.50 you will sell 30% more (PED = 30% / 5% = 6.0). Variable costs are £8.50			
			Reduce
		Now £	**Price £**
Sales	Now £10 x 1000	10,000	
	With price reduction		
	£9.5 x 1300		12,350
Variable costs	Now £8.50 x 1000	-8,500	
	With price reduction		
	£8.50 x 1300		-11,050
Profit		**1,500**	**1,300**
Profit margin		15%	11%

Despite increasing revenue significantly, because the variable cost per unit is fixed, and the profit margin is small, the overall profit has fallen.

Market penetration can also be achieved by other measures – encouraging new usage occasions for your product with your existing customers e.g. yoghurt might be used as a cooking ingredient (smoothies etc.) as well as a dessert/snack product.

Finally mergers and alliances with other companies in the same industry could achieve the same increase in sales, and bring economies of scale e.g. Morrisons' takeover of Safeway in 2004 could be argued to be consolidation in the industry – the combined group was selling largely the same sort of products to largely the same customer segment as each company was prior to the merger.

Part of the rationale for this merger was to reduce competition in the industry (before the merger there were five large supermarket groups, after the merger there were four) and to achieve economies of scale and therefore cost savings by being a larger company. However, it also allowed Morrisons to gain a presence in the South of England.

Market penetration is considered the least risky option as you know both the market and the product well.

Product development

Product development is where you sell a different product to the same market segment. This could either be a replacement product instead of your existing product or an additional product that you sell as well as the existing product (the new product can either be range extension e.g. flavour variant or completely different).

Complementary product

In the food industry the additional, or complimentary product is the most likely scenario. Complementary products can be launched in the same category (usually range extensions in different flavours) or into a different category (but designed to appeal to the same target consumer). Once you have expertise in the food business, the production process, packaging, distribution, links with supermarkets you have makes it relatively easy to envisage that you would be able to add new products. You may also have the machinery already in place, and links with appropriate suppliers. For instance, it is easy to imagine that a jam producer could start producing and selling jars of chutney.

The new product will clearly add sales, and hopefully profit. It could also reduce the risk of being exposed to just one product. If the market turns against your original product you still have the contribution of the new one.

Brand

The impact on your brand is an important factor here. On the one hand, a strong quality brand that is recognisable to consumers will confer the same values onto your new product and play a part in convincing your customers to try your new product.

However, if you already have a strong brand it represents a valuable asset for your business, and therefore you need to be careful to ensure a new product is consistent with that brand and does not damage it.

Other dangers of adding a new product onto an existing product range include:

- Loss of management focus on the existing business.
- Lack of capacity to produce both products.
- Cannibalisation of sales of your existing product. For instance if both products are bought as a ‘treat’, even if they are different products, consumers may only buy one per shopping trip.
- Additional operating costs such as switching a production line from one product to another.

Replacement product

This is the situation where a business launches a new product knowing that it will replace sales of the existing product. While we might think that replacement products are more appropriate for highly competitive products where customers want the ‘latest thing’ and there are technical features to differentiate the new product from the old (such as the smartphone industry) – if you don’t bring out a fantastic new phone your customer’s may buy the new model from your competitor. This analogy can be relevant for the food sector. It can occur in areas where there are key ingredient challenges or health claims e.g. re-formulating products to use less sugar, or take out trans-fats. Companies have to be careful that the new flavour profile closely matches the original one, particularly if the product was selling well.

Although not common, there can be examples in the food industry where foods become fashionable for a short time. The difficulty for producers is making a profit on such foods if they will only be sold for 6 or 12 months. They either need to have a high price to repay the development costs quickly or have low development costs, perhaps being largely based on an existing product that has been 'tweaked'. The bakery industry has to some extent experienced this 'fashionable' cycle e.g. muffins, cupcakes, doughnuts, macaroons – the key is to identify the next big trend and to stay ahead of the curve.

Market development

The next quadrant of the Ansoff matrix is where the same product or products are sold to a new market. There are three broad alternatives:

New Markets in Different Geographic Location

If you have been selling predominantly in your local area simply expanding your 'footprint' to a wider area is a straightforward way of increasing sales. The benefit of doing this is that you can do it gradually so there will be no significant disruption to your operations – you can try a new area and simply see if it works. Supplying your product regionally/locally and then nationally is an increasingly common way for smaller producers to gain a foothold with major retailers/ foodservice operators.

There are a number of issues you need to consider:

- A wider geographical spread will impact significantly on your distribution process; you need to be sure you can get your products to your customers on time and in good quality. This is particularly important if your products are frozen, chilled or need to be very fresh.
- You need to research new areas before you decide it is a suitable market. It may have different tastes, or different competitors. You can make use of data on population numbers and other factors such as wealth (average house prices are a good proxy measure) to make sure the market is big enough to justify you targeting it.
- Your sales will have to be supported by marketing activity if your company or products are not known there.
- If you sell to large customers (such as a chain of small supermarkets), geographic expansion may simply be a matter of using their greater spread and selling to more of their stores.
- As you expand geographically it will be more difficult to monitor and measure your performance (if this is with multiple retailers, you will be expected to use their systems such as Tesco Link, Asda Retail Link, Waitrose Connect etc.). It would be good to establish a regular programme of visits to your more distant customers.

Once you feel that you have reached your potential in the UK or you have good reason to believe there is demand for your product overseas, then exporting is an increasingly viable route for growth. We consider the extra challenges of exporting towards the end of this module.

New Channels

Your products may currently be sold into one or two trade channels e.g. retail and foodservice, but there may be opportunities in others such as manufacturing (B2B), or online sales. It is important to consider whether there is demand from other sectors either for your finished product or even a by-product (you may class as waste) of your manufacturing process that could be used as an ingredient for making another product – this is increasingly the case in sectors such as dairy where whey protein is now a very commercial product used as an ingredient in products targeting consumers interested in body building or sports nutrition. You could consider selling direct to consumers by selling your products on line. This has been discussed extensively in module 3 in the section on the Marketing Mix (4-Ps) under "place". You do of course have to consider the impact that selling online will have on your existing sales.

Targeting growth through new channels has the benefit of a new and very different income stream with significant diversification of risk, however the possible downsides are:

- No knowledge of very different market.
- There may be different rules and regulations, licenses required etc.
- There may be existing, very strong suppliers.
- The profitability profile may be less favourable.
- There may be little scope to benefit from your current brand and expertise.

New segment

It may be possible to sell your existing product into a different market segment i.e. target a different type of consumer without making any fundamental changes to the product itself. A good example of this is Lucozade; it was originally sold as a drink for ill people, however it has now successfully established itself as a sports nutrition/energy drink and is therefore relevant to a completely different consumer and sold much more as a result.

You will recall that in module 3, we discussed the concepts of segmentation and then described how the marketing mix (4-Ps) could be adjusted depending on the characteristics of the segment. The same factors apply here – a new segment gives you the opportunity to sell to different people and so increase your sales. However, you may need to adjust the 4-Ps to attract customers. So your packaging may need to be changed, your price in this segment may be different, and so on. There may therefore be costs involved in selling to this new segment.

A significant danger of selling to a new segment is the danger of declining sales in your original segment, particularly if you need a completely different set of marketing messages. However, it can be that the new segment is larger and more profitable in the long run and that it is essential for the long term viability of your product to appeal to a new audience. Brands can reposition themselves overtime in an attempt to bring their existing shoppers with them rather than having a radical overhaul in one move.

Diversification

The final quadrant is diversification – selling a new product to a new market.

It is hopefully obvious that this is the riskiest strategy as you have to develop a new product that is different to your existing product and sell it to a segment of the market that is different to your existing customers.

The benefits and risks are a combination of those seen under product and market development. You will have a new income stream that is significantly different from your existing one and therefore you will significantly mitigate your risks from relying on one product in one segment. However you will have very little benefit from your existing brand and may not be able to make much use of your current expertise or facilities. This move may take a great deal of investment in research, development and marketing.

Diversification can be categorised as:

Related – the concept bears some similarities to your exiting activities, such as the jam manufacturer who currently supplies supermarkets, setting up a division to source and supply strawberries to cake manufacturers.

Unrelated – this could mean operating in an entirely different sector, such as the jam manufacturer setting up a plant to produce desserts for the export market.

Clearly unrelated diversification is the riskiest move for a business.

Export

Exporting represents the ultimate geographic market development. Given the potential complexity of exporting, this section is designed to give you a brief overview of the things that you need to consider before embarking down this road. It is not a detailed guide to exporting as each market will have different requirements. Welsh Government work closely with companies who are looking to export and it is advisable to use the support available – To find out more about exporting, visit www.business.wales.gov.uk/zones/export.

Benefits

There are obviously a number of benefits to exporting, which is why so many food and drink companies go down this route. Clearly the main benefit of exporting your product is the increase in sales. You are no longer limited by the size of the UK market. Europe for instance is a potential market of over 700m people. Other benefits include:

- Risk mitigation. You are no longer at the mercy of the UK economy and fashions; other countries may be booming when the UK is in recession.
- Other countries may be more profitable; there may be less competition than in the UK or the market in that country may be at a different (more profitable) stage of the product life cycle.
- Exporting may trigger innovation in your products (new tastes, new products) which you can then use to benefit sales in your home market.

Risks

However, exporting is clearly a risky move. You may know very little about the new market and it is therefore likely to require significant research and investment to even attempt to export with little guarantee of success. Other potential risks include:

- **Currency risk** – your costs will be predominantly in Sterling, whereas your revenue will be in another currency, e.g. €. If the € weakens the revenue will fall reducing your profit.
- **Distance** – the longer distances involved impacts distribution and will make selling chilled food, for example, more difficult. The distance also makes it more difficult to establish relationships with customers and monitor performance. It also makes it more difficult to find out about that new country.

- **Other differences** – you will have to re-learn all the same lessons as you learned about your local market, but for the export market, including: culture, tastes, legal system, food regulations, shopping habits.
- **Language** – if the language is different this will clearly make every step more difficult.

As a business you know you are ready to export when you are willing to commit proper time and resources to developing sales overseas. It maybe that you have started to export in response to an enquiry i.e. reactive exporting – this does not mean the business is 'export ready'. To be really successful at exporting you will need to have a company-wide commitment to export, which is why it needs to be part of your overall business strategy. You need to appoint a person who is tasked with driving export sales, and they need to be given adequate time and budget to do the job properly. It is very difficult to achieve export sales quickly, particularly if exporting responsibility has been bolted onto an already busy 'day job'. The business also needs to be willing to be flexible in terms of modifying products, packing etc. for export markets.

Given the potential risks and the need to commit time and resources to exporting, it is essential to start the process with a plan as this will help to ensure that you have considered all the key issues and have clear objectives and timescales that you are working to.

Steps to exporting

Which country?

In order to identify which country you will start exporting to, you should review the list of risks above and identify countries that have lower risks. For instance France and Ireland are geographically nearer to the UK than Greece. Ireland has a broadly similar culture and language and is one of the largest markets for food and drink from the UK. You could also consider the Benelux or Scandinavian countries depending on your product type. If you are not clear which market to target, you could develop an attractiveness matrix to help you rank each potential market by scoring each country against a relevant set of criteria e.g. ease of distribution, demand for your product type. Ultimately you should perform the same sort of market research as you did in your home country, including:

- Economic trends – are income levels rising, are they forecast to grow further?
- Demographic trends – is it a young or ageing population, are household sizes increasing or getting smaller (know which trends suit your products)?
- Food and Drink culture – are consumers open to foods from different countries/regions. Is there any religious barrier to your product e.g. certain types of meat, alcohol etc.?
- Regulations and taxes – are there import restrictions (very unlikely within the EU), or quotas that may prove a barrier or increase the complexity of the task?
- The structure of your target channel e.g. retail/foodservice sector – is it dominated by large players or is the market fragmented? The latter may provide more opportunities but maybe harder to supply from a logistics perspective.

You could use the following sources to answer these questions:

- Visit trade fairs in your target markets.
- Conduct store audits, both online and in person.

- Research the main economic and social trends www.gov.uk/government/organisations/uk-trade-investment or www.economist.com/world-in-figures.
- Consult Government trade support websites e.g. www.gov.uk/government/organisations/uk-trade-investment.
- Consider the size, segmentation and structure of your product category and who are the top retailers and foodservice operators. Visit www.euromonitor.com/ or www.mintel.com/ or www.datamonitor.com/ or www.igd.com/ (You can either pay to access these reports or visit a library where many hold these publications).
- Research any food regulations applicable in your target market. Companies such as www.campdenbri.co.uk/ offer this service.

Product Suitability

Your product will almost certainly need to be adjusted for export:

- Changes to the ingredients, either due to different tastes or different regulations.
- Changes to the packaging – clearly the language will need to be changed, and regulations on ingredients lists/sell-by dates may be different. The barcode may also be different.

Reaching Your Customers

There are several ways that you can get your product to your target market, from having a UK based consolidator, all the way to the other extreme of setting up your own operation in the target market.

If you attempt to sell direct to large retailers, as you do in UK this will clearly be hard work. You will have to establish the same sort of relationships as with your UK customers but in a different culture, language and country. You should take as much advice as possible from UK bodies (such as Welsh Government) to increase the chances of success.

There are alternatives such as using a distributor where they purchase product from you and sell on, or using an agent who works on a commission basis. Licensing your product to someone else is also an option. All of these carry a different level of risk and may preclude you entering that market on a stand-alone basis at a later date.

Marketing

You will also have to re-establish your brand in the export country, revisiting segmentation, the 4-Ps etc. Depending on your volume aspirations, you may need to spend significant money up front on advertising to tell people about you and your product. Adverts will have to be produced in the local language, taking account of local tastes and cultures. Overseas trade customers such as retailers will want to know how you plan to support your product in order to drive sales, so it is important that you have allowed for a marketing budget in your costings and have given this proper consideration in advance of any sales meetings with them.

You should also consider having your website translated so that prospective customers can find out about you.