The Firms’ Survival and Competition through Global Expansion: A Case Study from Food Industry in FMCG Sector

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Abstract

This study analyzes the ABC the food industry in Fast-Moving Consumer Goods (FMCG) sector in Turkey by the Michael Porter’s Five Forces Analysis. In this study Michael Porter’s Five Forces Model adapted for the food industry. The analysis can provide insight into both enterprise online and offline competitive environments.

As a result of this paper, the threat of new entrants into the FMCG is low because it requires huge capital investments in order to be competitive and to establish a brand name. In developing international strategy, the business marketer must first assess the globalization potential of the industry. It is driven by market economics, environmental and competitive conditions.

Keywords: Globalization, Food Industry, FMCG Sector, Michael Porter’s Five Forces Analysis, Competition

1. Introduction

The purpose of the study is to investigate the firms’ survival and competition through global expansion a Case Study from Food Industry in FMCG Sector. Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods [1]. These items are meant for daily of frequent consumption and have a high return. The fast moving consumer goods (FMCG) sector in its broadest sense and specialise in the following areas: Food and Beverages, Consumer Durables, Personal Care and Cosmetics, Sports Goods, Apparel, Household Goods, Luxury Brands, Textiles and Furnishings. Food...
industry in FMCG sector is one of the most intense "Competition Driven" industries, which is continually in a state of dynamic transition. Before globalization began to dominate the world economies, firms only had to survive within limited boundaries of the geographic and market sectors where they originally started their businesses. They used strategies to survive based only on existing factors within these limited boundaries and normally the only factor that encouraged these firms to stay competitive and creative, was the existence of the local competition. Competition was very common, often from very similar businesses, but firms attempted to adopt different strategies in order to stay competitive by leading the market and differentiating themselves from their competitors. Before investigating the need and the nature of international expansion, it is important to understand the drivers for international expansion.

Several forces are driving companies around the world to globalize by expanding their participation in foreign markets [2;3]. Trade barriers are falling and nearly every product market- fast food, computers, electronic components, nuts and bolts-includes foreign competitors. Maturity in domestic markets is also driving firms to seek global expansion [4]. Serving an international market through export/import agents or trading companies is attractive for many companies [5;6]. Several studies of international business have indicated that internationalization of the firms is a process in which the firms gradually increase their international involvement [7;8;9]. It seems reasonable to assume that, within the frame of economic and business factors, the characteristics of this process influence the pattern and pace of internationalization of firms [10;11]. Reasons for the international expansion are not only to satisfy the needs of firms [12]. Organizations like WTO (World Trade Organization) and GATT (General Agreement for Trade and Tariffs) have encouraged free trade and barriers to cross border transactions have been removed [13].

The popular method has been extensively used [14], the Michael Porter’s Five Forces Model, in order to examine competitiveness in the market. Contemporary approaches to strategy are hardly monothetic, though much current thinking is anchored by the work of Michael Porter and Henry Mintzberg. Michael Porter introduced a model of competitive strategy to explain an industry’s position in a complex strategic environment [15]. Strategy as ‘position’ offers a predominant conceptual framework in the field. Porter’s [15] landmark Competitive Strategy reinterpreted the microeconomics of industrial organization in a managerial context.

This study analyzes the ABC food industry in FMCG sector in Turkey by the Michael Porter’s Five Forces Analysis. It uses concepts developed in Industrial Organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Porter referred to these forces as the micro-environment, to contrast it with the more general term macro-environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a company to re-assess the marketplace.

The aim of this study was to explore:
- Become aware of international business opportunities,
- Determine the degree of a firm’s competition.
- Decide the timing of when to start the internationalization process and how quickly it should progress.

2. Methods

In this study Michael Porter’s Five Forces Model [16;17] adapted for the food industry in FMCG sector. Evaluated scores of Porter’s Five Forces Analysis have been gained from the results of market research regarding the sector in June 2010 [18]. In the scope of this research, in the food industry, a market research has been conducted between 10 managers of a firm, 12 chain-store purchasing managers and a total of 417 consumers in Istanbul, Izmir and Ankara, Turkey. Scores used in Porter’s Five Forces Analysis have been gained from those market research results.
The analysis can provide insight into both enterprise online and offline competitive environments. In the Five Forces Model, Porter explains that in any industry there are five forces that influence what happens within the industry [19;20]:
1. Existing and Potential New Companies
2. Buyers
3. Substitutes For Products Offered
4. Suppliers
5. Customers

These five forces combine to make up the business environment [2]. By studying the structure of and dynamics between these forces, you can discover opportunities for improving upon your marketing strategies [17]. Michael Porter’s Five Forces Model is more in depth than simply looking for trends and general industry information. It can also help you better develop successful marketing strategies to survive and stay competitive in a world of integrated national economies.

3. Findings

ABC is one of the biggest companies of Turkey in the food sector established some 43 years ago. ABC food company's principal activities are the production and domestic and international marketing of any kinds of food. The Company's main area is in the processing of conserved fruit and vegetables, including tomatoes, cucumbers, peppers, canned and pickled goods. Production is domestic and international marketing of any kinds of food. ABC products are tomato paste, tomato products, flavourings (ketchup, mayonnaise, mustard) sauces& meal makers, canned vegetables, canned delicatessen, boiled products and jams. Total production capacity is 169,400 tons / year. ABC exports % 30 of its total production to USA, European Countries, Japan, Australia, Middle East Countries and some African Countries [18]. Most of ABC's product range has been registered with the FDA in the USA, certified by Star K-Kosher and TSE-EN-ISO-9001. ABC's productions are being held under the HACCP standards.

![Figure1. Elements of Industry Structure: Porter’s Five-Forces](image-url)
An analysis of the structure of the industry should be undertaken in order to find effective sources of competitive advantage [21]. Therefore, in order to analyze the competitive environment of ABC food Industry, Porter’s five forces analysis has been used by our as follows:

- Bargaining power of suppliers,
- Bargaining power of buyers,
- Threat of new entrants,
- Threat of substitutes, and
- Rivalry among competitors.

Together, the strength of the five forces determines the profit potential in an industry by influencing the prices, costs, and required investments of businesses—the elements of return on investment. Stronger forces are associated with a more challenging business environment. Figure 1 indicates Porter Five Forces Model, adapted for the food industry in FMCG sector.

**Bargaining power of suppliers**: Any business requires inputs—labor, raw materials. The cost of your inputs can have a significant effect on your company’s profitability.

Contracts and positive relationships with suppliers and producers are another way a small agricultural producer can manage the uncertainty and power of suppliers. As seen in Table 1 food processors can buy agricultural products from many, weak small and medium farmers. The bargaining power of suppliers is fairly low.
Table 1. Power of Suppliers

| Factor                        | High Unfavourable (HUF) (1) | Unfavourable UF(2) | NEUTRAL | Favourable FA (4) | High Favourable HFA (5) | Comments                                                   |
|-------------------------------|-----------------------------|-------------------|---------|------------------|-------------------------|------------------------------------------------------------|
| Number of potential input     |                             |                   |         |                  |                         | Suppliers for different ingredients                         |
| suppliers                     | Few                         |                   |         |                  |                         |                                                            |
| Availability of substitutes   |                             |                   |         |                  |                         | Many vendors and ingredients                                |
| Threats of forward            |                             |                   |         |                  |                         | Suppliers can open their own food outlets                    |
| integration                  |                             |                   |         |                  |                         |                                                            |
| Total                         | 0                           | 2                 | 0       | 8                | 0                       |                                                            |

Bargaining power of buyers; the power of buyers describes the effect that your customers have on the profitability of your business. The transaction between the seller and the buyer creates value for both
parties. But if buyers (who may be distributors, consumers, or others) have more economic power, your ability to capture a high proportion of the value created will decrease, and you will earn lower profits.

- ABC food industry has three types of buyers—directs consumers, distributors, and retail outlets/supermarkets. Direct consumers are mostly households.
- The bargaining power of buyers is fairly high (Table 2).
- In cases where products have a slight differentiation and are more standardised, the switching cost is very low and the buyers can easily switch from one brand to another.
- It has been proposed that customers are attracted towards the low prices.

| Factor                              | High Unfavorable (HUF) (1) | Unfavorable UF(2) | NEUTRAL | Favorable FA (4) | Favorable HFA (5) | Comments                                           |
|-------------------------------------|----------------------------|-------------------|---------|------------------|-------------------|---------------------------------------------------|
| Economies of scale                  | 2                          |                   |         |                  |                   | Optimum size requirements for profitable operations |
| Capital required                    | Low                        | Low               | High    |                  |                   | Requirement of capital is much.                   |
| Differentiation (a unique process that has been protected) | 2                          |                   |         |                  |                   | Differentiating by offering unique value products item. |
| Brandy loyalty                      | Low                        | Low               | High    |                  |                   | Brandy loyalty is low                             |
| Experience curve                    | Low                        |                   |         | 4                |                   | High experience with other brands which helps them dominates the scenario. |
| TOTAL                               | Low                        |                   |         | 0                | 8                 | 0                                                 | 4                                                 | 0                                                 |

**Threat of new entrants:** the threat of new entrants is the possibility that new firms will enter the industry. New entrants bring a desire to gain market share and often have significant resources. The most important barriers to entry are: capital requirements, government policy and regulations, access to inputs and distribution, economies of scale and other cost advantages switching costs and brand identity. It is known that a production process for a specific good or service exhibits economies of scale over the range of output when average cost declines over that range.

This industry is not an easy business to start because it is capital intensive (Table 3). The threat of entry of new competitors into the industry is low. The findings of this research indicated that it requires huge capital investments in order to be competitive and to establish a brand name. Major brands that have already captured the fast consumption market are Tat, Tamek, Superfresh e.g. they account for 80%
of all shopping in the Turkey [18]. Therefore, new entrants have to produce something at an exceptionally low price and/or high quality to establish their market value.

Table 4. Threats of Substitute Products

| Factor                          | High Unfavorable (HUF) (1) | Unfavorable UF(2) | NEUTRAL FA (4) | Favorable HFA (5) | Comments                                                                 |
|--------------------------------|----------------------------|-------------------|----------------|------------------|---------------------------------------------------------------------------|
| Product compare favourably to possible substitutes | High | 3 | Low | Another product offers more features to customers, |
| Aggressiveness of substitute products in promotion | High | 4 | Low | Promotion of substitutes is very high |
| Switching cost                  | Low | 4 | High | Low switching cost |
| customers loyal to existing products | High | 2 | Low | customers loyal to existing products is low |
| TOTAL                           | 0 | 2 | 3 | 8 | 0 | |

**Threat of substitutes:** products from one business can be replaced by products from another. If you produce a commodity product that is undifferentiated, customers can easily switch away from your product to a competitor’s product with few consequences.

**Rivalry among competitors**

Threats of rivals can be reduced by employing a variety of tactics. To minimize price competition, distinguish your product from your competitors’ by innovating or improving features. Other tactics include focusing on a unique segment (overseas country) of the market, distributing your product in a novel channel, or trying to form stronger relationships and build customer loyalty.

The intensity of competitive rivalry in the industry is extremely high.

ABC faces intense competition from its direct competitors, including Tat, Tamek, Superfresh, and Calve which are competing with each other over price, products and promotions intermittently. It should therefore be highlighted that Tat is one of the key competitors in this segment with an increase of market share from 32.1% to 30.0% during the fiscal year 2010/09, while Tamek has shown an increase to 15.1% from 14.8% through the same period [18]. The slow market growth essentially means that these increasing market shares from competitors have intensified the market rivalry, which is threatening ABC’s market position.

The increasing concept of working women is a major force which becomes the cause of change in industry and the nature of competition face by the companies in industry.
Table 5. Competitive Rivalry

| Factor                        | High Unfavorable (HUF) (1) | Unfavorable UF(2) | Neutral | Favorable FA (4) | High Favorable HFA (5) | Comments |
|-------------------------------|-----------------------------|-------------------|---------|------------------|------------------------|----------|
| Composition of competitors    |                             |                   | 4       |                  |                        | Sizes of competitors different as there are some big and some small ones with limited products |
|                               | Equal Size                  |                   |         |                  |                        |          |
|                               | Unequal Size                |                   |         |                  |                        |          |
| Market growth rate            |                             | Slow              | 2       |                  |                        | Slow growth rate % 2.5 |
|                               |                             | High              |         |                  |                        |          |
| Scope of competition          |                             | Global            | 4       |                  |                        | Competitors are mostly domestic |
|                               |                             | Domestic          |         |                  |                        |          |
| Degree of differentiation in commodity |                     | Low               | 2       |                  |                        | Differences do exist as companies were offering different special food for different consumers. |
|                               |                             | High              |         |                  |                        |          |
| TOTAL                         | 0                           | 4                 | 0       | 8                | 0                      |          |

Table 6. Overall Food Industry In FMCG Sector Attractiveness

| Factors                             | Unfavourable | Neutral | Favourable |
|-------------------------------------|--------------|---------|------------|
| Threats of New Entrants/Entry Barriers | 8            | 0       | 4          |
| Competitive rivalry                  | 4            | 0       | 8          |
| Power of buyers                      | 4            | 0       | 10         |
| Power of suppliers                   | 2            | 0       | 8          |
| Threat of substitutes                | 2            | 3       | 8          |
| Total                               | 20           | 3       | 38         |

According to the results of overall industry attractiveness, based on the five forces, food industry in FMCG sector evaluated by the company should be given a scale of 1-5 as to how attractive it is; high scores for more attractive industries and low scores for the lesser attractive. To identify the important structural features and competitive power of industry via the five forces, firm has to conduct industry analysis.
4. Conclusion

Not all of these forces are equally important when assessing the overall attractiveness of food industry in FMCG sector. As ABC, a full-fledged industry analysis would require extensive research, talking with customers, suppliers, competitors and industry experts. However, as a general overview, the five forces concept provides entrepreneurs with an excellent tool to examine the profit potential in a particular industry.

As a result of this paper that in developing international strategy, the business marketer must first assess the globalization potential of the industry. It is driven by market economics, environmental and competitive conditions. For example, market forces determine the consumers’ receptivity to a standardized global product while economics forces dictate whether a global strategy will yield a cost advantage.

By using porter 5 forces analysis for the case of food industry in FMCG sector implementation in Turkey, the results show that the competitive profit in the industry in Turkey is low. Several strategies need to be proposed in order to achieve the better competition positioning for the industry. Yes, some sort of globalization is inevitable because larger companies will require access to larger globalization markets in order to remain profitable. However, globalization will not necessarily occur at all level of economies because smaller companies will tend to be more successful if they focus on local market requirements.

In theory, it is also possible for larger companies to address the local needs in their global markets and this would make them more successful. This is the strategy referred to as “think global, act local”.

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