The Acquisition Process In Multinational Food Companies In Europe

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Summary

The objective of this research is to develop an understanding of the management processes prior to an acquisition decision by multinational food companies in Europe.

To achieve this the literature on the acquisition process is reviewed and found to be limited. Thus Miles and Snows (1978) strategic typologies is used as a device to aid data analysis by dividing the sample. This along with other similar typologies are also reviewed.

The sample frame is based on the worlds thirty largest food companies according to 'The cost of None Europe'. To place the industry and the results of the Miles and Snow typology in context the companies and industry are also reviewed.

Data was collected using interviews with senior members of multinational food companies strategy staff and a questionnaire adapted from Connant, Mokwa and Varadarjon (1990).This data was analyzed and compared to the results of the interviews and public sources of data concerning acquisitions.

The later chapters review the processes involved in acquisitions in terms of what are common to the industry , particular groups, utilizing Miles and Snow as a tool or unique to a company. The major processes involved are strategy formulation, information collection ,acquisition proposals and negotiations. The conclusions highlight the high degree of similarity of acquisition process between the companies and the importance of information collection and validation to the process and in the process certain limitations in the Miles and Snow methodology.

Key Phrases

Acquisitions Process, Multinational Food Companies, Miles and Snow Typology, Strategy, Acquisition strategy .

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Chapter 1

Introduction

1.1 Introduction

By the beginning of 1993 the European single market should have removed trade barriers between European Community members creating a market of 320 million consumers in twelve diverse nations. If this aim is realised it will have major consequences for the highly fragmented and nationally focused European food industry. (1) (2) The original aim of this study was to examine the effects of this stimulus on multinational food company's strategies, in particular their external development strategies. Acquisitions and mergers strategies being of interest since they have a profound effect on the employees of acquired and acquiring firms and their locality. They often result in the loss of jobs and decision making power for the acquired company.

To develop an understanding of the industry and acquisitions made over recent years secondary sources were examined. From this it became evident that 'The Single Market' was not the prime driving force behind the large number of acquisitions occurring in the food sector during the late eighties. 'The Single Market' was seen as peripheral to goals and strategies which were in place before 'The Single Market' concept. Most of the companies in the sample frame either operated in a number of the European Community countries before the 'Single Market' initiatives already or have specifically excluded Continental Europe from the markets in their competitive frame. Expansion in Europe was for most companies just one of the methods of achieving corporate growth in total. Europe offered growth potential because of the relative lack of concentration of producers and retailers particularly in southern Europe. Thus there was the potential to build relatively large market shares while still maintaining profitability. The reason for the level of acquisitions was if one company realised there was an opportunity it assumed its competitors had done so. Hence to gain the profit opportunity it had to enter rapidly which often means external development. In some cases joint ventures did occur but often ownership of these by the multinational has been gradually increased to 100 percent. The aim of the study therefore changed from **Why do multinational food companies acquire to how do they acquire other food companies ?**

To explore this problem the literature on the acquisition process was reviewed to provide a base . The work in this area was however found to be limited. This led to the need to find a tool to divide the interview material and provide a structure.

Thus it became necessary to search for a validated methodology which divided the companies into groups using a number of strategic factors to use as a data analysis tool. This resulted in the use of Miles and Snows Generic Typologies (1978), which along with other similar typologies is reviewed at the end part of chapter two.

To place the industry and the results of the Miles and Snow typology in context, the companies and industry were reviewed and the results of this are given in chapter 3. The review of the industry is also the point where the sample frame is developed.

From the review of the industry an understanding of the industry was created which led to the development of an interview schedule to be used on the firms in the sample frame. These interviews formed the basis of the data in later chapters. These later chapters review the processes involved in acquisitions dividing it by how common the practice was , beginning with industry common processes , then processes common to groups of companies and then those unique to one company.

The conclusions highlight the importance of the information input in to the processes, particularly the variety of information source used and certain limitations in the Miles and Snow methodology.

The following order was developed -

Chapter 2 Academic Literature Review.

Chapter 3 Review of The Industry.

Chapter 4 Results of Miles and Snow Methodology.

Chapter 5 Industry Common Factors in The Acquisitions Process.

Chapter 6 Group and Idiosyncratic Processes in The Acquisition Process.

Chapter 7 Conclusions.

Thus I will begin with an examination of the academic literature.

Chapter 2

Review of Academic Literature

2.1 Acquisition Process

The aim of this project is to examine the acquisition process prior to the consummation of the acquisition.

Thus I will begin with a review of the literature on the acquisition process. The literature on acquisitions and mergers (used here synonymously) is diverse, it however can be divided into three basic groups, the finance and economics literature ,organizational behaviour literature and the strategic management literature.

The finance and economics literature focuses on whether acquisitions are economically efficient and who gains from them. It therefore does not examine the management processes before an acquisition is consummated. The organizational behaviour school is eclectic but centres on the human aspects of implementation of acquisitions.[1] This is therefore not relevant to the pre-acquisition process. This project will therefore focus on the strategic management literature.

The strategic management literature on acquisitions splits into a number of strands, three of which are relevant to the acquisition process.

1) Articles aimed at the practitioner, usually prescriptive.

2) Those that examine the motives behind acquisitions.

3) That which deals directly with the acquisition process.

The latter category is at present limited hence the need to examine the other two.

2.2 Practitioner Targeted Literature

The practitioner targeted literature often says you should do x or y and your acquisitions will be successful often, with limited empirical evidence or theory on which to base this. For the purpose of this review this practitioner aimed literature has been divided into three, those which provide rules, those which follow the process chronologically and those written by a interest group presenting a case.

Those which provide rules do just that. Drucker has claimed 5 rules successful acquisition. As Power and Paine state them ' 1) Acquires a company with a ' common core of unity- either a common technology or markets or in some situations production processes. Financial ties alone are insufficient.

2) Think through your firm's potential contributions of skills to the acquired company. There must be a contribution and it has to be more than money.

3) Respect the products , markets and customers of the acquired company. There must be a 'temporal fit.'

4) Within approximately a year you must be able to provide top management for the acquired company.

5) Within the first year of a merger, a large number of managers of both companies should receive substantial promotions from one of the former companies to the other.'[2]

No evidence exists however to support these rules and Power and Paine in their article examining these rules conclude

' there are currently no rules that will invariably lead to a successful acquisition.'[3] They also question the need for such expert derived prescriptions suggesting the need for empirical work. It however is still appearing in 1991 Tanner, D.A (1991) produced, 'Seven deadly sins' of strategic acquisition, this lists seven factors which lead to bad acquisitions then prescribes seven solutions,these appear to have been based on experience but no evidence is given. The first four of these seem to cover almost everything. Being a financial adviser Tanner pushes the case for involvement of financial advisors. The one area which appears to tie in with the academic literature and is not a catch all is his view of the ' closing crisis'. Tanner sees last minute problems being swept under the carpet to close the deal these problems often being the result of earlier pressure to move on. This fits the academic view of increasing momentum which is discussed in the section on acquisition process.

This type of work appears to offer little to the understanding of the process it is hoping to improve , in spite of this it is still appearing.

A second type of practitioner targeted literature may be described as acquisitions 'made simple books' which follow the process through in chronological order. In the volume edited by Anger, T.R. and Dewhurst, J. (1987) the process of acquisition is examined, however only brief case study evidence of practice which is written up by the practitioners themselves.

Jones, S.C. in ' Successful management of acquisitions' (1982) does discuss the evidence on merger trends, and motives for acquisitions and acquisition success. He however does not carry this style through into the later chapters on the process. He instead provides checklists for screening companies without giving any supporting evidence.[4] This is typical of a number of books in this area.

A third type of practitioner aimed literature is that by a certain management group who often try to push the case for their area having more power. Most prominent amongst these are human resource and personnel management articles such as, 'Mastering a foreign acquisition' by Ireland, K. (1991) and 'A method for merger madness' by Sturges, J.S. (1991). Other areas such as market research have also tried to get into the act with such articles as 'The key to understanding your market' Da Costa , C. [5] This sees the need for improved information collection and verification in acquisitions .

One other area I will include in this section which are more indirectly practitioner aimed is textbooks.

A number of strategic management textbooks do provide cases of acquisitions although few appear to examine the process of acquisitions in their main part of their text.

Mintzberg and Quinn (1991) provide the case of General Mills acquisition programme , they describe events over a period from 1964-1985 but do not explain or examine the process in detail. There is some evidence on the acquisition programme but it is of limited detail, quoted evidence includes -

' It seems to me that somebody came up with the idea that," Look, there's a little company down in Cincinnati that makes Play Doh, and it's available. " to my knowledge it came to us. I don't think we found it. Rainbow Crafts just happened to be there, it happened to be a good ideas , and we happened to get it. Then we started a research (internally and externally) into other-than-food consumer areas. These quickly extended into the craft, game, toy, fashion and jewellery businesses- all broad consumer lines other than food.'[6]

Other case books also give case study evidence Kenny, Lea, Sanderson and Luffman (1987) provide evidence on Grand Metropolitan's growth from the early seventies to early eighties but does not give details of the pre-acquisition process. This book also provides a detailed case study of the Hanson Trust takeover of Berec in 1981. It however commences with the dawn raid by Hanson and does not consider the pre-acquisition analysis. Thus previous case studies may be useful to provide secondary evidence when examining acquisitions but are of limited use .

The practitioner aimed literature thus offers little except prescriptions with at best anecdotal evidence. It does suggest elements of the process which may be important as practice may have moved towards this under the influence of the advisers providing the literature. It therefore suggests the following hypotheses-

(a) The process has become simplified into search, financial analysis, and negotiation.

(b) All groups want to be involved, hence only 'senior managers' from each area are involved because of the need for secrecy .

c) Information collection and verification in acquisitions may be a contributor to success. This is because of its absence from the literature most data collected is assumed to be financial and reliable. This may have lead to the focus on relatedness since a company will have access to more information in its own area on which to base its proposal for an acquisition on.

d) The poor quality of many of these prescriptions suggest individual experience of the acquisition process will be important in determining success.

These hypotheses are restricted as a result of the limitations of the prior work thus I will now examine the literature on acquisition motives to extend this.

<u>2.3</u> <u>The motives behind acquisitions</u>

A number of motives have been proposed for acquisitions, in general they fall into two approaches; the economic value maximizers and the managerial. The rational economic explanations most commonly proposed are :

1) Efficiency - economies of scale and scope.

2) Financial gains - eg coinsurance. [7] [8]

3) Information asymmetries.

4) Increased market power - enabling price rises.[9]

If we believe these explanations of the motives behind

acquisitions it would lead us to expect a totally rational analytical approach within the information available.
We would expect to find no internal political factors and use of a highly developed formal information system.
If however we view acquisitions as being driven by managerial motives for personnel kudos and the need to diversify personnel risk, we may expect to find a more haphazard approach to acquisitions with a variety of goals attempted to be satisfied and hence compromises and political decisions without the collection of verified information.
The evidence available suggests that managerial objectives may be driving the poor performance acquisitions are claimed to have by the finance literature. Morck, R. et al (1990) found that 'managerial objectives drive bad acquisitions.'[10] This study also shows that companies performing comparatively poorly had a worse acquisitions record than well managed companies.
Trautwein, F. in 'Merger motives and merger prescriptions' (1990) offers an additional theory of acquisition motives the process theory. This is based on strategic decision theory, the basic factors being-
1) Individuals posses limited information processing capacity therefore information collection and analysis will be curtailed as simplifications are used.
2) Organizations tend to use routines because of the complexity of the problems being faced. Only if these routines are seen as failing will they be adapted.

3) Political power is an important factor in major decisions.

This framework may be tied in with the work of Jemison, D.B. and Sitkin, S.B.(1986). They examined four impediments to the acquisition process - activity segmentation, escalating momentum, expectational ambiguity and management misapplication, they however present only theoretical evidence for these hypotheses.

This latter framework however offers the greatest insight into the acquisition process proscribing it neither to the purely rational or purely political but a balance between the two limited by human information comprehension capacity. Thus if the view is taken that the motivation for acquisitions is not purely economic or managerial and that managers are boundedly rational this suggest the following hypotheses.

a) As companies carry out more acquisitions they will develop processes and standard formats to review acquisitions.

b) The development of standard formats will lead to more acquisition proposals.

c) The provision of an acquisitions director will lead to more acquisition proposals as it is no longer the work of the line manager.

Thus the framework of Trautwein based on strategic decision theory seems to offer the greatest insight into the process it however does not suggest the exact nature of acquisitions.

2.4 Acquisition Process

Direct work on the acquisition process is limited and empirical research rare. Birley, S. (1976) interviewed 52 directors covering 20 acquisitions in order to gain an outline of the process. The sample size may limit the validity of statistics . In spite of this the paper chooses to focus on creating statistical measures which are often based on the addition of nominal values rather than using the data qualitatively. My review will thus use other data presented by Birley which is less methodologically dubious - qualitative data and simple counts. The date of the work may also limit its value.

Birley found half of the companies interviewed had a low level of planning when financial controls were excluded. This suggests the merger boom of the late sixties was based on the availability of candidates and fashion rather than any plans. The plans claimed being post rationalization.

She also found, that executives had general notions of a strategy but could not be pinned down on it. The key factor behind acquisitions claimed was the need for profitability however few could quantify this. The review of strengths and weaknesses of the company and acquisition candidates tended to post rationalisation rather than part of the pre-acquisition process.

Birley's work also supports Jemison, D.B. and Sitkin, S.B. view that acquisitions have a momentum .

Amburgey and Miner (1992) also examine the issue of strategic momentum, dividing it into three types-

1) repetitive- where an organisation repeats a specific action.

2) positional- where an organisation takes actions to maintain its present position.

3) contextual- broad organisational factors such as culture shape strategic actions.

These were analyzed using a sample of acquisitions by 262 large mining and manufacturing companies for the period from 1948 to 1977. The study concludes that ,' Overall, the results provide support for the existence of repetitive and contextual momentum in merger activity and partial support the possibility of positional momentum.'[11]

This seems to imply that behaviourial variables associated with a process theory of acquisitions underlie the acquisitions process but does not suggest the effect it may have on success.

The only major piece of research conducted recently in this area has been Haspeslagh, and Jemison's , Managing Acquisitions. [12] This book is based on the independent research of the two authors over eight years at 20 firms in Europe, America and Japan.

The key problems perceived by Jemison and Haspeslagh in managing acquisitions is the need or perceived need for urgency and secrecy which mean many acquisitions are examined less rigorously than other capital projects and that integration is not considered until after purchase.

In their view, failure does not necessarily result from lack of rigour or opportunism but the way the process is managed. Which is conventionally sequential and segmented involving one off purchases.

From this they propose four common challenges in managing acquisitions -

'-Ensuring that acquisitions support the firm's overall corporate renewal strategy.

-Developing a pre-acquisition decision-making process that will allow consideration of the 'right' acquisitions and that will develop for any particular acquisition a meaningful justification, given limited information and the need for speed and secrecy.

-Managing the post-acquisition integration process to create the value hoped for when the acquisition was conceived.

-Fostering both acquisition-specific and broader organizational learning from the exposure to the acquisition.'[13]

To remove the segmentation of processes Haspeslagh and Jemison propose a capabilities perspective. Where capabilities are bought and value is created by their application to the acquirors business or the acquirors capabilities to the acquisitions business to create a competitive advantage. This they see as shifting the focus from the issue of, Do acquisitions create value ? to 'How is value created in firms and how do acquisitions themselves contribute to value creation ?' [14]

They contrast value creation via capability transfer and application to value capture where a company buys another because the market under-values its assets.

The process in their terms is thus not a one off purchase of assets but buying capabilities through a long term continuous process. Thus they argue against the capital market perspective because it does not consider how value is created only whether it is.

The capabilities based view on value creation is not new. A similar approach was used by Salter and Weinhold (1979) to understand relatedness. Skill transfer was used to explain value creation in related acquisitions compared to unrelated acquisitions. They did not however empirically test this. This was to test a hypothesis Singh and Montgomery who examined the hypothesis that related firm acquisitions have superior returns. They utilized a market based approach though and concluded that related acquisitions have higher returns in total these however mainly accrue to the shareholders of the acquired company. This issue has received extensive attention in the literature however as all acquisitions to be considered are within one industry a detailed examination of this issue did not seem relevant.

The decision making process is a key factor in the success of an acquisition however failure does necessarily not result from lack of rigour or opportunism but the way the process was managed. It is rarely the sequential analytical process prescribed by many of the books that view the process chronologically [15] nor is it the opportunistic strike seen by some. Acquisitions are a balance in

Haspeslagh's and Jemisons view between the analytical and inevitable political positions involved with a large resource allocation decision that acquisitions are. Haspeslagh and Jemison see the justification of an acquisition as 'A much broader set of considerations , a multifaceted view that reflects in the internal and external logic by which the acquisition and its price are justified.' [16] They propose six criteria for judging the soundness of these justifications-

a) Quality of strategic assessment.

b) Widely shared view of purpose.

c) Specificity in sources of benefits and problems.

d) Regard for organizational conditions.

e) Timing of implementation .

f) Maximum price.

The evidence for these however is not provided instead they state- ' After analyzing the dossiers and internal arguments of successful and unsuccessful acquisitions , we suggest six dimensions...' [17] The reader is thus left at this point to rely on the authors judgement, not much better than some of the prescriptive articles. The process is therefore in Haspeslagh's and Jemison's view is the ' First big challenge in acquisition management' [18] They see in this process four main problems -

a) Fragmented perspectives- by which they mean the lack of a common view bought about by the disparities of background of the many professionals involved.

b) Increasing momentum - this has been researched by others such as Amburger, T.L. and Miner, A.S. (1991) and little is added.

c) Ambiguous expectations- this they see as being a negotiation tool used to close a deal by making the exact position unclear it however often causes problems later in implementation.

d) Multiple motives among managers.- this is the internal equivalent of (c) and results in internal friction. Haspeslagh's and Jemison's also produced a pseudo typology of the acquisition process the variables being -

1) Time horizon of managers involved- this they saw as a spectrum from the USA at the shortest end to the Germans at the other with British companies varying across the middle.

2) Managers concept of how to compete - whether it was built on broad managerial ideas or specific abilities to each business.

3) Substantive involvement of top managers.

4) Analytical versus political decision making.

5) Consensual versus individualistic decisions. These factors they examine and consider what in terms of each dimension will result in a robust approach. They saw a long time horizon, a capabilities based concept of competition, high top management involvement , analytical decision making and a consensual decision style as being robust and hence likely to lead to better acquisition proposals. To cope with the problems and ideas they pose Haspeslagh's and Jemison's see the need for a firm to develop an specific acquisition decision making process which is adapted to its

needs and context. Thus rules of thumb must be developed but the assumptions underpinning them must be remembered and the rules not applied out of context.

The third and forth sections of Haspeslagh's and Jemison's book focus on the post acquisition integration and are thus not relevant.

Thus it can be seen that the research on the acquisition process is limited it is most developed in the area of momentum .

This posses the problem of how to examine this area given the level of prior literature and potential access problems.

A large scale quantitative approach involving a large sample is a good method for testing hypotheses but generates a restricted number of new hypotheses and does not provide deep insights. Given the limited level of prior literature, this methodology although useful for testing hypothesis already established it is not sufficient on its own to generate new hypothesis and is unsuitable for exploratory work.

The clear lack of a number of clear hypothesis in addition prevents the use of a questionnaire based purely on them. Thus to develop a questionnaire would require it to be based on either preliminary empirical work or the adaption of theory from another area to this problem.

This would appear to be impractical within the time-frame of this research.

From this it appears that the most rational route to follow

is to use structured interviews based on prior work.
This allows the greater flexibility to probe interviewees and thus generating a basis of exploratory work to develop hypothesis from.
The time-frame would appear to prevent the collection of sufficient data to construct an historical account of the process of acquisition at a number of companies. The use of one detailed case study based upon many interviews at one company would appear to suffer from similar problems to an ethnographic approach; primarily the difficulty in the gaining the extensive access required. Negotiation of access would reduce the time available for interviewing. The value of a single case may also be questioned.
Thus the data must be collected on a few firms and used comparatively.
The use of qualitative data in a comparative manner opens up the possibility of bias in interpreting and structuring the data. Thus their is a need to look for a methodology which would allow the division of the data based on general strategic factors. Thus acting as a starting point to examine the data. This suggests the use of strategic typologies based on a large number of variables. To see if they offer a viable base for the analysis of data on acquisition process I will now review them.

2.5 Strategic Typologies

Strategic typologies have developed into a major research area in strategic management. The simplest being the portfolio models such as the BCG model [19] which deal with the investment a firm should make in a business or product. These models however do not deal with how a firm should integrate or operate these units. The most well-known of the more comprehensive models are Miles and Snow's (1978) organization types and Porter's (1980) generic typologies.

Porter offered 3 generic strategies -

A) Differentiation- creating a unique product or service, eg Ferrari.This can be achieved through design, service or brand image or a combination.

B) Cost leadership- become lowest cost producer.

C) Focus- cater for a segment of the market, such as a geographic area, or specific customers with a narrow product range.

This typology, however has not been validated. Miller and Friesen's (1986) examination found: 'Our taxonomy did seem to point to several common and stable types of strategies that were robust (ie born out in both taxonomies) and quite different from one another but none of the clusters reflected Porters (1980) pure types .'(20)

Support does exist for the generic strategies, Hambrick

(1983b) did find cost leadership, differentiation, and focus in his study of capital goods firms, but only singlely not multiply in one firm. Smith, Guthrie, and Chen (1989), see Porter's typologies as too general to explain strategic behaviour of larger firms. This conflicting evidence does not give undue confidence in Porter's strategies capturing the current reality of business policy rather than ideals, and thus they are of limited use when trying to split companies into groups with similar behaviour. Eli Sergev (1989) in a study trying to synthesise Porter's generic strategies and Miles and Snow's typologies states: ' Miles and Snow's typology lends itself better to the evaluation of environmental variables'. As this study's original aim was to examine the effect of an environmental variable, 'Europe 1992', I will now focus on Miles and Snow's Typology.(21)

The Miles and Snow typologies are much more specific and cover the full organization as an entity within its environment.
The 4 typologies are -

A) Defenders. These are organizations which have:- narrow product-market domains, top management highly focused on the organizations area and that alone,few major changes in technology or structure, and a competitive edge based on cost leadership.

B) Prospectors. These constantly look for new market opportunities, in their established and new sectors, they are creators of change and rapid followers of new trends. They are thus unable to be totally efficient.

C) Analyzers. These are organizations which operate like defenders in stable markets via formalising operations in more unstable markets. They monitor competitors closely and follow any promising innovations rapidly.

d) Reactors.These are organizations only change when forced to by the environment and do not follow a consistent strategy.

These models were developed on the premise that : 'Managements strategic choices shape the organization's structure and process.' (22) and that organizational survival is determined by strategic choice (Child, 1972) not natural or rational selection. This resulted in Miles and Snow viewing a number of variables as being key within an organization's structure -

a) Dominant Coalition - the decision makers with greatest influence in an organization.

b) Perceptions - what the dominant coalition sees as the organizations environment.

c) Segmentation - how the dominant coalition divides up the world outside and accordingly allocates resources.

d) Scanning Activities - how the dominant coalition scans the environmental variables deemed to be critical.

e) Dynamic Constraints - limits set on organizational behaviour by previous strategic decisions.

Given the emphasis on the above variables organizational problems were split into three groups; the entrepreneurial problem, the engineering problem, and the administrative problem with the three being interconnected by the adaptive process which gave rise to the basic typologies described above.

These typologies have been extensively tested since being published. (23)

Snow and Hrebiniak (1980) used self typing, asking top managers to assess their own organizations strategy compared to a paragraph description of the four Miles and Snow typologies to examine relationships between strategy, distinctive competence and organizational performance. This found that a variety of strategies existed in the four industries they studied. Automotive and air transport having low uncertainty levels and plastics and semiconductors being highly uncertain. There were however more defenders and prospectors in the automotive, air transport and plastics industry. This thus places a question mark over the hypothesis presented by Miles and Snow in their original work that prospectors, analyzers and defenders would be equally likely outnumbering the long term unsustainable strategy of the reactors. Snow and Hambrick attempt to explain this in terms of history, defenders and prospectors being older strategic options than the analyzer which often use modern organizational forms such as matrix structures. The strategic competencies perceived by top managers in defenders fitted those predicted by Miles and Snow - general and financial management and applied engineering, and this did not vary considerably by industry. Prospector firm's distinctive competencies generally fitted the hypothesis with general management, being viewéd as a strength in all four industries,product research a strength in three industries and basic engineering in two. Market research however was not seen as a distinctive competence in any of the industries surveyed.

The analyzer strategy however did not find support, with no clear pattern of distinctive competencies emerging.
The reactors as predicted had no pattern of distinctive competencies, thus conforming to the model.

Thus the distinctive competencies of defenders, prospectors, and reactors seemed to fit the prediction of the models but there was no evidence to support the predicted strengths for companies who perceived themselves as analyzers. This research also investigated the hypothesis that defenders, prospectors and analyzers would outperform reactors as suggested by Miles and Snow (1978). This was supported, but not conclusively.

Smith, Guthrie, and Chen,(1986) question the validity of this research stating: 'unfortunately, subsequent research has neglected this question [the appearance of the Miles and Snow typology being more powerful than may in fact exist] by assuming the validity of the model (Snow and Hrebiniak,1980), or attempting to identify the strategy based on one dimension of the model (Hambrick, 1983).'(24)

To test the typologies Smith et al surveyed seventy electronic companies in the United States, forty seven of whom filled out questionnaires on which the typing was based. The grouping into types was carried out using cluster analysis on scores from the questionnaires with the highest score being called prospectors, the next analyzers and the next defender and finally reactors since no consistent approach answers were scored zero. A fit was found between the highest two cluster scores and the prospector and analyzer typologies. The 'defender' cluster followed the defender strategy, however the fit was not ideal. The final cluster fitted the reactor strategy in that there were a high number of 'no consistent approach' answers to questions by companies in this cluster. This evidence suggests the typologies bear some resemblance to reality with the defender strategy being the most difficult to clearly discern as Snow and Hrebiniak (1980) also found. The Smith et al paper also found that: 'Consistent with Miles and Snow, this research found that prospectors, defenders and analyzers all performed equally well and superior to reactors.' (25)

A more recent attempt to validate the Miles and Snow (1978) typologies was carried out by Conant, J.S., Mokwa, M.P. and Varajaran, P.R.(1990). The methodology used in this study is an attempt to get away from the single item scale commonly previously used.(26) Thus a multiple-item questionnaire was used alongside the widely used paragraph approach.(27) This method offers a more reliable measurement of strategic typology since it operationalizes all of the strategic dimensions in Miles and Snow's typologies.

The Connant, et. al. study examining hospitals did find a difference between the responses to the two methodologies but it did not examine the differences in detail, instead it excluded those hospitals which gave ambiguous typologies in an effort to find organizations with consistent typologies. The study also found a high level of retest reliability of .74 and .75 for the multi-item and paragraph approach respectively.(28) This increases confidence in the longitudinal internal consistency of the typologies in practice - an important factor when attempting to examine events stretching over a number of years.

Thus the Miles and Snow typologies seem to have been validated in a number of ways - the only question mark being consistency between strategic business units in multinationals.(29) They therefore appear to offer the best basis for dividing the data generated by the interviews and aid comparison of the acquisition process within companies in the european food industry.

Chapter 3

The European Food Industry

3.1 Overview of The European Food Industry

The european food industry is characterised by its diversity, size,(377 Bn ECU in 1985), and its low overall concentration with a limited number of very large players and very large number of small ones (1). The major trends within this competitive position since 1986 has been the rapid concentration on a pan-european basis while individual national sectors have tended to concentrate more slowly.(2) This has been because of the tendency of the large multinational players to acquire in markets where they have a limited presence and national players to move into other countries within their sector.

Small producers have still however been able to co-exist with the mass producers and transnational companies, this is partly due to national and regional preferences. As professor David Stout of Unilever says: ' Local tastes are more firmly entrenched when it comes to what we eat than what we wear.'(3) Also, relatively large numbers of food retailers still exist even in markets which are seen as highly concentrated such as the United Kingdom. Thus there is a demand for diversity, which because of the size, the market can support smaller producers. The larger firms are rarely interested in the smaller niches since they cannot support large plants or warrant changing a production line, while still maintaining a sufficient return on funds employed. The returns are however sufficiently large for smaller producers with little or no capital tied up using skilled craft production.

This difference is possible because food processing is viable with practically no capital; working out of a kitchen, selling a 'home made' product for which a premium can be demanded. In the food sector it is usual to have more than one method capable of producing a comparable or substitute product often at very different scales. There are areas however with very large capital requirements such as soluble coffee or margarine which cannot be produced by a craft method. A soluble coffee plant would cost about £35 million,(4) thus resulting in relatively few producers.(5) The cost structure of these markets thus precludes smaller producers because of the high fixed costs both in absolute and per unit terms.

Slightly larger medium sized producers of packaged groceries have been able to survive by producing own label products for super-market chains. This has the advantage of avoiding the need to invest in a brand which requires large amounts of media support to communicate to the mass market, since the traditional method of communication to consumers, retailer recommendation is not possible in multiples. This type of producer incurs the fixed production costs of the major branded producer but not the marketing expenses such

as advertising and running a national sales-force. These producers have thus focused on one element of the value chain, production because they are either unable to make the step to being a major branded producer due to of lack of capital or have chosen not to as they believe their skills lie elsewhere, such as Northern Foods.
A third major reason for the large numbers of producers in Europe has been the trade barriers between countries which have until recently, restricted the movement of goods around Europe.(6) Thus European companies have been unable to make the jump to internationalisation since the first step, exporting, is not available, so they are tied to home markets. Hence most of the very large companies are American, who had to buy plants in Europe and had the resources provided by their American operations and M-form corporate structure which allowed them to do so.(7) The exceptions being Unilever, the result of an international merger, and Nestle, a Swiss company which has grown by acquisition over a long period and has access to funds from Swiss banks. Of the other large european food companies- BSN has only recently moved into food and has since grown rapidly, Grand Metropolitan has similarly grown rapidly from a brewing base and the other companies are either the result of mergers, to dominate national markets or are in areas which require large amounts of capital or the importing of materials from the Third world.

Thus various different sizes of company exist within the food market operating on different technologies, different economics, and focusing on different parts of the value chain, from the niche producer, own label producer, nationally branded producer to the transnational operating in many markets.

The larger producers rely on barriers to entry to maintain their position, the key ones being technology, advertising and distribution networks.

Technology as previously stated is important in certain areas where no craft production is possible. It is also the method by which the branded manufactures stay one step ahead of the retailers, in their constant attempts to remove as many branded products from the shelves and replace them with their own label products.(8)

Packaging is increasingly becoming a focus of technology as the consumer demands better presented products whilst requiring the packaging used to be less environmental damaging and while the retailer demands it to fit its self and pallet systems. Packaging technology is thus becoming a barrier to entry particularly when linked with retailers distribution systems demands.(9)

Although hotly disputed it could be argued that advertising is a barrier to entry because it is not infinitely devisable. It therefore is a fixed cost, which is allocated over sales . This gives larger producers a cost advantage since they have larger sales to allocate an equal absolute cost over, hence giving a lower per unit cost for the larger producer. This point is however disputed between industrial economists.(10) Other marketing expenses such as a sales force can also be fitted into this argument - although when exporting it is possible to use food brokers.

Critical mass is a much touted reason for many acquisitions, especially for American multinationals moving into Europe. These companies often make acquisitions to buy sales forces to sell their North American product lines, while not incurring additional fixed costs since these are already covered by the acquired companies local products.

Within Europe there are large differences, as already mentioned, in taste and the economic structure of markets. In northern Europe there is a tendency to greater concentration in retailing and greater retailer power. (11) As a result the producer has to communicate to the consumer directly as point of sales material and word of mouth communication via the retailer are restricted. Distribution systems also tend to be more developed in northern Europe, with the availability of third party distribution such as Wincanton or Christian Salversen in the U.K.. Capital requirements however, in for example high technology warehousing, has increased with the need to be able to move pallets rapidly and deliver immediately to allow for the lower stock held by retailers as they move to just-in-time delivery systems pushing the costs of holding stock onto the producer. But the availability of third party delivery for all goods removes the need to have capital tied up in tractor units and even large food companies do not own their own fleets of lorries any more. Hence barriers to entry in physically distributing the product are probably higher in southern Europe because of less well developed third part distribution systems .

In countries such as the United Kingdom, retailer power may allow the retailer to refuse to stock your products. In southern Europe however, where the grocery trade is relatively weak, there are a larger number of smaller producers. It is possible to serve a smaller geographical area using retailer recommendation instead of advertising. In Italy it is also possible to get local television advertising because deregulation of television has resulted in a plethora of channels mainly on a local basis.

Labour costs also vary markedly across Europe with Portugal's being around half of Britain's in the late eighties.(12) Thus in southern Europe it is viable to substitute labour for capital and still be competitive which would not be possible in northern Europe, hence it is possible to operate with less capital and on a lower scale.

These trends would suggest that companies in northern

Europe would be larger and focused by product and part of the value creation system, thus companies would not be vertically integrated or cover a wide product area but focused on a core product, they however would tend to be national or multinational in that product area. Southern European firms would be expected to be smaller regionally focused, with backward and forward integration including control of the distribution system. The product range would be larger than Northern European firms national market share in any category would however be lower.

It is within this climate of diversity I propose to examine the strategies of the major players after 1986, since these are the driving forces behind the change.

3.2 **The Top 30 Food Companies**

The following pages contain a list of the 30 largest food companies in 1986 according to the **Cost of None Europe, The Foodstuffs Industry** report commissioned by the European Community and carried out by Group Mac.(13) I intend to use the list below as my sample frame since it represents the state of the industry before any changes resulting from the European Single Market Initiative.

Table 3.1

The World's 30 Largest Food Companies

Company	**Country origin**	**World Food Sales 1986 ($ Bn)**	**EEC Food Sales Of 1986 ($ Bn)**
NESTLE	CH	20.10	6.43
UNILEVER	UK/NL	12.70	7.62
PHILLIP MORRIS	USA	12.00	1.08
RJR NABISCO	USA	9.20	1.38
BEATRICE FOODS	USA	8.14	.16
DART & KRAFT	USA	7.80	1.09
COCA COLA	USA	7.29	1.31
PEPSICO	USA	6.88	.55
MARS	USA	6.00	1.38
HEINZ	USA	4.37	.96
ALLIED LYONS	UK	4.20	3.61
GRAND METROPOLITAN	UK	4.07	2.85
SARA LEE	USA	4.06	1.30
CAMPBELL SOUP	USA	3.99	.32
BSN	F	3.80	3.23

Company	Country Of origin	World Food Sales 1986 ($ Bn)	EEC Food Sales 1986 ($Bn)
GUINESS	UK	3.60	2.52
BORDEN	USA	3.55	.20
KELLOGS	USA	3.30	.53
JACOBS-SUCHARD	CH	3.20	3.01
ASOC. BRITISH FOODS	UK	3.14	2.36
GENERAL MILLS	USA	3.06	.15
PILLSBURY	USA	3.03	.39
QUAKER OATS	USA	2.97	.52
CPC INTERNATIONAL	USA	2.77	.89
CADBURY SCWEPPES	UK	2.74	1.56
BASS CHARINGTON	UK	2.66	2.66
UNITED BISCUITS	UK	2.40	1.39
HEINKEN	NL	2.30	1.47
RANK HOVIS McDOUGALL	UK	2.10	1.66
ROWNTREE MACKINTOSH	UK	1.79	1.07

The following large companies were excluded from the Research On The Cost Of None Europe - Volume 12 survey, Unigate, Tate and Lyle, Sodima, Groupe Socopa, Koninklijkewessanen, Ferruzi who are mainly dairies or sugar refiners.

Taken From - Research On The Cost Of None Europe - Volume 12, Part B, P 735-736

3.3 Companies Excluded

From the list above I have made a number of exclusions when constructing my sample frame.

The two largest companies I have chosen to exclude are Beatrice and R.J.R. Nabisco because during the period 1986-1992 the primary driving force behind their strategies has been the need to generate cash to pay for the 'junk bonds' issued in their leveraged buy outs by KKR- (Kohlberg Kravis and Roberts). They are not therefore following a strategy driven by any food industry logic or the need to build a long term position in the global food market.(14) Thus to look at their large number of disposals in Europe and conclude anything about the European food industry would be spurious.

Mars was excluded from the sample frame because of their secrecy and hence difficulty in obtaining and validating evidence since Mars because of its private nature does not have to issue a corporate report.

Pepsico and Coca-Cola were excluded on the grounds that they are very much operating in a *private* war which behaves like a zero-sum game and their strategies are therefore likely to reflect previous behaviour of the other. More importantly perhaps, it would be difficult to obtain contacts within these companies since they predominantly operate in Europe via joint venture bottlers, who since they do not need to know them to carry the out day to day operations, are unlikely to be privy to any strategic details.

The major brewers have also been excluded since they operate in a different market, and do not compete with the major food companies but amongst themselves. The brewers that do have grocery operations have been included in the sample but interviews to establish their acquisition processes were not requested unlike the other companies in the sample.

Four further groups have been excluded :

a) Two large companies who do not have a major european presence, Borden, General Mills, for whom Europe represents only about five percent of total sales. General Mill's european operating assets are primarily in the form of two joint ventures one with Nestle, Cereal Partners Worldwide covering breakfast cereals and a second with Pepsico covering snack foods.

b) Sara Lee was excluded because of the difficulty in obtaining information on them from within the U.K. Their major european operating units being in Holland and Belgium in the form of the Douwe Egberts and Van Nella coffee companies.

c) During the period a number of major companies in the list were taken over, they thus are not covered separately but as part of the parent group.

Kraft- acquired by Phillip Morris.

Jacobs Suchard- acquired by Phillip Morris.

Pillsbury- acquired by Grand Metropolitan.

Rowntree- acquired by Nestle.

d) Associated British Foods due to a lack of time .

This leaves the following companies -

Nestle

Unilever

Phillip Morris

Heinz

Allied Lyons

Grand Metropolitan

Campbell Soup

BSN

Keloggs

Quaker

CPC International

Cadbury Schweppes

United Biscuits

Rank Hovis McDougall

In addition, two companies were added because of their rapid growth in the period, Hazlewoods and Hillsdown Holdings. Both of these companies have carried out massive acquisition programmes during the eighties, Hazlewood growing from a turnover of £12 M in 1981 to £577M in 1991, and Hillsdown from a turnover of £75.2M in 1981 to £4215.2 in 1990. Hillsdown is thus now larger than Cadbury Schweppes or United Biscuits. Hazlewoods, though much smaller than most of the sample, carried out 22 acquisitions between 1987 and 1989 and 5 disposals. It is therefore included as a fairly extreme case of rapid growth via acquisition. The strategies of the companies in the sample frame are reviewed in appendix A.

Chapter 4

Application of Miles and Snow Typologies

4.1 Methodology

As mentioned in the literature review, the Miles and Snow typologies were applied to the sample frame to aid the analysis of the interview data. The typology was chosen , primarily because it covers a large number of facets of an organisation, has been extensively validated, and is considered to reflect reality rather than ideals, as in the case of Porters generic strategies.

Hooley, Lynch and Jobber (1992) in their work examining generic marketing strategies concluded that the five strategies they found: ' resemble (but do not equate to) the Porter (1980) strategies of market wide differentiation, focused differentiation, stuck-in-the-middle and focused cost leadership .'(1) Thus supporting the Porter strategies they also found two strategies that contained some of the characteristics of Miles and Snow's Defender and Prospector typologies. This survey however used only single business companies and is hence biased towards smaller companies, contrary to the focus of this survey on larger companies. The strategies also concentrated on marketing variables and do not include the wider variables of Miles and Snows typology. Hooley, et. al. conclude that: 'the findings suggest that the Miles and Snow typology may be too broad to distinguish between all of the major strategic types which can occur in cross-industry studies.' (2) This is in contrast to Smith, Guthrie and Chen's (1989) view who state: 'Porter's (1980) typology is described in relatively general terms, and seems to be limited to explaining the competitive behaviour of larger firms '(3). This study is however concerned only with a limited group of companies operating in the same industry, and therefore the criticism of Hooley et. al.is not strictly valid and it has to be considered when the categorisation of the data is examined.

Other typologies that were considered include Miller and Freisen's (1978), judged by Smith et. al. to 'lack specific detail, theory and generalizability '(4) it has also been less extensively used and operationalized.

Thus Miles and Snow's typology was thought the most suitable heuristic device for this study in light of the time available.

The survey was conducted using an interview to examine issues surrounding the process of acquisitions and a multiple item questionnaire based upon that used by Connant,Mokwa and Varajaran (1990) alongside the more widely used paragraph approach (see appendix A) used for the purpose of self selecting into Miles and Snow typologies. The paragraph approach uses a paragraph describing the Miles and Snow typology and then asks the respondent to chose 1 of the four descriptions. The multiple item questionnaire, including the paragraph approach as the first question, as stated above, was chosen because it appeared the only validated way to fully operationalize the Miles and Snow typology. It has to be admitted however that its length could be a disadvantage, particularly if a large sample were being surveyed. The paragraph approach alone has been fairly extensively used and is quick both for the respondent to fill out and for the researcher to interpret. Thus it was used as part of this survey but was not relied upon in isolation for two reasons: (a) the difficulty in fully conveying all the variables in a paragraph (5) and (b) respondent selectivity in focusing on only a few variables when selecting a response, even if all variables could be operationalized. Thus the paragraph approach only really evaluates a limited number of variables.

Other possible methods of operationalisation were also found to have difficulties. The use of external objective measures such as percentage of sales derived from new products as used by Hambrick (1983) (6) is difficult in such a diverse and large market as the european food market.It also appears to be excessively complicated given that the typology is to be used primarily as an aid to data analysis. Objective factors have been used to compare the results of the questionnaire in an attempt to validate them but were not carried out using a systematic measure and not part of the actual placing into typologies.

External typing by experts, as used by Meyer (1982), was considered impractical and researcher inference was considered subjective particularly when dealing with only a small sample. The later appeared to be pointless as this could be carried out as part of normal qualitative data analysis without utilizing Miles and Snow's typologies.

The interview was used to the develop qualitative data on the process of examining a potential acquisition. To develop a clear and relatively easy to fill in questionnaire which considered all the options and fully explained the purpose was considered impossible. In addition there may have been greater difficulty associated with getting senior staff to fill in a questionnaire which would, of necessity, appear long. Even if the questionnaire were filled-in, there would be no way of checking who actually filled it in and therefore the value of the answers. The focus on a small group of companies, allowed the use of detailed interviews following a interview schedule followed up by the Miles and Snow questionnaire to aid data analysis.

Ethnography was considered unsuitable for three reasons :

(a) the time available ,b) gaining access , c) the resultant sample of one. The time required to carry out an ethnographic study of an acquisition would be extensive if the acquisition process takes eight weeks and access negotiation takes as long this means at least sixteen weeks will be used up before transcription of any material is carried out. This assumes an acquisition process about to be commenced can be found and that access can be negotiated The problems with gaining access are likely to stem from the high degree of time required in contact with senior personnel which they may see as being a hinderance to their work and the fact the researcher who is not tied to the company may become privy to market sensitive information. The issue of using a sample of one can be argued either way depending on weather you see the need for rich deep data with limited generalisability or more large scale quantitative work.

The interview schedule used as a base for the interview is discussed in the next chapter, reference being only made in passing to data collected with it in this chapter.

The survey was conducted by mailing questionnaires to senior members of the finance and strategy staff at companies in the sample frame and conducting interviews. Two companies were mailed and requested them to fill out the questionnaire only to aid validation of the Miles and Snow methodology. This was done because the two companies in question were brewers and their food operations focused on the supply of franchise operations they owned. This supply of franchise operations is unlike the situation faced by most food companies who confront powerful monopsonistic buyers in the form of the major retailers in northern Europe.

In recent years the retailing end has been the focus of both companies strategy both building a presence in fast food outlets.

This initial approach to the companies requesting interviews resulted in a limited response. After six weeks, faxes were sent to ensure the letter had been received. This precipitated in a number of cases respondents suggesting new people to write to or a change of address. These companies were then remailed as were companies that failed to respond after six weeks. All companies who offered reasons why they could not participate, were also remailed. This process, extending from January to early June 1992 resulted in the following responses :

a) 2 rejections

b) 2 companies filling in the questionnaire only because of logistical difficulties.

c) 1 missed interview in Paris due to a late change of schedule by the interviewee.

d) 2 non-returns/ replies.

e) 7 interviews.

The results of all this activity was 7 interviews and 10 questionnaires completed, giving a 50 % success rate for interviews and 66.66 % for questionnaire responses.

4.2 Classification Procedure

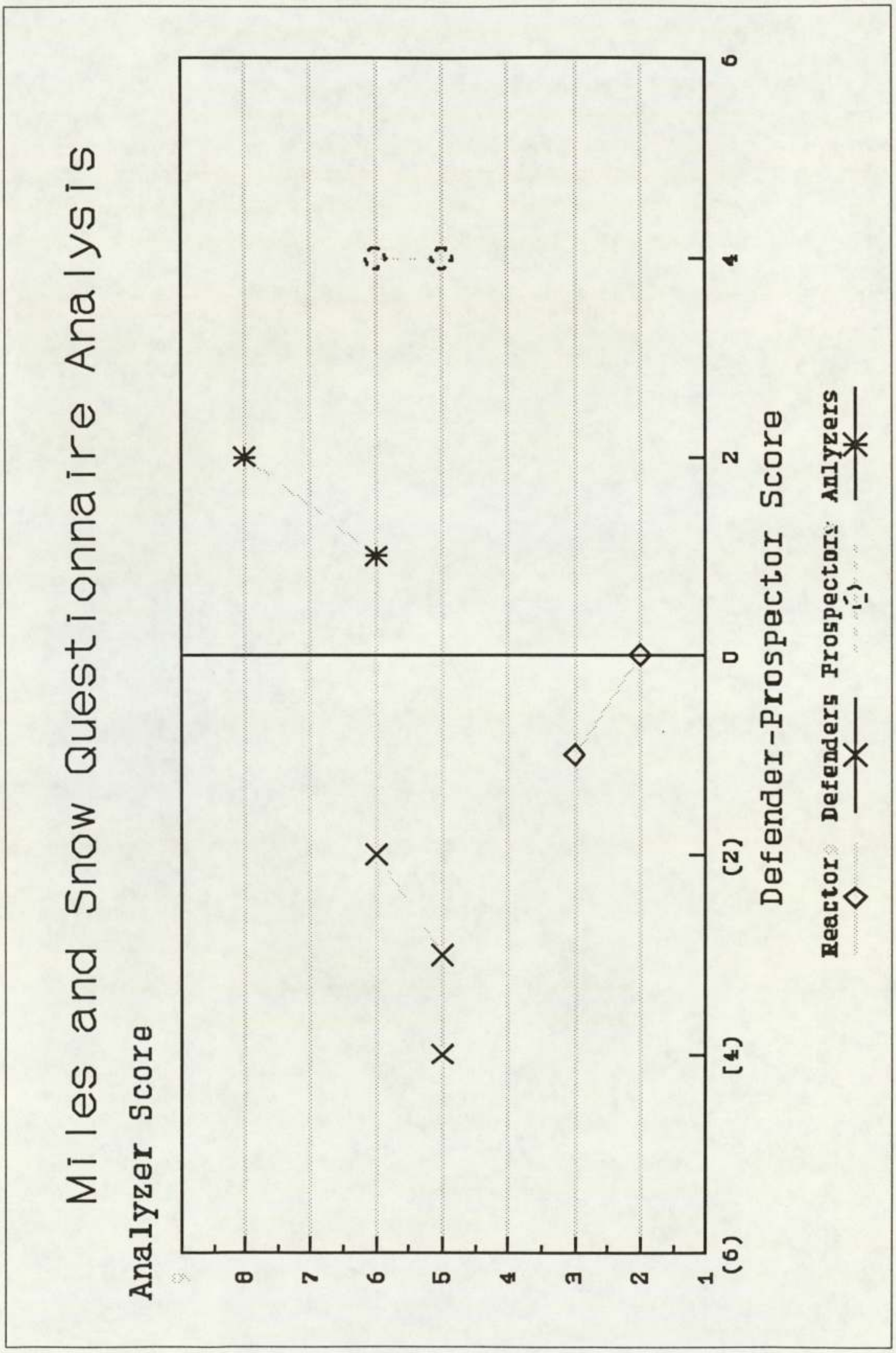
The data was analyzed making a number of basic assumptions: (a) all answers had equal value including the self typing paragraph; and (b) that one Defender answer was exactly opposite to one Prospector answer and therefore cancelled it out vice versa. Thus if a company's response gave four Defender answers and two Prospector answers the net result is two Defender answers. This assumes the Defender-Prospector scale to be a continuum as suggested by Miles and Snow. The assumption of all answers being of equal weight is perhaps contentious but no other weighting appeared more valid.

This data was then plotted with the analyzer answers on one axis and Defender-Prospector answers on the other. A three dimension presentation was not used because it was felt unnecessarily confusing when hand drawn and also the Reactor dimension is implicitly included to some degree by the proximity to Defender-Prospector axis. In addition there was a lack of software to produce it.

This approach was taken as against that of Connant, Mokwa and Varadarajan (1990) who used a majority decision rule on the multiple-item questionnaire (7). The approach outlined in the first paragraph of this section and not the Connant et. al. approach was applied for two reasons : Firstly a wish to avoid assuming the validity of the methodology implicit in the Connant et. al. study. Secondly to apply an industry perspective and compare the companies within the sample frame and not to the entire population of companies as in Connant et. al.. If the majority decision rule where the company is typed by the category with the largest number of answers were applied it would result in the majority of companies being typed as analyses. (8) This fails to achieve the purpose of the device in that it does not aid the analysis of data. The reason for the concentration in one group appears to be that the study is confined to multinational food companies, which by their nature are highly evolved organisations incorporating many of the ideas about new organisational structures and management methodologies. This has to be done to survive and maintain acceptable growth and hence to remain independent.

The aim of the study however was to examine the companies within their sector and compare their behaviour. Therefore the approach assuming equal weight to all answers and that Defender and Prospector answers were equal and opposite to generate results to plot, was used to produce typing of an Analyzer food company or Defender food company not an Analyzer who happens to be a food company.

Figure 4.1


Miles and Snow Questionnaire Analysis
Analyzer Score
8
7
6
5
4
3
2
1
(6)
(4)
(2)
0
2
4
6
Defender-Prospector Score
Reactor
Defenders
Prospectors
Anlyzers

4.3 Results

The data is plotted in figure 3.1 using the method discussed in the previous section. From the data a number of clear groups can be seen :

Group one, with low Analyzer scores and a Defender-Prospector score of close to zero, approximating to a strategy of Reactors. Companies in this group are,Campbells and Hillsdown.

Group two, with an Analyzer score of five or six and a positive Defender score which resembles a Defender strategy. These companies were Phillip Morris, Unilever, and Quaker.

Group three with high Prospector scores of four and Analyzer scores five or six similar to the previous group, and resembling the strategy of Prospectors. These were Grand Metropolitan and Nestle.

Group four with scores of one or two in other words close to neutral between Defender and Prospector and an Analyzer score of six or greater, approximating to an Analyzer strategy, RHM, Cadbury Schweppes and Allied Lyons were all in this group. It is possible this last point with an Analyzer score of eight and Prospector score of two is the only true Analyzer and that the other two point with plots

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A more likely explanation is that the Allied-Lyons result does not fit the typology, it being a result of the management changes at the top during 1991 in response to the currency loss. The company was thus forced into a severe self examination resulting in it being highly analytical and rationalising its decisions carefully which may be short term. This suggests extreme responses must be viewed with caution and placed in context of recent corporate events and jolts thus making blind cross industry studies of limited use.

If the groups are considered in sequence the first approximates to that of Reactor using both methods. If the individual question (see Appendix A) answers are examined there is no clear pattern to the results reinforcing the Reactor typology. The companies only gave six common answers, one of which was shared by almost all the individual question answers are examined only two responses differ between the two companies, one question which Nestle did not answer and question nine concerning management focus.

If for the forth group only Cadbury Schweppes and RHM are considered as the Analyzer typology and the individual answers are analyzed there are eight common answers these are primarily in the areas of marketing and corporate structure. If Allied Lyons is included there are only two common answers concerned with marketing and market research. It must be noted however that the Allied Lyons questionnaire was filled in by post and it is therefore impossible to know who actually filled it in.

The four groups all tend towards one type or another, although none are pure types, with the possible exception of the Reactors by dint of their inconsistent response. The other three groups show a bias towards the Analyzer strategy, and this must be seen as a characteristic of the sample the last three groups really being Defensive Analyzer, Prospective Analyzer and Balanced Analyzer when compared to other industries and not their peer group. It is however the aim of the aim of this research to examine the companies within an industry framework. I will compare these results obtained to their acquisition behaviour as disclosed in public sources.

4.4 Comparison Between Interviews, Acquisition Behaviour and External Factors

If the four groups are considered in turn it is possible to see similarities between the members of the clusters.

Campbells in Europe (since the data only really applies to Europe) and Hillsdown underwent rapid growth in the late eighties. This was achieved via a large number of haphazard acquisitions which reflected their reacting to the opportunity to build size. This was compounded in the Campbells case by the acquisition of a Freshbake, which had itself been acquired in a indiscriminate fashion, not consolidated and still really operated as a holding company. Both these companies are in the process of major strategic reviews and retrenchment involving the sale of certain assets when buyers can be found. These companies thus conform to the model of the Reactor, having reacted to potential acquisitions in the eighties and now having to react to profit slumps and retrench to some degree.

The second group of Nestle and Grand Metropolitan are the nearest thing to Prospectors within the sample. Their external development behaviour is concurrent with this conclusion both have acquired heavily during the period in most cases bringing the candidates into play themselves. In the case of Rowntree, Nestle had already been conducting secret negotiations with K.H.M Dixon and was thus being prospective in looking for a deal rather than purely reacting to Jacobs move.

The third group of Unilever and Phillip Morris, according to the questionnaire responses typed Defenders, this does not fit with the general perception to these two companies as being large and in the case of Phillip Morris very aggressive.

Phillip Morris however has only made three large acquisitions in the food sector in the period in question, the last of these being Jacobs two years ago, since which point there has only been rumours and no major action.(9) It also must be noted that these large acquisitions have been conducted from the United States and that the respondent was based in Europe.

Unilever has acquired extensively over the period, primarily in the cosmetics and perfume sector. Food acquisitions however have been more limited and the pattern of acquisitions in the food sector, if isolated are definitely those of a more defensive company. Thus, in the case of Unilever and Phillip Morris it is important to distinguish between divisions. Phillip Morris being split into international operations, U.S food and U.S cigarettes,Unilever being split into food, personnel products and detergents. Each of these divisions being larger than most companies in the sample.

The final cluster of three companies are nearest the analyzer ; RHM, Allied Lyons, and Cadbury Schweppes. The first two would generally be perceived as having lost their way in recent years. Allied Lyons lost its chairman after its currency loss in 1991 and was subjected to a bid by Elders during the boom years of the stock market and is still considered a potential acquisition. RHM has also suffered recent profit declines as a result of price wars in the bread market and was the subject of an attempted acquisition by Goodman Fielder Wattie in 1988.

These events may have however forced them into a rethink of their portfolios and a more balanced approach. Allied Lyons appears to have returned to its roots, all-be-it in a more up to date fashion, with Dunkin Doughnut and Baskin Robbins providing outlets for its ice cream, ingredients and coffee operations and thus partly cushioning Allied Lyons food operations, from the pressures of the multiples.

Cadbury Schweppes however has over recent years produced reasonable profits and grown steadily via acquisition. It however changed direction in the mid-eighties after a series of poor results partly bought about earlier diversifications including Jeyes and Typhoo; these however were spun off. Cadbury's other major failure was its entry into North America via the acquisition of Peter Paul in the late seventies which was sold of in 1986-87. This was part of a reconsideration of strategy in the mid-eighties. Cadbury Schweppes, like the other two, has also been the subject of bid speculation centring on Phillip Morris and the General Cinema stake, which has now been sold off and split up. Thus the common factors between the three companies appears to be that they have had to reconsider strategy in recent years under the pressure of poor performance, the threat of takeover and that they possess a range of brands often not fully utilised because of the companies limited geographic focuses. It is also possible that because of the bad light that two of the companies are currently seen by the stock market they have attempted to mask the truth when answering the questionnaire because of their vulnerability to acquisition.

4.5 Discussion

These results throw up a number of points to consider when evaluating the data. The companies appear to be devisable into four groups close to Miles and Snow's typologies if done in comparison with the companies peer group.

If however the sample was divided using decision rules designed to cover all industries most would fit into the Analyzer typology. Thus indicating that cross sectional samples must be considered carefully and that single industry surveys using Miles and Snows Typologies may not be comparable with other single industry surveys.

Secondly the nature of these companies - extremely large and multi-divisional - means they are unlikely to be following homogeneous strategies worldwide. This raises the need for multiple respondents within organisations as suggested by Connant, Mokwa and Varadarajan (1990).(To do this however was beyond the scope of this study).
The respondents position within the organisation also becomes important, since this effects the level of information available to them and their perception of the company. The more senior levels or those close to the centre probably offering a broader overview of the company strategies than those at a lower level. In addition those within the operating units may be unaware of the true level of search for market or acquisition opportunities. Those in the centre though may not be fully aware of units searches for potential acquisitions or their day to day actual operational behaviour.

These criticisms though are not relevant to this study as the methodology is to be used to divide the sample to aid analysis of acquisition process data. Thus as long as the questionnaire respondent and interviewee are the same this is valid for the process data.

The representiveness of the sample could be questioned as two of the companies who refused to respond have conducted very few acquisitions and self selected themselves out of the research this though does not effect the validity of the Miles and Snow methodology to divide the data.

The typology does therefore appear to develop four valid groups to aid the analysis of the qualitative data on the acquisition process.

Chapter 5

Industry Wide Factors in The Acquisition Process

5.1 Industry Wide Factors in The Acquisition Processes

Since the mid-eighties there has been an acquisitions boom in the food sector partly stimulated by the European Economic Communities 'Single market' and the pressure to grow in markets which are predominantly flat in order to survive but also influenced by the general merger boom of the late eighties. This and the following chapter will thus examine the internal processes behind these acquisitions by multinational food companies. This chapter (chapter 4) will focus on factors common to most of the companies in the sample, the next chapter (chapter 5) those common to groups of companies and those which appear to differ between all companies in the sample. Chapter 5 will use the Miles and Snow typologies to aid analysis of the acquisitions process.

Methodology

The data was collected using interviews with senior strategy and acquisitions managers in large multinational food companies.(1) The interviews were conducted using a interview schedule to allow some standardisation of data collection. The aim of the schedule was to gain an understanding of how companies carry out the process of acquisition of another company up to the point of negotiations.

The nature of the companies and differences between them meant a standardised questionnaire would have severely restricted the quality of information obtained obscuring certain phenomenon and introducing biases associated with self reporting. This is because questionnaires are inevitably a compromise between what you want to know and what it is possible to get filled in. Thus areas of importance to some companies structures and behaviours would be excluded while including totally irrelevant areas. This may have drawn respondents into giving false answers to avoid appearing foolish, or refusals to answer. The interview schedule was constructed to follow the chronological order of events of acquisitions (with one exception) using five sub-sections. The five sections were: information collection; corporate strategy ; acquisition proposals; analysis of proposals; and negotiations. The exception being corporate strategy which is in most cases a precursor to any acquisition activity was inserted second rather than first. This was because of the greater likelihood of getting a refusal if detailed questions about sensitive strategy areas were asked first. Starting with information collection allowed the interview to begin with a series of short closed questions which the interviewee would find easy to answer positively before more probing questions. These sub-sections corresponding to natural breaks in the process either because different people are involved or the tasks are fundamentally different.

This structure gave a pattern to the interviews so it could be seen by the interviewee that the interview was going somewhere and not round in circles. The structure also gave the interviewer an opportunity to end excessively long and irrelevant answers to open-ended questions at the end of the sections and bring the interview back under control. This was important because the majority of questions were of the open-ended variety, allowing the interviewee to explain their company's structures rather than impose the interviewer's ideas more than necessary. Thus a basic structure was imposed which gave the interviewer some control while the open questions allowed the interviewee full reign over a topic.

The interview ranged in length from 45 minutes to just under 90 minutes. The companies interviewed were :Cadbury Schweppes, Campbells, Hillsdown, Quaker, Rank Hovis McDougall, United Biscuits and Unilever.

5.2 Findings

This examination will follow the structure of the interviews except that it will commence with corporate strategy and then examine information collection, acquisition proposals, analysis of proposals and negotiations.

Corporate Strategies

The corporate aims and strategies of the companies in the sample are all different in their precise nature. All however have some degree of limitation on the areas they will become involved in within the food industry with the exception of Unilever. Some, like Cadburys, United Biscuits and Quaker, limit themselves to specific product categories. The U.B interviewee said: 'U.B. primary corporate objective [was] to become a market leader in ambient snack foods world wide '.(2) The Quaker manager said we would: 'focus in three areas, petfood, cereals and sports drinks '.(3) Other companies focused on the geographic regions they wanted to operate in,- Hillsdown, U.K, Europe and North America, and Rank Hovis McDougall, U.K and Europe while focusing on flour related products. Their interviewee said : ' That strategy would extend as far as our U.K base and an attempt to expand into Europe.'(4) The strategies all incorporated financial goals into their strategies. The companies were also committed to a) the disposal or harvest of none-core operations over the medium term though all are prepared to sit out the present recession to obtain better prices (5) and b) the continued building of core areas via acquisition and other external development in addition to organic growth. Thus although all differ in their exact objectives all have strategies covering financial goals, aims in terms of product areas and geography and the general position they want to be in X years time. From this all have developed acquisition and disposal strategies and the areas in which they wish to do business.

The information given here on the companies strategies are limited because of the need to name the companies for purposes of external comparison. Thus the strategies discussed are only top level strategies and in general in the public domain. Most of the companies interviewed would sub-divide the strategy into division strategies and then break it down into unit plans to achieve the objectives set down in the corporate strategy.

Information Collection

The basic market research information collection processes of the companies were fairly similar. All bought market research data on their own market shares in their sector and data concerning directly competing products. The data was received by marketing departments within the operating units of companies some had specialist market research departments, other relied upon the general marketing function. Thus the collection of market share data was a routine process carried out by business units. This is where the similarities end, as the data was processed in different ways, and reported and passed on (or not as the case may be) in diverse ways.

The collection of data for acquisitions varies within certain limits. The two sources used by all companies were internal data based on market research and knowledge of raw materials prices and operational costings when acquiring in an industry already present in. The level of use of internal data appears to vary with proximity to the centre of the company, those with headquarters in the U.K seeming to use internal information resources more probably because they have more staff to call on.(6)

This ranges from Campbells which stated that: 'one of the penalties of being a family owned company is that we don't have the resources internally.' (7) to at the other extreme, Hillsdown where the interviewee said: 'Most of its [information for acquisitions] internal. We generate our own information.' (8) Between these extremes most would draw on internal knowledge but not rely on it totally. The other common source of data collection is data from the company being acquired, particularly in friendly acquisitions. The Cadbury's stated: 'We would try to do a friendly takeover or acquisition and would reckon to be able to get fair amount of data from the company itself.'(9) and the interviewee at Campbells said: 'The second [source of information] would be from an approach to the seller.' Other sources were used by all the companies such as the press but their reliance and use of this information varied.

Acquisition Proposals

This section examines how potential acquisition candidates come to light and are proposed to those who will analyze them and make the decisions.

The majority of candidates appear to be considered because suggestions are received by the headoffice from lower down the corporation. This usually means potential acquisitions are suggested by the top layer of business unit management, (typically the managing director of an operating company) to head office because they have heard this through industry contacts. The Unilever manager said: 'It (suggestions of candidates) comes from management groups, ..product management groups, food north Europe things like that.'(10) The United Biscuits interviewee said: 'Managing director of an SBU.' The Quaker manager stated: 'It would come through marketing or through corporate planning '(within the units). The number of potential candidates varies hugely, from those which have relatively short lists of candidates, to those who will consider anything that becomes available in roughly their area. This is in all cases a product of the companies strategy in terms of what it will consider.

Analysis of Proposals

The analysis of a companies which have been proposed as potential acquisition candidates is normally done via a series of filters before a detailed financial proposal is put together.

Before the financial models are developed the potential candidates are filtered out in terms of a number of factors, the exact order and priority of which varies but includes: growth, strategic fit and availability which is often assumed since it is often the reason for the initial proposal.

If a candidate fulfils theses criteria, a financial model is developed normally taking the from of a discounted cash flow model, including all expected synergies and giving a maximum value of the business under various scenarios as well as the value to the present owners. This two stage process can be seen at Cadbury, where the interviewee said: 'There are two things basically, one is strategy, the other is financial case', the interviewee at Campbells said: 'I think, in terms of acquisition, its growth; that's the main thing. Growth and financial ratio's'. The manager at Quaker said: 'Obviously availability, then we would look very much at the synergy in terms of fit both with strategic objectives and our financial objectives.' The Rank Hovis McDougall interviewee stated: 'The principal reason would be : does the acquisition candidate fit into one of our core markets.' 'The second criteria goes back to the point I made earlier will the cost of the acquisition meet or exceed group targets for investment.'

The companies in the sample all said that the minimum time to carry out a preliminary study was a couple of weeks. The time taken varied more between specific candidates within a company than between different companies in the sample.

It can be seen that all companies use a two stage process : firstly selecting by strategic issues and then evaluating by financial return.

Negotiations

The negotiation process represents the final stages of an acquisition. Negotiations in all companies (except in the case of acquiring very small companies) required board approval. These negotiations were usually conducted by none- board members, often senior financial and legal personnel. But exactly who did the negotiations varied. Interaction with banks was normally carried out by senior financial staff when required the manager at Unilever said: 'it would be through brokers and through channels of mergers and acquisitions people in the financial group'. Hillsdown claimed to not do contested bids which would require the use of merchant banks. All companies stated that even by this stage few people were involved, the exact number varying between cases but, being none more than three dozen and all involving a dozen. At the lower end of this range the majority would be board members required to approve the bid.

The success rate of bids with (one exception) was in the order of three to ten percent of companies examined would be entered into negotiation with around half to a third being eventually acquired. The only exception to this being United Biscuits which expected to eventually bid for 70 percent of companies it looked at and buy 30 percent. This however occurred over a longer time scale with United Biscuits being prepared to wait for the companies it wanted to become available.

Summary

The multinational food companies in this sample all operate within the same basic framework. The companies all have strategies which limit their search area for potential acquisitions. The companies division or group headoffice will receive suggestions from operating units of potential acquisition candidates that they think are available within the limitations of the strategy. These are then examined using data collected from internal sources and other sources, such as the press, the exact usage varying in terms of a series of filters, such as growth and fit with strategy and then in a financial examination. Negotiations are then carried out by senior staff functions once approval has been given by the board. These negotiations are usually successful in between a half and a third of cases, however very few candidates considered actually get as far as negotiations.

Chapter 6

Group Practices and Idiosyncratic Processes In The Acquisition Process

6.1 Group Practices and Idiosyncratic Processes In The Acquisition Process

This chapter will consider those factors in the acquisition process which appear common to significant groups of companies or are idiosyncratic. It will follow the same structure as chapter four. This chapter will consider those factors in the acquisition process which appear common to significant groups of companies or are idiosyncratic. The Miles and Snow typology has been used to aid the structuring of the data for analysis which provides the basis for this chapter. In addition it has been used explicitly in certain places and commented upon where it appears relevant and illuminating to do so. This chapter will follow the same structure as chapter four.

Corporate Strategies

All the corporate strategies apart from Unilever were focused on the food sector as being their only area of expansion and within the food sector focusing on certain markets.

Hillsdown strategy is focused on a regional basis while United Biscuits, Cadbury Schweppes, Quaker, and Campbells were focused by product area. Rank Hovis McDougall was focused by both product category and geographical region. United Biscuits, Cadbury Schweppes, and Quaker's product focus was on only two or three product areas. The Hillsdown manager commented: ' We have also said we intend to focus in the geographic areas where we are, U.K, Europe and North America.' This compares with United Biscuits where the manager said: '[our] primary corporate objective is to become a market leader in ambient snack foods worldwide.'(1) At Quaker the interviewee said: 'Our focus is in three areas of the business: pet food, cereals and sports drinks '. In contrast Campbells (Europe) was focused on sorting out what it had collected in its European acquisition debacle, the manager stating it wanted to: 'clear out any company which was not packaged grocery companies, namely the vegetable and seafood companies which we had.'

United Biscuits, Cadbury's, Unilever and Rank Hovis McDougall all stated they wanted to be a leading company in their chosen areas. In the case of Unilever this meant being the world's leading food company. For the others it meant being a leading company in the frame it has set itself. For United Biscuits this meant ambient snacks and for Rank Hovis McDougall the U.K baked good industry.

Other companies goals were different, Quaker's goal was stated as being: ' To develop strong brands with local or worldwide defensibility' this ties in with its Miles and Snow typology of a Defender. The manager at Hillsdown stated their primary goal was: 'Increasing shareholder value ... over the medium term.' Campbells main aim in Europe has centred on trying to find synergy between its various companies. These last two strategies concurring with their Miles and Snow typology of Reactors.

Thus within the strategy clear groups occur on two key factors focus: (geographic/product) or no focus; and goals in terms of a markets orientation or financial markets orientation.

A number of companies do however show certain idiosyncratic features. Cadbury Schweppes considered remaining independent important and this was stressed when they were interviewed. Other companies included independence, in their strategies or assumed independence however no other company stressed it nearly as much.

Rank Hovis McDougall was the only company that said anything about manufacture in it's strategy. Manufacture was only bought up by the interviewee in three interviews, Rank Hovis McDougall, because it was in their stated strategy, and Hillsdown and Campbells because they had made recent acquisitions where the rational had centred on the utilization of manufacturing assets. Unilever was unique in considering the entire food industry as its competitive frame, this probably being a factor of its size. (2) Thus on the point of strategy, companies showed strong group tendencies and few idiosyncrasies. The differences being in which general ideas or concepts were used or emphasized.

Information Collection

Collation of market share data showed two distinct groups Cadbury,Quaker,Rank Hovis McDougall, United Biscuits, and Unilever collating market share data on a divisional basis in detail and on a group basis in a simplified form. The manager at Cadbury Schweppes said: 'It [market data] would be circulated to the main board, [however] It is filtered, [and the] terminology standardised. '

Campbells and Hillsdown however only collect data on a business unit basis with ad-hoc reporting as part of the financial control process. At Hillsdown it was stated: ' We don't produce a group wide competitive overview.'

The processing and collection of other public sources of data also appear to be divided into similar groups Rank Hovis McDougall, United Biscuits and Unilever have information handling resources in the form of libraries or information managers. The Cadbury Schweppes interviewee said they were: 'increasingly thinking along those lines [of collating all data on specific competitors together]'. Hillsdown appears not to have major central information resources while Campbells don't have any in Europe but do in the United States. Quaker do collect data and have some European information resources, but exactly how this was dome and how extensive the interview did not establish.

Thus two groups exist, with Campbells and Hillsdown being different from the other companies while their is insufficient data on Quaker.

The use of other information services also tended to split along similar lines as the use of other publicly available information. Hillsdown used primarily the trade press and internal sources. Campbells tended to use more heavily processed data rather than the variety of data sources other companies used because of its lack of resources in Europe. Thus neither placed reliance on syndicated information sources.

All the other companies did use syndicated reports and information services as a source of information. Quaker used clippings and information services, but did not appear to use more general syndicated reports: 'We use the Institute of Grocery Distribution, Networks, Financial Times Information Bureau,[and] there are a number of small agencies we work with.' The purchase of syndicated reports may have been done by the European Head Office as was the commissioning of consultants reports. This, however was not determined in the interview. Unilever, United Biscuits, Cadbury Schweppes, and Rank Hovis McDougall all made use of clippings services, databases and syndicated studies. In general they would use any legal information source to build up a picture of a candidate. All of these companies have the resources available to build up the work from scratch internally, but appear to use external sources to check and validate their own work as well as speed the process along. The Unilever interviewee said: 'For some acquisitions, in fact, we have used external brokers to do the study'.

In most cases the interviewee stated the sources used would be as follows -

' The data on companies comes from ; annual reports and accounts, brokers reports and then off course there is the press. We search lots of data bases which have press cuttings. Then you [the manager responsible for the study] go to local companies to get data from what they have. Then there is high level [members of the board] contacts'.

The use of consultants was common to all companies in the sample. They were, however used to varying degrees. Most companies used consultants to examine both geographic and product markets they were not present in. This was often a precursor to internal monitoring or a small acquisition. They however were not used to examine markets close to those which they were in. The United Biscuits director said: 'We would use consultants to perhaps do an overall regional survey of say Latin America, where we are only present in Brazil, so our knowledge is pretty limited. Again Campbells and Hillsdown were exceptions to this pattern.' Campbells used consultants more extensively in markets they were already present in to identify acquisition candidates the manager stating: 'We screened the market first of all using a firm of consultants.' Hillsdown did not appear to use consultants very much in fitting with their general attitude to advisers.

Information collection for acquisitions shows clear patterns with all but two companies in the sample Hillsdown and Campbells tending to operate in similar ways. These exceptions behave in opposite ways Hillsdown relying on internal sources at business unit level, and Campbells showing a greater reliance on highly processed purchased information from consultants.

The other companies in the sample frame collated internal resources and public information at division or group level while commissioning consultancy reports in areas where they were not monitoring, typically outside their normal operations area. Gaps in internal information was filled in, using syndicated reports. These were also used as checks on internal data as, in some cases were, consultancy work.

Acquisition Proposals

The proposal of acquisition candidates shows strong group tendencies. Firstly what sort of candidate is proposed varies with a number of distinct groups.

Cadbury Schweppes and United Biscuits have evolved limited lists of companies which they would be interested in and would compete for if they became available. All these companies are well managed with strong local brands and market positions. These companies would not be cheap to buy but the two companies appear prepared to pay for what they want but won't look at anything else. United Biscuits makes one exception to this. It is interested in niche players in the chocolate market which will not take it into competition with the major confectionery companies, the other criteria however remain. Quaker and Rank Hovis McDougall form another group and are mainly looking at competitors as potential candidates. Thus they know who they are interested in but don't focus as closely on brand quality or management as Cadbury and United Biscuits and are not prepared to pay as much. This is because they know the market and don't need the management skills and in the medium term they may run down the brands acquired.

Unilever, because of its resources, is looking at a very large number of companies at any one time. It behaves in a similar way to both the previous two pairs. In some declining sectors, it will be looking at competitors as acquisitions the interviewee states: ' So quite often it [an acquisition] is to maintain growth.. and to improve margins in certain areas' In other cases Unilever is behaving like United Biscuits and Cadbury Schweppes and trying to fill skill and brand shortfalls: ' We don't have the brands or the technology or the products to enter, ' so an acquisition is made. Thus Unilever, because it is a size step up from the other companies, has superior resources and because of these will enter growing markets via acquisition before Nestle and Phillip Morris do.

Hillsdown and Campbells seem to be interested in acquiring production assets cheaply in areas in which they already operate and reacting to what is available. To some degree they behave similarly to Quaker and Rank Hovis McDougall, but they seem to have a shorter term focus. Campbells will decide what it needs and then go looking for an acquisition. Hillsdown seem to react purely to what is available on the cheap.

Cadbury Schweppes, United Biscuits, Unilever, Rank Hovis McDougall, and Quaker continuously monitor some candidates, the latter two primarily as part of its competitive analysis. Hillsdown seem to be prepared to react to any that are available and Campbells develops a specification for an individual need and will then pay someone to go and look for candidates to fill a specific need. Campbells approach is a reaction to getting its fingers burned by buying anything available in the late eighties.

Analysis of Proposed Candidates

The analysis of proposals in all companies involved a cash flow projection and discounted cash flow model, the exact quality depending on the information available in individual acquisitions. The one slight exception to this was Hillsdown which used a shorter time frame of five years.

This financial assessment was usually done at Group or Division level where divisions were sufficiently large. At Cadbury's it was carried out in the confectionary group, in Rank Hovis McDougall the grocery division carried out its own analysis. The exceptions to this being Hillsdown and Campbells. At Hillsdown where it was done within the units with assistance from division and head office staff and at Campbells the analysis was done in the United Kingdom for most acquisitions and disposals carried out in the United Kingdom. Campbells policy is possibly due to the fact the United Kingdom and European head-office is in the same building and that the european operations outside Britain are still in the process of restructuring. All major acquisitions in all companies were carried out by Head-office.

Negotiations

There are common patterns between companies in terms of who does negotiations. They are all roughly similar involving a company lawyer, financial manager and production manager, usually the managing director of the unit involved.

On the point of involvement of the manager who carried out the analysis two groups exist. At Cadbury Schweppes the acquisitions manager is involved in negotiations and carries out the study; at Hillsdown the manager who carried out the original analysis is involved by dint of being either the managing director or finance director of the unit involved; and at Campbells (Europe) the analysis is normally carried out by the financial director in the country involved.

In other companies the manager who carried out the analysis would rarely be involved.At United Biscuits the interviewee stated: 'It is not the function of the planning director [to get involved in negotiations] '. Unilever and Rank Hovis McDougall were not explicit on who would be involved in negotiations, but Unilever suggested it would vary by candidate. Quaker were unable to comment because of lack of recent involvement in negotiations. By this stage in the process of acquisition the number involved show some variation between groups. Unilever, Campbells and Hillsdown generally involving fewer people, between 3 and 6,plus the board. The other companies generally involved between one and two dozen, plus board members.

6.2 Summary

The companies appear to split into a number of groups with no companies identical or showing many idiosyncrasies.
In terms of management processes on acquisitions Hillsdown and Campbells appear consistently different to the other companies in the sample frame. Information is however limited in certain areas on Quaker.
In terms of strategy Unilever is different in that it does not limit its areas of operation within the food market, this is probably because unlike the other companies in the sample, its financial and management resources allow it to do this. This compares to Hillsdown and Cadbury Schweppes which also have had major none food assets, these however because of limited resources have had to sell or are trying to. In terms of the analysis of a proposed candidate, the actual processes appeared common to all companies given the level of information available. The major difference is that in Campbells and Hillsdown, where the analysis is often done at business unit level. This may be the result of the generally lower size of acquisition they are carrying out.

Most companies did involve some level of decentralization for smaller acquisitions, however was usually only down to divisional level.

In general Hillsdown and Campbells appear to behave differently to the other companies. The Miles and Snow typology thus proved a useful tool as it clearly identified Hillsdown and Campbells as fundamentally different from the other companies. It thus aided and increased the speed of the analysis of the data.

Chapter 7

Conclusions

7.1 Conclusions

The companies in the sample show a remarkable degree of similarity in the processes they use to review acquisitions. They are all prepared for the eventuality of undertaking an acquisition. The processes by which they achieve this however varies.

The Acquisition Processes

Hillsdown and Campbells appear consistently different from the other companies in the sample, tying in with their designation as Reactors compared to the other companies which scored much higher on the Analyzer dimension.

The objective measure thus appears to concur with the qualitative data collected in the interviews.

In the area of strategy the qualitative data on Hillsdown and Campbells closely fits the Reactor model without adding any further insight. The information collection processes of Hillsdown and Campbells are clearly different and less well developed than other companies in the sample. Information sources are more limited and information does not flow up these organisations. The units and divisions do not gradually filter and synthesize information to the level of generality required by the tiers of management further up the organisation tree. They don't pass information up on a regular basis. This appears to be a key structural difference. The Reactors have to react because they have limited discontinuous pieces of information and cannot see the overall view because they don't bring the data together. The data is also liable to have limitations because it is not corroborated with other sources.

The proposal of acquisitions within these two companies was done in an ad-hoc way, reacting to either availability or short term need. No long term view was taken since the two Reactors have no long term vision of where they are going or view of what is going on. They have no choice but to react.

The analysis of candidates within the two Reactor companies shows a lack of specialism. In the other companies acquisition analysis was carried out by specialist functions at group or division level.

From this evidence it could be generalised that Reactors are company's with a holding form of organisations with little knowledge of the markets their business units operate in and thus they exhibit a tendency to behave in an ad hoc way. The reason for their tendency to react being the centre doesn't know what is coming having decentralised too many functions to other parts of the organisation.

The Reactors typology and structures may be a product of their histories. This is illustrated through the case of Hillsdown was only formed in 1975 and floated in 1985 and during this period has grown rapidly via acquisition. Campbells in Europe has undergone massive changes recently including the acquisition of Freshbake and subsequent sell offs. The parent company has also under gone rapid change, of poor profits resulting in a change of Chief Executive Officer and extensive disputes within the controlling Dorrance family. Both have limited information resources and are decentralised acquisitions process.

If this is tied in with the evidence from this study, it may proposed that the Reactor typology may be the result of an organisation trying to grow too rapidly without modifying its internal structures. The decentralised analysis of acquisitions results in management resources at the operating unit becoming overstretched, resources are focused on the high profile glamorous task of the acquisitions. The lack of management resources mean the day to day function of senior managers in the operating unit are not carried out. Thus changes in the environment are missed, resulting in a fire fighting approach to the consequences. The failure to monitor from the centre allows these mistakes to go unnoticed and hence no changes are made until the problems become apparent in the units profit figures.

If this is compared to the other companies in the sample the differences become more clear.

The other companies are all considerably older than Hillsdown and have held their present positions in Europe for longer, however most have undergone dramatic change during the late eighties and early-nineties.

The key differences therefore appear to be focus and the structure of the acquisition operation. In the four companies that have carried out acquisitions in the period the analysis and data collection was done at either divisional level or head office level, thus resources are not diverted from day to day management. The specialist skills are also developed as the process is modified and improved as it is repeated. To allow these operations to function data must be easily available at the centre, this being another major difference with the Reactors. Whether the increased need for information caused the modification of the system or the increased availability of information caused the modification in structure is unclear. The acquisitions function however needs to be able to understand the information it is receiving and hence not be isolated from the industry within which it operates. Thus their is a tendency for acquisition managers to be located at divisional level in companies operating in more than one sector such as Cadbury Schweppes and Rank Hovis McDougall. In United Biscuits, however, which is only analyzing candidates in a series of product areas, the acquisition manager is located in the head office. The exception to this pattern is Unilever. Here however, initiation of the process is carried out by a divisional manager and the analysis at the centre thus balancing the two needs, specialism and market knowledge. The evidence on Quaker is limited and they have not done any U.K acquisitions recently.

<u>Focus</u> is also important. Cadbury Schweppes is focused on two sectors, confectionary and soft drinks. Within these sectors it is a major player aiming for leading positions. United Biscuits is focused on ambient snack foods. Quaker is focused on three areas only one of which it is expanding in. Unilever is not focused but is very much larger and has the resources to monitor a large number of areas.

Thus focus appears important not for direction but the allocation of management resources and time.

The processes involved in acquisitions showed a large number of common factors between all the companies involved. The greatest degree of commonality was in the accounting and financial analysis area indicating extensive influence from the accounting profession. A number of the interviewees were trained accountants.(2) The areas of strategy showed the least commonality although, all companies framed their strategies in terminology from the literature on the subject. There were considerable difference in goals. The area of market data and information collection and processing showed great similarity when collecting raw market share data. But how this data was processed and supplemented by other data varied enormously within the bounds of what was legally available. The acquisition process appears to be influenced by various management groups in spite of the fact that a large part of the process is carried out by a very limited number of people. The evidence suggests the primary reason for Campbells and Hillsdown reacting to events is the centres lack of knowledge and overstretched operating managers.

7.2 Miles and Snow Typology

The Miles and Snow typology was utilized as a tool to aid data analysis. The research however makes a number of points concerning the typology in general the research though tends to support the Miles and Snow Typology.

If external evidence is examined there is clear support for the Miles and Snow typologies. Cadbury Schweppes is focused on two sectors within which it is a major player. It's information collection systems and acquisitions processes are focused on these two areas. They however are highly developed and centralised to the stream, with information being regularly fed up into the centre at lower levels of detail. Thus suggesting a defensive company. It however looks outside these areas for opportunities for it's brands to be used by others in such areas as cakes, ice cream and drinking chocolate. This intense look for profit opportunities while defending its established positions, is a characteristic which fits with the Miles and Snow typology of being an Analyzer. These acquisitions processes are a result of the need to maintain high growth rates via acquisitions in order to maintain share price and stay independent.

United Biscuits like Cadbury Schweppes has highly evolved information collection and processing systems with knowledge being passed up into the divisions and when required the centre.Acquisitions are centralised as the group has only one focus, ambient snacks; this however encompasses a variety of products used as snacks. United Biscuits has also been subjected to bid speculation which may have forced it to abandon expansion in the frozen foods sector.

Rank Hovis McDougall is focused on the baked goods and flour milling in the United Kingdom. Its information collection and distribution systems are highly advanced with its acquisition process being centralised on a divisional basis like Cadbury Schweppes. This may be a result of the intense acquisition pressure it has experienced centring on the Goodman Fielder Wattie and counter bid, which may have forced it into an extensive strategic review.

Unilever is different from the previous three companies in one key respect; size. This along with its Anglo-Dutch nature make it difficult to takeover. Its extensive resources allow it to have a food division rather than focus on a sector of the food industry.Its processes are however similar to Cadbury Schweppes, Rank Hovis McDougall and United Biscuits, but its search area is larger.It does however have the option of channelling resources to the more rapidly growing cosmetics and perfumes sector. Thus Unilever's food division does not have to grow to survive, unlike the case of free standing units. Therefore Unilever has the option of taking a purely defensive position in the food sector, which may not reflect the entire company's outlook. Quaker fits the general pattern of the other 5 companies in the sample, but also demonstrates certain key differences. It clearly shows a tendency towards the defensive in its focus on only three sectors. It has made few European acquisitions, its last United Kingdom acquisition being Scots, its major competitor in the porridge oats market. It instead has focused on the organic growth of Gatorade. It has also sold off its major none food asset, Fisher Price. Information collection is also less developed although it's exact extent is unclear.

The evidence from interviews and public sources support the

Miles and Snow typologies as established in chapter four. The division between Hillsdown, Campbells and the other companies in the sample is clear, the differences between, the two companies typed as Analyzers, Rank Hovis McDougall and Cadbury Schweppes and the two Defenders Quaker and Unilever are less marked.

Thus it may be concluded that the Miles and Snow Typology as it stands ,is not sufficiently discriminating to develop useful groups for data analysis in a study of this type. However the companies all tended to one or other group suggesting that the typology is valid, but needs modifying to account for the industry frame it is being applied too, if it is to be used as a tool rather than as an end in itself.

If the aim of using the methodology is to examine the entire company this raises the question of multiple interviews within companies to establish types if as seems industry frame effects the responses. It also poses questions about how these responses should be used.

Multiple interviews with one company would also check for different views and perspectives from one part of the company to another.

To develop the methodology it might prove useful to carry out more qualitative work without a tight framework and to compare this to the responses firms give to multiple choice questionnaires based on the Miles and Snow typology in order to establish if any key factors are missed. This would allow the typology to be extended from what is going on rather than combining already existing typologies or inventing new ones. This however was not the purpose of this research.

This research has ,though, pinpointed both the strengths, and limitations of this methodology, and suggests the ways in which future research can be guided in this area.

Chapter 8

Footnotes

8.1 Chapter 1

1. For an examination of the proposed benefits of 'The Single Market' and examples of the fragmented nature of the European food market see Group Mac, Research on the Cost of None Europe Basic Findings Volume 12, Luxembourg, Office for Official Publications of the European Communities, 1988.

2. For a brief introduction to the European Community in general see, Budd, S.A. and Jones, A., The European Community A guide to the Maze, London, Kogan Page, 1991

8.2 Chapter 2

1. For a summary see P 303-306, Haspeslagh , P.C. and Jemison, D.B., Managing Acquisitions, New York, The Free Press, 1991.

2. P99-100 of Paine , F.T. and Power, D.J. , Merger strategy: An examination of Druckers five rules, Strategic Management Journal,Vol. 5 (1984), P99-110.

3. P108, Ibid.

4. P54-65, Jones, S.C., Successful management of acquisitions, London, Derek Beattie, 1982.

5. da Costa, C. , The key is to understand your market, Accountancy, October 1989, P110-112.

6. P895, Mintzberg and Quinn , The Strategy Process, Concepts, Contexts and Cases, Englewood Cliffs, Prentice-Hall , 1991.

7. For more details see P104, Seth, A. , Value creation in acquisitions: A re-examination of performance issues, Strategic Management Journal, Vol 11 (1990), P99-115.

8. For more details see P18, Jones, S.C. Op.Cit..

9. There is an extensive literature covering the rational compared to the managerial motives behind acquisitions but it has not been examined here since it is not directly relevant.

10. P46, Morck, R. , Shleifer, A. and Vishny, R.W., Do managerial objectives drive bad acquisitions, The Journal of Finance,Vol XLV, No. 1, March 1990, P31-48.

11. P345 , Amburger, T.L. and Miner, A.S., Strategic momentum : The effects of repetitive, positional and contextual momentum on merger activity, Strategic Management Journal, Vol. 13 (1992), P335-348.

12. Haspeslagh, P.C. and Jemison, D.B., Op. Cit.

13. P12, Ibid.

14. P18, Ibid.

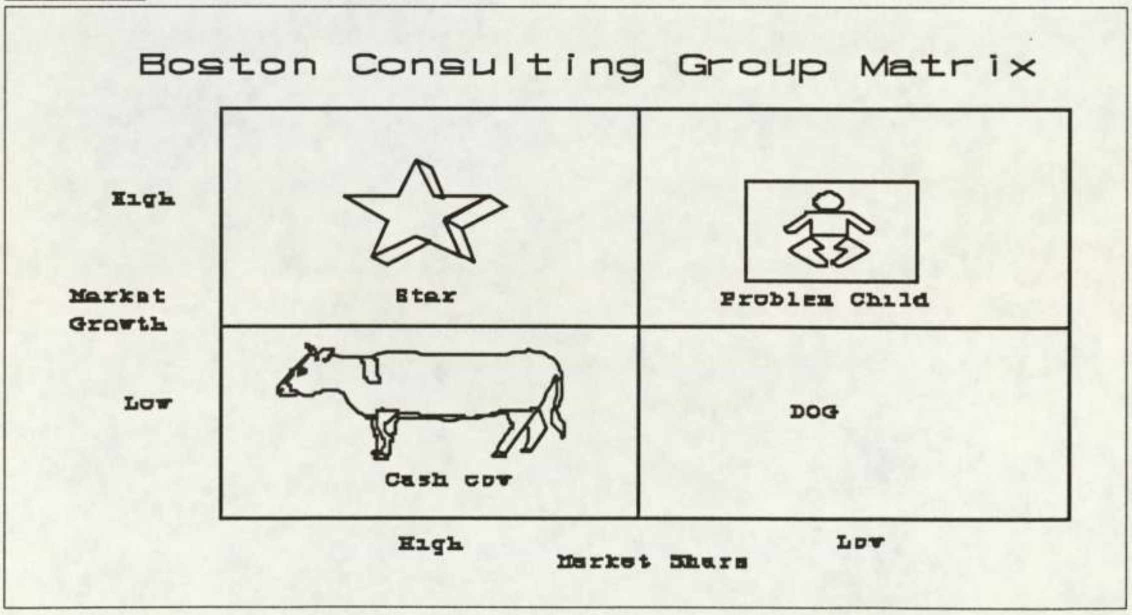
15. For example Jones, S.C., Successful management of Acquisitions Op. Cit. .

16. P46, Haspeslagh, P.C. and Jemison, D.B., Op. Cit.

17. P47 ,Ibid.

18. P56, Ibid.

19. The Boston Consulting Group model bases the decision on whether to invest in a strategic business unit on two variables, business growth rate and relative competitive position. These are used in a two by two matrix giving the potential positions, cash cows, dogs, stars and problem children for which prescriptions are made respectively: restrict new investment and harvest,withdraw, invest to maintain share and for a problem child convert to a star or get out. The Symbolism of this grid and its easy prescriptions have been challenged. The model has also been abused often by inexperienced MBA graduates and used as a substitute for analysis and thought, and hence been brought into disrepute.
For a more detailed explanation see P80-82 of Pearson, G., Strategic Thinking, Hemel Hempstead, Prentice Hall, 1990 or P176 Ansoff,I., Corporate Strategy, op. cit..For an examination of the BCG model from another perspective see Seger, J.A, Reversing the Images of BCG'S Growth Share Matrix, In Mintzberg, M. and Quinn, J.B, The Strategy Process, London, Prentice-Hall, 1991.



20. From P51, Miller, P. and Freisen, P.H., Porter's(1980) generic strategies and performance : An empirical examination with American data, Organization Studies, 7/1

1986,P37-55.

21. From P492, Sergev, E.,A systematic comparative analysis and synthesis of two business-level strategic typologies, Strategic Management Journal, Vol.10(1989), P487-505.

22. Page 7, Miles, R.E, and Snow, C.C, Organizational Strategy, Structure and Process, New York, McGraw-Hill, 1978.

23. From P45, Smith, K.G, Guthrie, J.P, and Chen, M.J., Miles and Snow's typology of strategy, organizational size and organizational performance, Academy of Management Proceedings 1986, P45-49.For an extended account of this work see Smith, K.G, Guthrie, J.P, and Chen, M.J., Strategy,size and performance, Organization Studies, Vol. 10 (1989), No.1, P63-81.

24. For a list of the various approaches used to operationalize Miles and Snow's typologies see, Conant J.S., Mokwa M.P., and Varadarjan, P.R.,Strategic types, distinctive marketing competencies and organizational performance :A multiple measure-based study, Strategic Management Journal, Vol.11,1990,P365-383.

25. From P48, Smith,K.G, Guthrie,J.P. and Chen, M., Miles and Snow's typology of strategy, organizational size and organizational performance, op. cit..

26. For example Snow, C.C. and Hrebiniak, L.G, Measuring Organizational Strategies, Some Theoretical and Methodological Problems, Academy of Management Review, Vol. 5 (1980), No.4 (June), P567- 575, and McDaniel and Kolari, Marketing Strategy Implications of Miles and Snow's Typology, Journal of Marketing, Vol 51 (Oct 1987), P19-30.. For an examination of previously used methodology to operationalize Miles and Snow's typologies see P369, Conant, J.S., Mokwa, M.P,and Varajaran, P.R, Strategic Types, Distinctive Marketing Competencies and Organizational Performance: A Multiple Measures Based Study, Op. Cit.

27. This approach uses a paragraph description of each of the four typologies from which a member of the organization chooses one. For an example of the type of paragraphs used see P 30 McDaniel and Kolari, Marketing Strategy Implications of Miles and Snow's Typology, Op.Cit.

28. See P375 Conant, J.S., Mokwa, M.P, and Varajaran, P.R, Strategic Types, Distinctive Marketing Competencies and Organizational Performance: A Multiple Measures Based Study, op. cit..

29. See P379, Conant, J.S, Mokwa, M.P. and Varajaran, Ibid.

8.3 Chapter 3

(1) Source P10, Group Mac, Research on the cost of None Europe, The Foodstuffs Industry, Volume 12 Parts A and B, Luxembourg, office For Official Publications of The European Communities,1988.
(2) Date taken as base date by The cost of None Europe The Foodstuffs Industry, Ibid.
(3) From Rawstone, P., Taste Barriers Will stay After Trade Barriers, Financial Times, 18 April 1989, Part of Financial Times Survey, The Food Industry, P13-17.
(4) Source Industry Estimates.
(5) For example there are only the following soluble coffee producers in Europe-
Nestle
Phillip Morris- General Foods and Jacob Suchard
Douwe Egberts
DEK
Lyons
There are however a very large number of roast and ground coffee producers.
(6) For a very extensive examination of trade barriers see Group Mac, Research on the cost of None Europe, The Foodstuffs Industry, Volume 12 Parts A and B, Op. Cit.
(7) The movement to an M-form structure is often viewed as a product of the large size of the American market resulting in large companies which were unable to operate effectively with a U-form structure and hence were forced into developing new structural forms. For a detailed examination of this point of view see Chandler A.D., The History of the American Industrial Enterprise, Cambridge (Mass.), MIT Press, 1962.
(8) See Parkes, C., Innovation is the Best Defence Against Retailer Power, Financial Times, 18 April 1989, Part of Financial Times Survey, The Food Industry, P13-17.
(9) The obvious examples of this are the replacement of milk bottles by Tetra packs which reduced distribution costs, the using of vacuum sealing of roast and ground coffee to reduce distribution costs.
(10) See P204- 207, Martin, S., Industrial Economics, London, Collier MacMillan, 1988.
(11) See Parkes, C., Innovation is the Best Defence Against Retailer Power, Financial Times, Op. Cit..
(12) Source Rawstone, P., Taste Barriers Will stay After Trade Barriers, Financial Times, 18 April 1989, Op. Cit..
(13) P734 - 735, Group Mac, Research on the cost of None Europe, The Foodstuffs Industry, Volume 12 Parts A and B, Ibid.
(14) For the current view on globalisation as espoused by management gurus see Ohmae, K., The Borderless World, Hammersmith, Fontana, 1992 or Porter, M.E. (Ed) Competition in Global Industries, Boston, Havard Business School Press, 1986.

8.4 Chapter 4

(1) P86, Hooley, G.J., Lynch, J.E. and Jobber, D., Generic Marketing Strategies, International Journal of Research in Marketing, 9 (1992), P 75-91.
(2) P88 Check, Hooley, G.J., Lynch, J.E. and Jobber, D., Generic Marketing Strategies, International Journal of Research in Marketing, Ibid..
(3) P63, Smith, K.G., Guthrie, P.J. and Chen, M.J., Strategy size and Performance, Organisation Studies, Vol. 10. (1989), No. 1, P63-81.
(4) Smith, K.G., Guthrie, P.J. and Chen, M.J., Ibid..
(5) The paragraph descriptions used were based on those of McDaniel, S.W. and Kolari, J.W., Marketing Strategy Implications of the Miles and Snow Strategy Typology, Journal of Marketing, Vol. 51 (October 1987),Page 19-30 from P 29-30.
(6) The Hambrick article : Hambrick, D.C., An Empirical Typology of Mature Industrial-Product Environments, Academy of Management Journal, 1983, Vol.26, no. 2, P213-230,does not primarily use the Miles and Snow model but Lawerences (1981) framework the method could be adapted if wished.
(7) Tie rules applied by Connant et al (1990) were ties between Defender, Prospector, and/or Analyzer results in an organization being typed as an Analyzer, and ties involving Reactor responses resulted in an organisation being typed as a Reactor.
(8) The typing by the Connant et al (1990) method would be as below-

Nestle	Analyzer
Unilever	Analyzer
Phillip Morris	Analyzer
Allied Lyons	Analyzer
Grand Metropolitan	Analyzer
Campbells	Reactor
Cadbury	Analyzer
RHM	Analyzer
Hillsdown	Reactor

(9) In the last two years Phillip Morris has acquired -
A unit from Maruud in Norway in 1991,
A unit from Procter and Gamble in Italy in 1992,
I.Q.M a spanish cheese company in 1992,
All for undisclosed amounts.

8.5 Chapter 5

(1) See Chapter 4 for a more detailed explanations of the procedure of gaining access to companies.
(2) The United Biscuits interview was conducted on 11 th June 1992 with a senior member of staff reporting directly into the board of United Biscuits PLC.
(3) The Quaker interview was conducted on the 22 nd of June 1992 with a member of the U.K business unit reporting into a director of the U.K company.
(4) The Rank Hovis McDougall interview was conducted on the 7 th of May 1992 with a member of staff reporting into a divisional director.
(5) With the exception of Unilever all have or have said they will focus on the food sector. Unilever stating it will focus on food and cleaning, disposing of assets.
(6) All the interviews were conducted in the U.K due to resources and the failure of the one trip to Paris.
(7) The Campbells interview was conducted on 17 th March 1992 with a U.K director.
(8) The Hillsdown interview was conducted on the 3 June 1992 with a member of the head office staff.
(9) The Cadburys interview was conducted on 1 st July 1992 with a director of the confectionery division.
(10) The Unilever interview was conducted on 5 th March 1992 with a member of the corporate development department staff.

8.6 Chapter 6

(1) United Biscuits considers: 'Snack foods broadly encompassing biscuits, savory snacks confectionary and some other ambient snack foods world wide'
(2) Unilever was the largest company interviewed with food sales of $ 12.70 Bn in 1986, three times the size of the next largest company interviewed Campbells with food sales of $ 3.99 Bn in 1986.
(3) At the time of writing United Biscuits had not returned the questionnaire.

8.7 Chapter 7

(1) As of August 29 th 1992 United Biscuits had not returned the questionnaire and it was decided further requests might be counter productive.

(2) At the companies where interviewees were carried out four of the managers responsible for acquisitions were, one was not an accountant and the question was not raised in the two other interviews.

Chapter 9

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Appendix A

Review of Companies in Sample Frame

App.A.1 Nestle

Swiss based Nestle with a turnover of approximately 45 Bn Swiss Francs (1)(2) and around 163,000 employees is the worlds largest food company. Its origins lie in the merger of a milk company and infant food company in 1905, since then it has acquired a number of companies including Cross and Blackwell in 1960 and Maggi in 1947 and more recently Carnation in 1985 and Buitoni in 1988. It operates in most countries and its key franchises (3) include; Rowntree, Carnation, Findus, Maggi and Nescafe. Nestle is still however based in Vevey in Switzerland.

Nestle is present in the following markets in at least one European country- baby food, chocolate, ice cream, mineral water, pasta, soup, condiments, preserves, frozen foods, coffee, tea, yogurt, canned food, pet food, meat, breakfast cereals.(4) From this it can be seen Nestle is a large diversified company.

Its position outside the EC in Switzerland is important for two reasons -

Firstly it is quoted on the Zurich Stock Exchange which means it can restrict foreign ownership of its bearer shares with voting rights to 3% by any foreign individual or group.Prior to 17 th November 1988 no none Swiss effect of insulating Nestle from the short-termism of the London and New York Stock exchanges and prevents hostile takeover bids. Nestle management can thus focus on the long term and the fundamentals of the business not maintaining stock price and keeping the City or Wall Street happy.

Secondly it is outside the EC single market and as most production is outside Switzerland which represents only 3% of Nestle's sales may be subject to restrictions on the movement of goods, personnel, capital and the repatriation of profits in and out of its Vevey headquarters.
This long term focus can also be seen in Helmut Maucher in the managing director's, Helmut Maucher's statement's :'With quarterly reports all managers care about is the next three months and they manage for the next quarter instead of the next five years'(6) and statements in corporate documents: ' There is no question of trying to maximize short term performance if this would be at the expense of the long term potential.'(7)

Acquisitions

Over the period since 1986 Nestle has made a number of large acquisitions including Rowntree and Buitoni as figure App.A.1 and App.A.2 show.

The methods of these acquisitions has been varied including contested bids and private deals Nestle tends though to avoid high profile battles.(8)

Given its size Nestle has shown itself able to act swiftly when forced to by others moving a target company into play, such as Jacob's dawn raid on Rowntree in 1988 and more recently Angelli's moves on Perrier via Exor with the support of St. Louis in which he also has a holding. In the Rowntree case Jacob Suchard took a 14.9% stake in Rowntree between 8.30 and 9.15 on April 13 th 1988. On 26th April Nestle bid £8.90 per share.(9) On 5th May Jacob Suchard bought its stake up to 30% and on May 26th bid £9.80 a share. Nestle then proceeded to bid £10.75 a share compared to the pre bid price of £4.69 and on 24th June Klaus Jacobs decided to concede and Jacob Suchard sold its 30% stake to Nestle.

Evidence however suggests both these targets had been carefully monitored before others had bought them into play and these moves were not knee jerk reactions but carefully considered. Prior to the Jacob's bid Nestle had been talking to Rowntree about a joint venture.(10)

These two cases also illustrate the size of Nestles resources and its ability to finance acquisitions from internal funds .

The diagram also illustrates that Nestle has acquired carefully and sold off any element that does not fit with it's core *focuses* as the Princes canning business acquired as part of Buitoni, and Rowntree's retail operations. It has not made moves for very large diversified groups such as Kraft, General Foods or Pillsbury but instead acquired focused companies which fitted a need to develop a given product area such as Rowntrees in chocolate or Buitoni in pasta and Italian meals or in the case of Carnation, the need to support a sales force in the United States. On a smaller scale it has also carried out geographic 'infill' increasing its strength in ceratin areas such as Chocolate Bouquet D' Or.

Thus Nestle is a large food company which over the past few years has tried to balance it's portfolio of companies and fill in gaps in its product and market range while acquiring brands it could leverage worldwide through its national operations.(11) Nestle acquires only what it wants with clinical strikes, but tries not to alienate the present senior management which it usually gradually removes over three years as it learns the business and then once it has understood the markets, the expectations of those markets and internal corporate power structures and behaviour, it merges the unit with the national Nestle unit to achieve cost synergies on such activities as accounting, sales force, marketing and research and development.(12)

Figure App.A.1

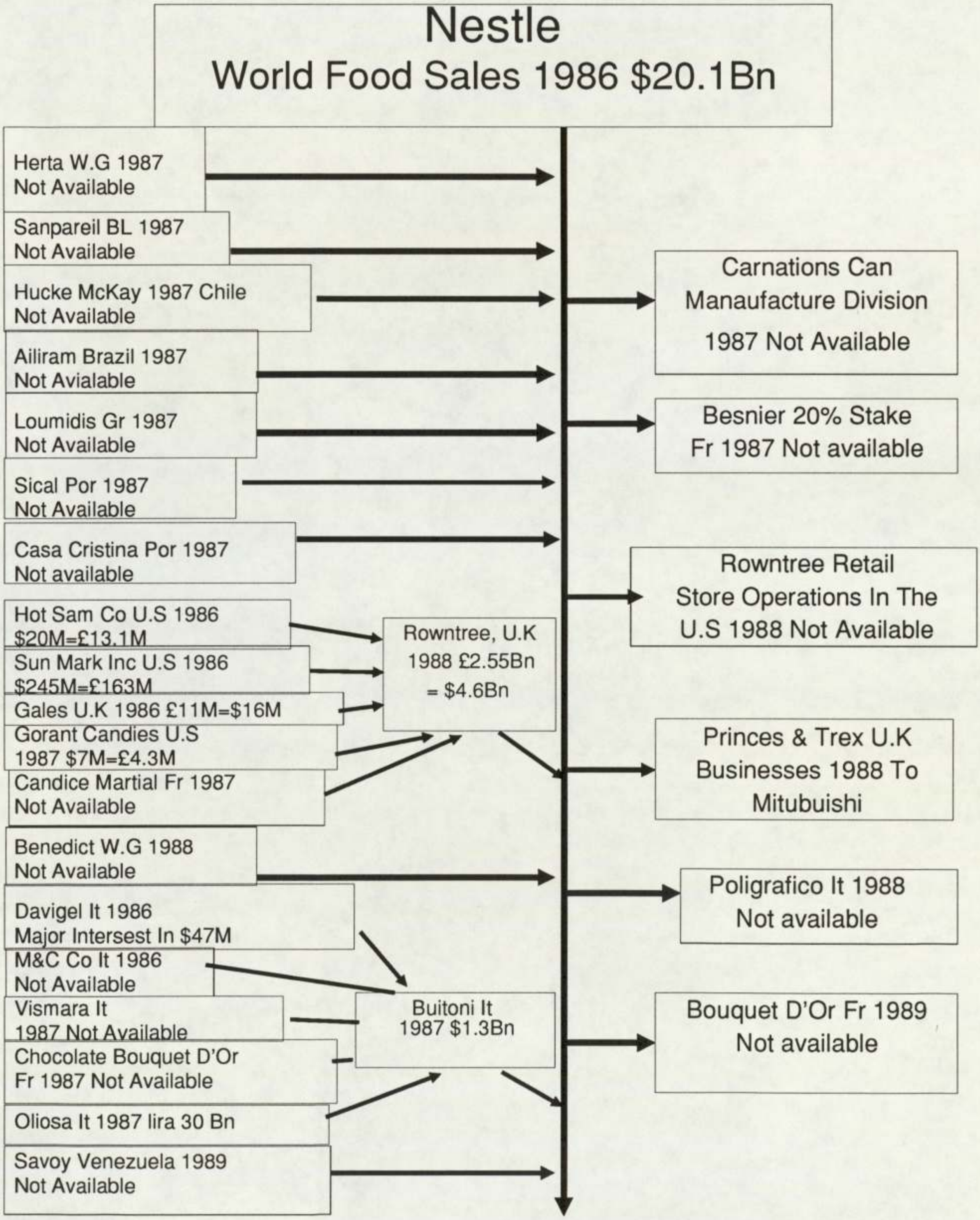
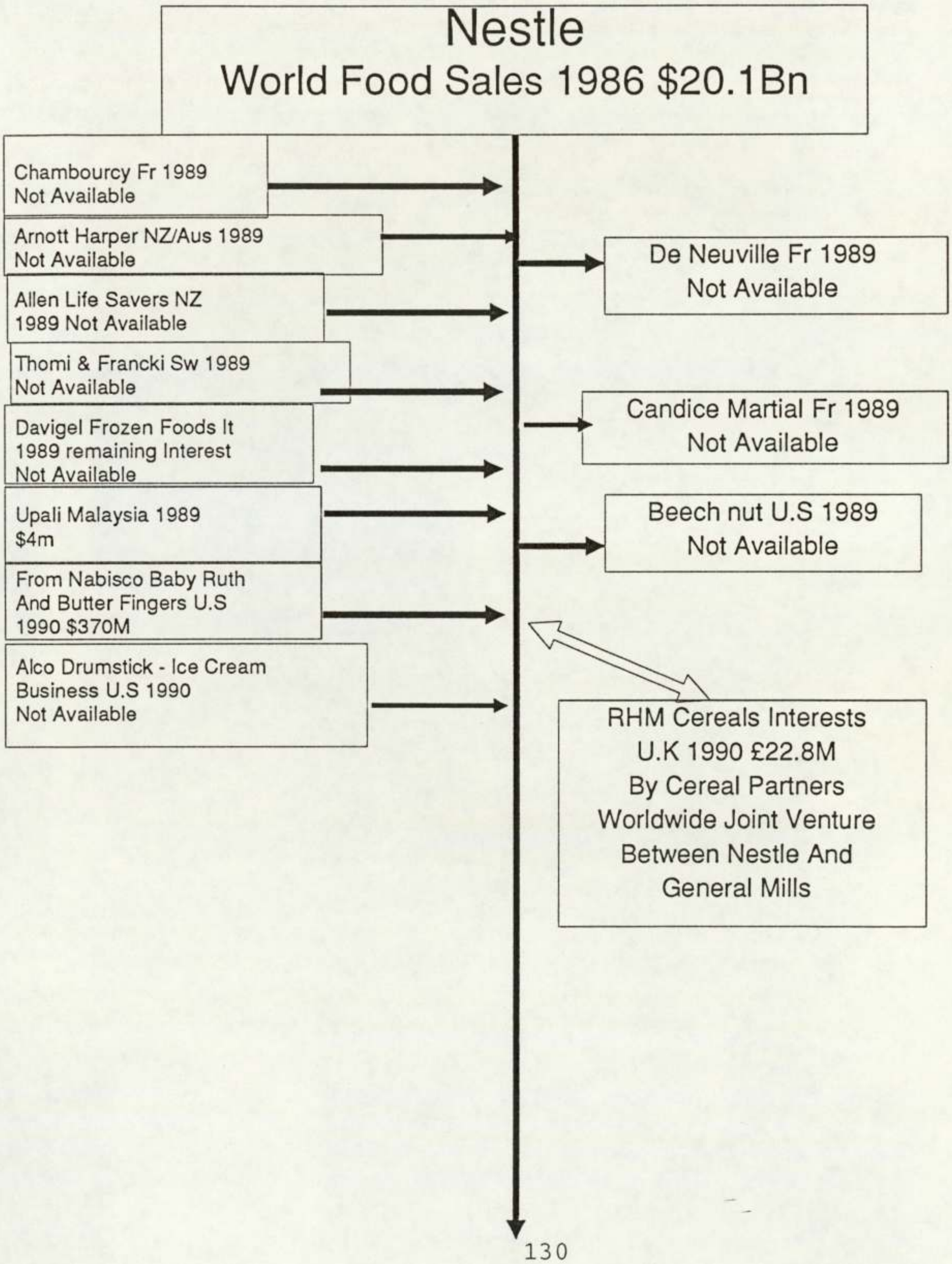


Figure App.A.2



App.A.2 Unilever

Unilever is an Anglo-Dutch company formed by the merger of Lever Brothers a U.K detergent company and Margarine Unie, a Dutch margarine operation over fifty years ago . It is hence quoted on the International Stock Exchange in London, Amsterdam stock market and in addition in New York, Belgium, France, Germany, Luxembourg, and Switzerland with dividend payments being equalized between the two sets of shareholders in Unilever Plc and Unilever N.V.. This structure, Dutch law and sheer size (13) make Unilever difficult to takeover.

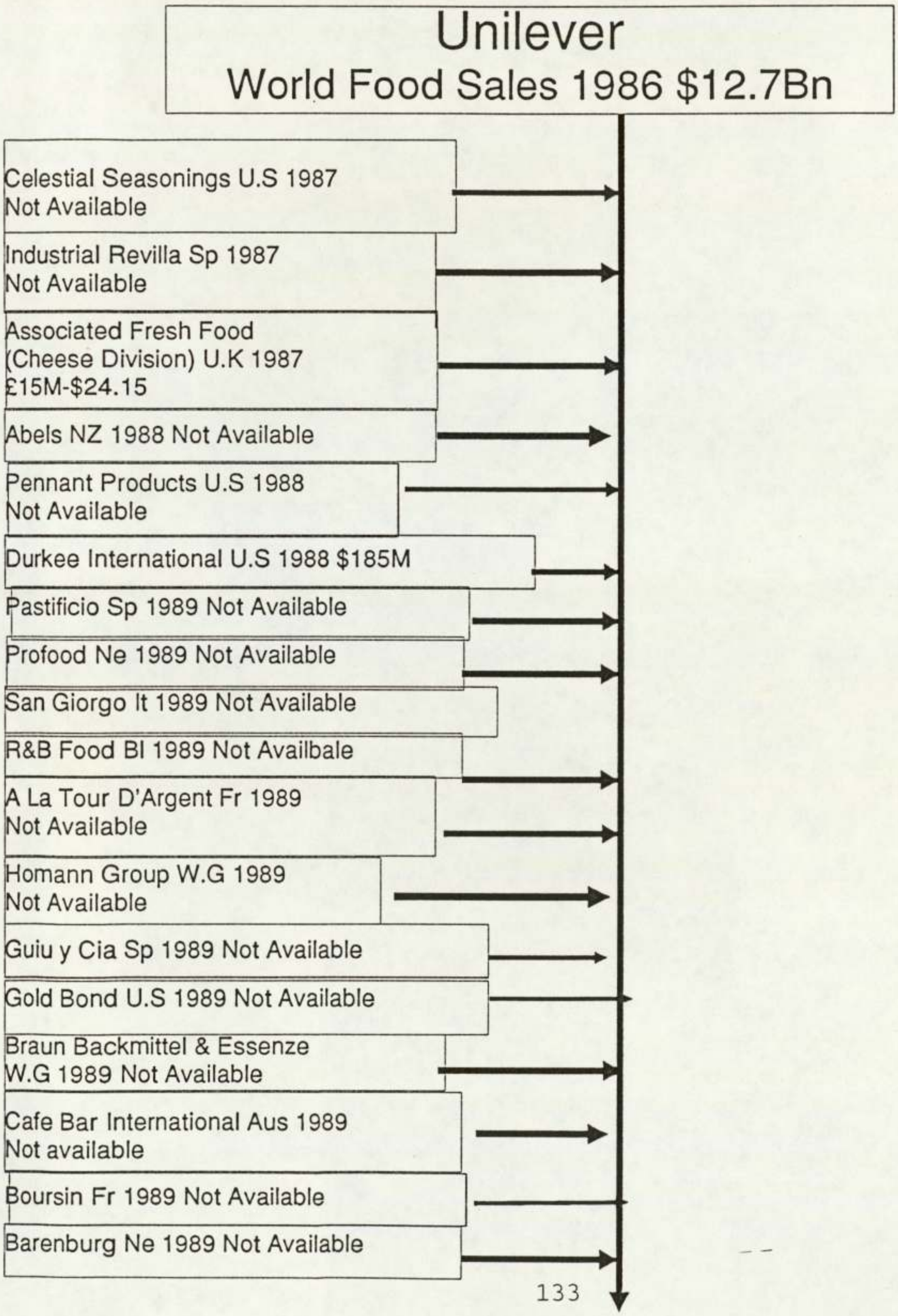
The original motive for the merger, fat technology, has long since been outgrown. The company however is still technology driven. Unilever has also tended to backwardly integrate and internalize relationships rather than focus on one part of the value chain. This has resulted in it moving into such areas as salmon farming and seeds.
Unilever even had its own advertising agency at one point-Lintas. The product of this was that Unilever grew very bureaucratic and slow to react and was particularly attacked by Procter and Gamble in the detergents market in Europe.

The recently retired managing director of Unilever Plc, Sir Michael Angus has attempted to shake the sleeping giant, with certain operations being sold off and a focus on upstream branded grocery activities. This has been done to utilize Unilever's plethora of brands including Flora, Walls, Birds Eye, and Liptons. More recently they have attempted to lever brand value using brand extensions in closely related fields such as the Flora and Delight ranges of Low Fat Products.

Unilever is present in the following grocery markets in most of Europe- ice cream, soup, condiments, frozen food, tea, canned food, oils,fats and margarine, it is also present in the coffee market in the United Kingdom. (14)

Since the mid-eighties, Unilever has focused on developing new products based on fat technology such as the Delight cheese like product and low fat products such as the Flora range. The central theme of Unilever being fat technology including oils, margarine, ice-cream mayonnaise and simulated cheese. Acquisitions have taken place to fill out these areas and provide brands where required. In the last few years food acquisitions have not been large or numerous. Unilever has instead poured acquisition money into the cosmetics area with purchases such as Cheeseborough Ponds and Calvin Klien. In the detergents market there have been no major changes to Unilever's basic strategy in its long running battle with Proctor and Gamble. In summary Unilever has carried out infill and leveraged its brands by brand extension while cutting costs in the food sector, invested heavily in the cosmetic and perfume area and defended in the detergents business.

Figure App.A.3



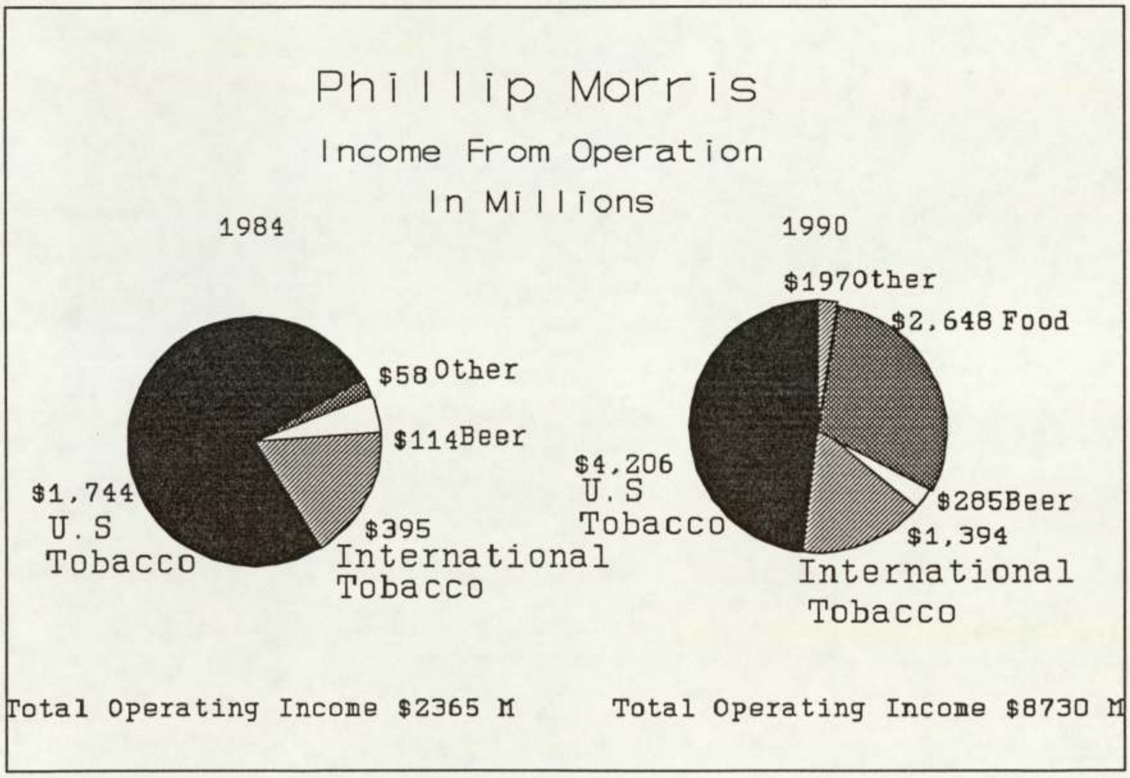
App.A.3 Phillip Morris

Phillip Morris was until 1985 a cigarette and beer company with a minor interest in soft drinks via 7-UP (15). Its major brands including, Marlborough, Phillip Morris, Chesterfield, Parliament, Benson And Hedges in the U.S., and Miller Lite. This however changed with the hostile acquisition of General Foods in November 1985 for $5.7 Bn which made Phillip Morris a major player in the food industry with food sales of $10 Bn in 1987. Brands acquired in this move included: Entermans, Maxwell House, Post Cereals, Gevalia, Birds, Kaffee Hag, Hollywood, Jello, and Oscar Myer. This acquisition, unlike those of Nestle, was very hostile with most of General Food senior executives leaving over the years immediately after the deal.(16) The loss of senior executives was mainly due to a clash of corporate culture - 'some (senior General Foods executives) objected to the tobacco business on moral grounds.'(16)

This acquisition was a strategic change for Phillip Morris, which until this point was very dependant on a declining home cigarette market and one brand Marlborough. In 1983 U.S tobacco was over 65% of Phillip Morris's operating revenue as shown by the chart on the next page. The General Foods acquisition also signalled a move into food and was the start of a massive period of growth primarily achieved via acquisition, which is illustrated in figure App.A.5.

The main reasons for the move into food appears to have been to limit exposure to cigarettes and the possibility of a takeover. A secondary reason was that Phillip Morris needed somewhere to spend its cash having already invested in low cost producer status thus as well as being the United States largest advertiser it could no longer find ways of reinvesting in cigarettes.

Figure App.A.4



The size of acquisitions seemed to be determined by the need for the acquisition to have an effect on Phillip Morris' share price and make a sizeable difference to the percentage of income coming from cigarettes. (To achieve the present level of food sales Phillip Morris would have had to have bought six companies the size of United Biscuits.)

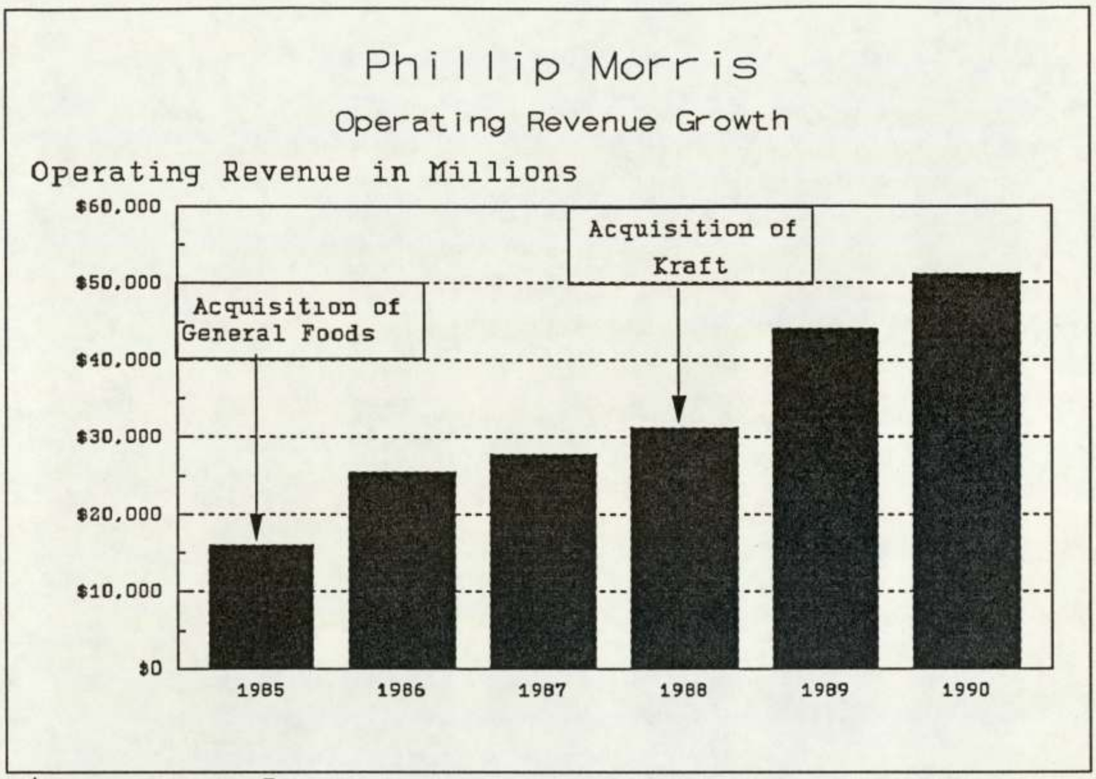


Figure App.A.5

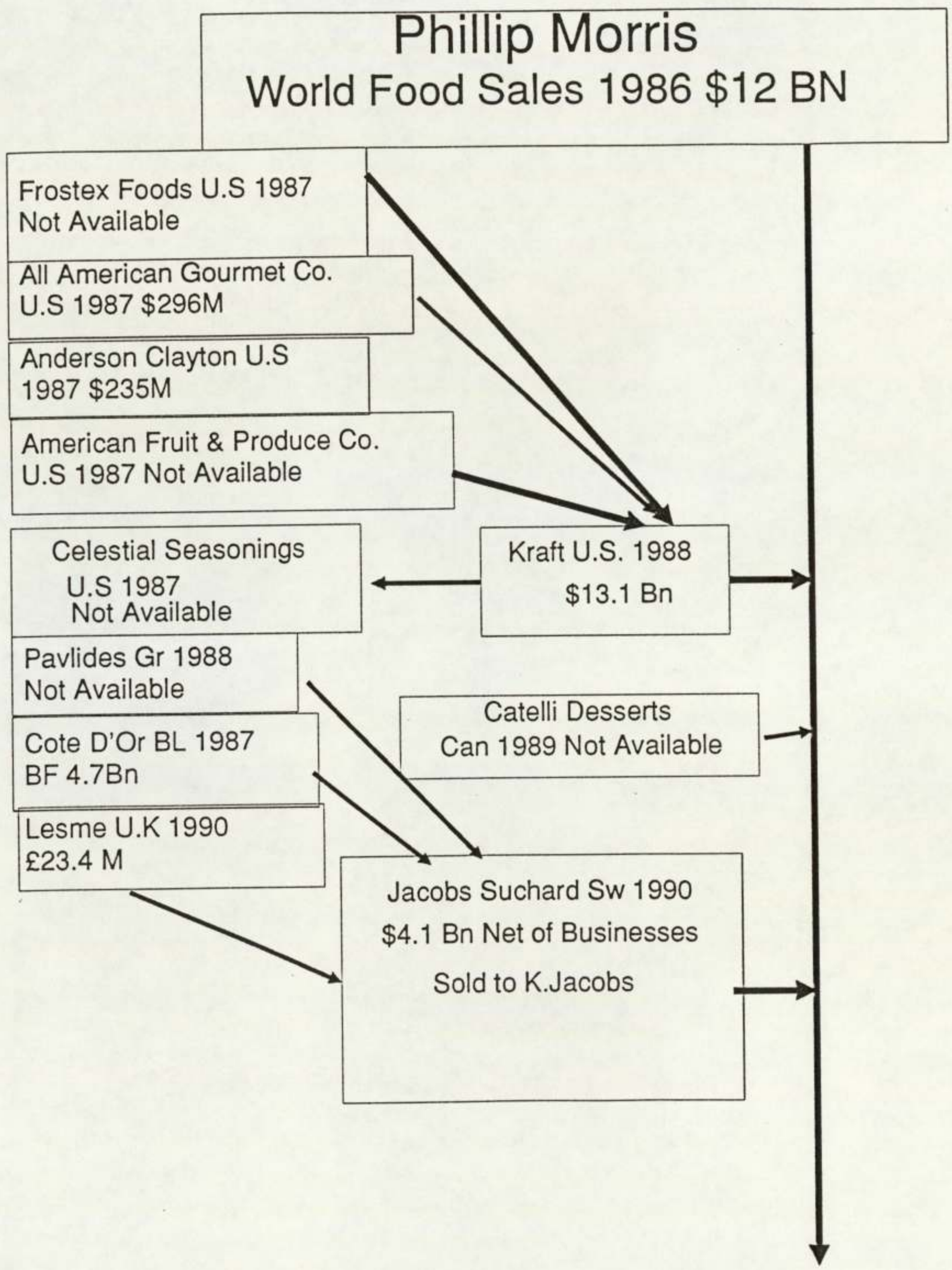
Phillip Morris's second major acquisition was that of Kraft. This was conducted in a similar way to the General Foods, offering well over the market price and then following that up with a higher bid of $13.1 Bn to kill any possibility of a leveraged buy out by management. The main difference was that Phillip Morris kept the Kraft executives, Michael Miles taking over as chief executive officer in summer 1991 from Hamish Maxwell. This has possibly been divisive, particularly given most of the cost cutting carried out to date appears to have fallen on General Foods.(17)

Since the Kraft Acquisition the only purchase of any note was that of Jacob Suchard, the Swiss chocolate and coffee company controlled by Klaus Jacobs, in summer 1990.

The company now appears to have hit the Penrose effect (18) with the european food division still operating as two units, Jacobs Suchard and Kraft General Foods in most counties except where one was hardly present.(19)

Thus Phillip Morris's key strategic asset is the cash generation ability of its American Cigarette business and currently it is using that to expand its food operations with a series of large often hostile takeovers rather then the plethora of small ones favoured by other companies.

Figure App.A.6



Total Value of Acquisitions For Period $17.2 Bn

App.A.4 Heinz

H.J. Heinz is a American company usually associated with tinned food and ketchup under its H.J. Heinz 57 Varieties brand. In the United Kingdom it is often perceived as British, this is primarily due to Heinz's early move into the United Kingdom in 1905. In Europe Heinz has a limited presence.(20) Heinz's high profile charismatic leader Anthony J.F. O'Reilly (21) has also consistently talked about being lowest cost producer which in many cases Heinz has achieved.(22) This strategy is built around the need to sustain earnings growth in a very slow growing market. In recent years Heinz has pushed its market leadership products and grown rapidly through levering these positions, in particular baked beans, ketchup and tinned soup. It has done this in two ways; firstly using the fact that it is market leader and lowest cost producer and advertiser in any category to allow it to spend increasing sums on marketing to push share growth while maintaining profitability. Secondly it has increased the number of products, using the Heinz brand, hence gaining maximum use out of any advertising spend. This has allowed it to resist own-brand pressure from the retailers.

In addition Heinz has avoided the mega-acquisitions of Phillip Morris, as can be seen from the chart below, thus removing the avenue of growth many others have pursued. Instead Heinz has attempted to grow it's present brands based around the belief of O'Reilly that: 'The reality is that many brand are under leveraged.'(23) A key part of this growth has been through the Weight Watchers brand acquired in 1978. In other areas this has been done by pumping the savings achieved in production into marketing campaigns to maintain the price differential and shelf space.(24)

Thus Heinz has tried to grow through internal product development, line extensions, cutting costs and pushing prices up.

Figure App.A.7

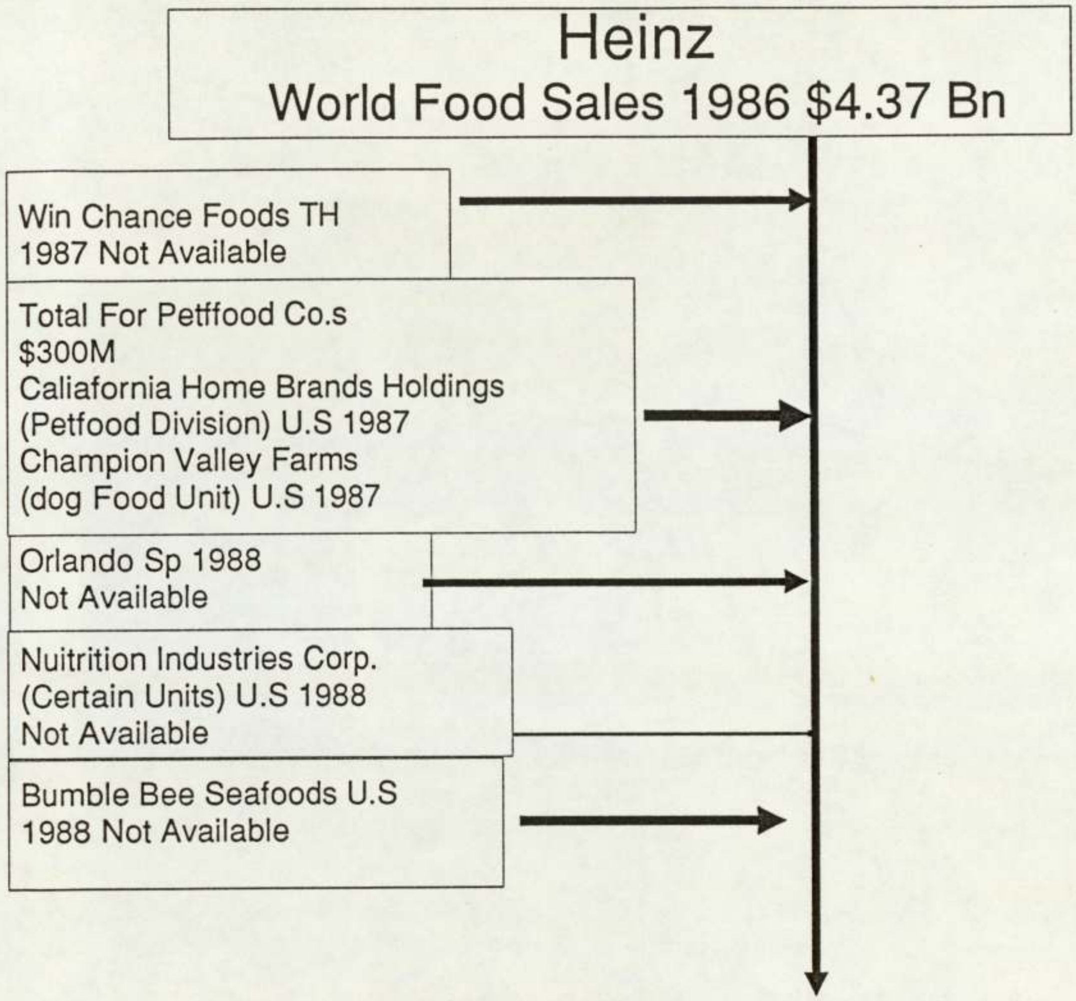
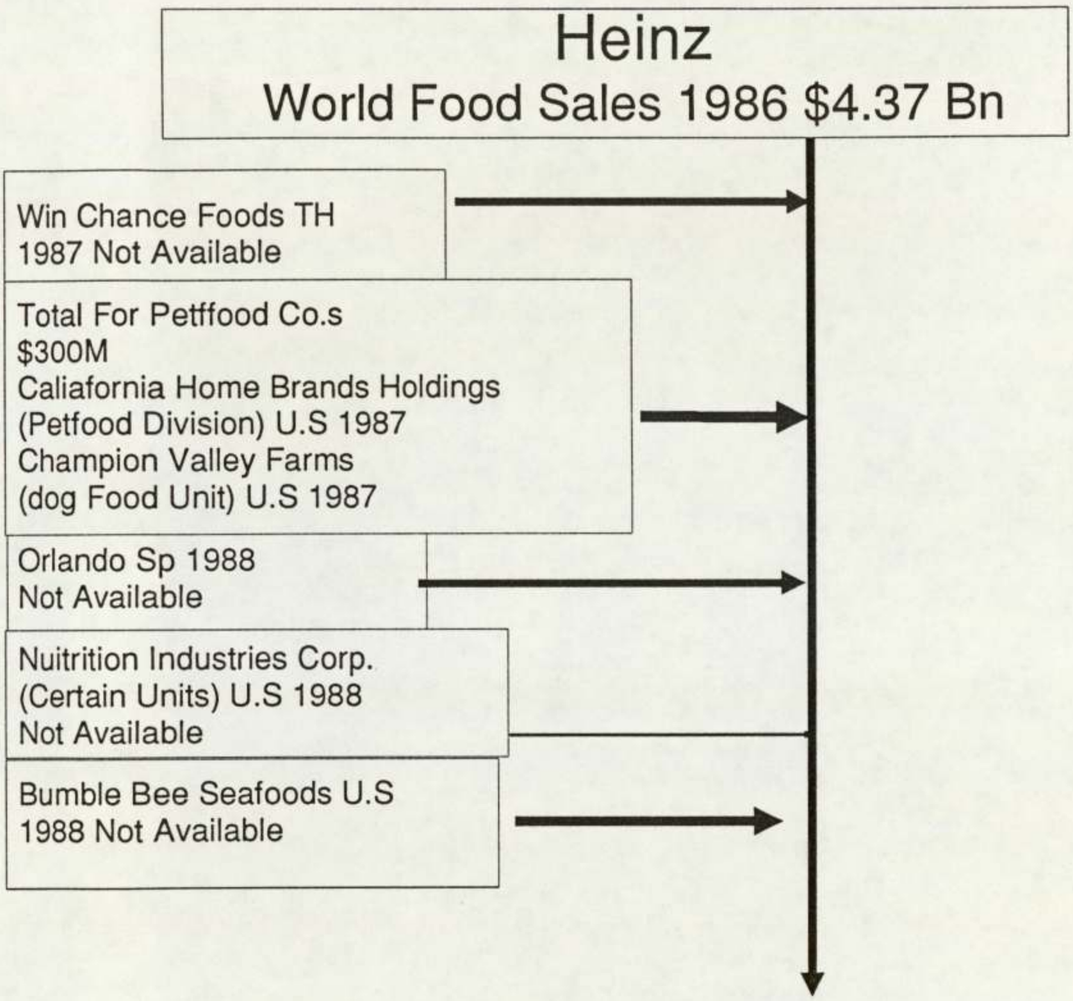


Figure App.A.7



App.A.5 Allied Lyons

Allied Lyons is the result of the 1978 takeover by Allied Breweries of Lyons. The company consists of 3 major divisions- Spirits, Brewing and Food. Its major brands include Ballantines, Tetley, Tia Maria, Harveys, Teachers, Skol, Baskin Robbins, and Dunkin Donought.

In recent years Allied has built up its spirits division particularly with the acquisition of Hiram Walker during 1986 and focused its food division on downstream ingredients businesses supplying franchise operations which Allied Lyons has bought including Dunkin Doughnut and Baskin Robbins.(25)

Allied Lyons though still owns Tetley tea, Lyons cakes and coffee which are primarily branded products sold via retail outlets. This focus is illustrated by the sale of its Lyons Maid United Kingdom ice cream operation, which had been hit by Mars entry into the market for choc-ices, while still expanding its Baskin Robbins chain of ice cream parlours. Its overseas operations are nearly all in ingredients businesses or franchising which are supplied by the ingredients businesses, the major exception being Panrico in Spain, a fifty/fifty joint venture which sells bakery products.

In the far east Allied is also involved in a number of joint ventures these are centred on DCA Allied's American ingredients operation and Baskin Robbins the ice cream shop.

The parent company has increasingly been under pressure from the stock market. The reasons for this has been two fold: Firstly the uncertainty created by the Monopolies and Mergers commission report on tied houses which has meant Allied has had to sell off many public houses and sign long term leases while prices have been depressed. The second reason was the self inflicted currency loss of £147 million resulting from an over aggressive treasury operation trying to generate profits rather than just hedge exposure (26). This latter event resulted in the resignation of the chairman and financial director and this has left Allied with an inexperienced board and a young managing director in Tony Hales who is 42. Thus Allied is perceived as vulnerable to takeover particularly in the city where Phillip Morris is often touted as a potential bidder as it is for almost every other United Kingdom or American quoted food company bar Unilever. (27)

I have not included Allied in my main survey as it is not primarily a branded retail grocery operation and it is unclear what strategy Allied is likely to follow given its unplanned leadership changes. Allied is however a major food company. I thus examined it but in less detail than other companies in the main sample frame.

Grand Metropolitan over the last few years has changed, chameleon like, out of brewing, Pizzaland, and Inter-continental hotels, in and out of betting shops, and into U.S fast food,opticians and more spirits to hold the nerves steady for the next deal. Grand Metropolitan has become hooked on deals and: 'the much touted strategy of focusing on international food and drink brands is merely a rationalisation of whatever deal it thought of last'(28) and: ' some people in London's financial community are concerned that the company appears too acquisition hungry.'(29)

Grand Metropolitan consists at present of three basic product areas - Drinks, Retailing and Food each however has changed markedly over the last few years.

The drinks division consisted of two elements; brewing and spirits. In 1990 however Grand Metropolitan swapped its breweries for pubs in a deal which gave it a stake in 7350 pubs with Courage and £366M on top of its own managed estate of 1700 pubs, this was done to fulfil the requirements of the Monopolies and Mergers Commission report on brewing. Thus the drinks division was focused on spirits.(30)

The spirits area is the only one to be consistently invested in, acquisitions including:

in 1986 Heublin from RJR Nabisco for $1.2Bn bringing with it the Smirinoff brand,

in 1989 Metaxa, and Mont Salle Vineyards,

in 1990 it increased its stake in Cointreau and took a 20% stake in Remy Martin at a cost of £100M, while it still continued to purchase its spirits distributors.

Grand Metropolitan has assembled an impressive range of spirits brands amongst them Malibu, Smirnoff, Baileys, and J&B, a range only rivalled by Allied Lyons and Guiness and giving Grand Metropolitan a powerful position in the spirits market.

The retailing division, primarily consists of restaurants, pubs and fast food outlets. The United Kingdom arm has suffered at the hands of the recession, particularly in the south east, possibly a reason for the sales of 158 Berni Restaurants and Pizzaland in 1991. The American based fast food outlets have however been expanded with the conversion of 165 Wimpey outlets to Burger King while the Wimpey brand and hence the rest of the 530 franchised stores acquired in 1988 have been sold.

Haagen-Dazs has also been introduced to Britain, backed by a string of press and television adverts and there is an intention to expand into Western Europe (31).

The U.K off-licenses was a relatively quiet area with no additions until it was sold in late 1991 after the end of the accounting period for £50m. The pub estate has been turned upside down - in addition to the joint venture with Courage, 330 pubs were leased by the joint venture to Grand Metropolitan and it converted the remaining Berni Restaurants to Pubs.(32)

This leaves the one total anomaly - Pearle Vision, the world's largest optician, the logic behind which I do not understand.

The branded food division consists of a number of areas. Pillsbury U.S is basically a vegetable and bakery operation, its key brands being Green Giant and the Pillsbury Dough Boy. The latter has recently made a reappearance in British television adverts after a seventeen years absence, indicating Grand Metropolitan's wish to import its U.S brands and products acquired in the Pillsbury takeover into Europe.

The European division has 3 main product areas:
A) Express Diaries and Eden Vale, most of which was sold to Northern Foods in November 1991 for £360M.(33)
B) Ready meals and savory products under the Peter's and

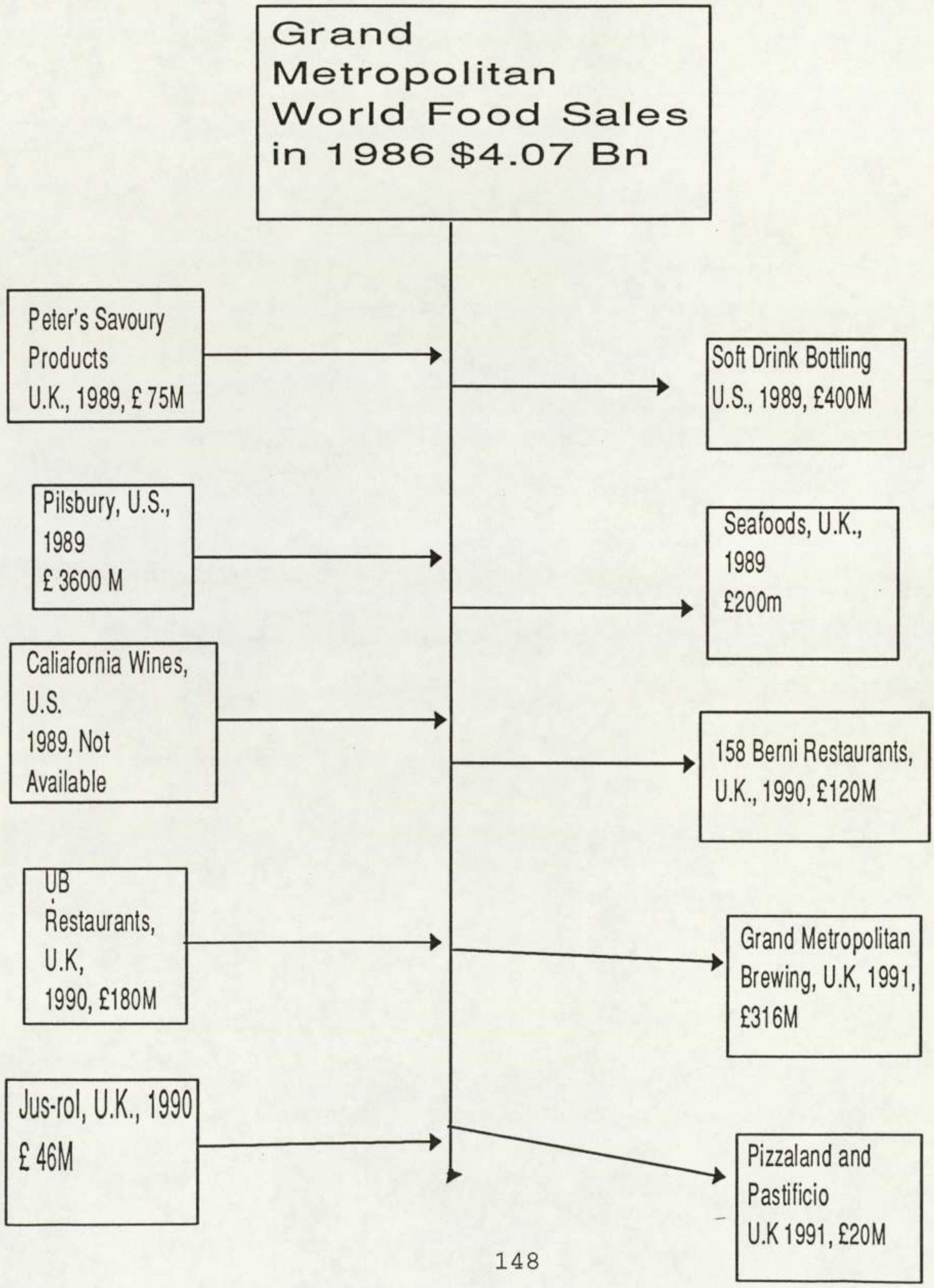
Erasco brands. This was expanded by the purchase of Peter's in 1989.

C) Baked goods, this was expanded by the Kaysens takeover in 1988, operations acquired with the purchase of Pillsbury and the expansion of these operations under the Pillsbury Dough Boy banner.

The food division also includes one anomaly, Aplo pet food acquired with Ligget in 1980 this is however now up for sale.(34)

The two things that appear to unite Grand Metropolitan is its obsession with deals and major brands. The former may only be a passing fad as it adds to it's already enviable range of brands before it becomes too expensive and moves it into the truly global league of food companies before the doors are barred.

Figure App.A.8



App.A.7 Campbells

Campbells has over recent years performed badly with a: 'lacklustre earnings record' (35) and: ' when David W. Johnson arrived at Campbell Soup Company 18 months ago he found a financially ailing, inefficient company that was, well, in deep soup.'(36) This resulted in the resignation of Mr Johnson's predecessor in 1989 and heavy cost cutting.

The company is still controlled by the Dorrance family with a 59% stake, the family has however split into two factions, one group with 36.5% of shares wanting to stay independent, another with 17.5% wishing to realise its assets via a sale. This has resulted in uncertainty and internal wrangling, extenuated by the attempted merger with Quaker and not helped by rumours of predators waiting to buy, such as Phillip Morris. (37)(38)

The company is still built around Campbells condensed soup, 50% of sales being in the Campbell U.S group consisting of soup, frozen meals, V8 vegetable juice and Prego sauces and only 25% from outside the United States (39).

These international sales have been built relatively rapidly: 'analysts say Campbell expanded too fast in Europe and overpaid- $201M or 24 times earning for Freshbake.'(40) Freshbake is the number 3 in the United Kingdom frozen food market. Its main products are commodity sausages and pies with limited branding and a high proportion of own-brand sales. Freshbake itself was built by a series of mergers of small companies which had not been consolidated on merger. Freshbake is a major problem for Campbells since it is small, lacks power with the retailers and is being squeezed by Unilever and United Biscuits.(41) Campbells solution was to put large parts of Freshbake and Lazzaroni, its troubled Italian biscuit company, up for sale.(42) The former has been sold to Albert Fisher for £.1M.

Campbells is therefore in the midst of a massive restructuring and cost cutting plan.(43) It is retrenching, resulting in profit growth of 36% at the net level, and is thus off the bottom, but sales only grew 2% and there are question marks over the longer term.(44)

App.A.7 **BSN**

BSN is France's largest food company with sales of 53Bn French Francs in 1990 (45). BSN is the result of a merger of two French glass companies in 1966, at which point BSN had no food sales. Its first move into food and drink was its 1970 acquisition of Evian the mineral water company. As can be seen from the figure App.A.9, BSN has exited from the flat glass industry and grown rapidly into a major processor of a variety of food products. By 1986 only 14% of sales were in non-food products- containers. Thus BSN is a relative new comer to the food sector compared to Nestle and Unilever.

BSN is lead by the 73 year old Antonie Riboud who has dominated the company for a number of years.(46) This may prove a problem since there is no obvious successor, particularly given the split with Umberto Angelli over Perrier.(47)

BSN currently has 6 divisions: Dairy Products, Grocery/Pasta, Biscuits, Beer, Champagne and Mineral Water, and Containers in descending order of size.
The dairy area has been built up gradually since the merger with Gervais-Danone. This growth includes the purchase of Danone in Spain and in Italy Galbani jointly with Agnelli. Major growth has also come through the launch of new products such as Bifidus yogurt and also the geographical spread of the products of acquired companies through BSN's

distribution system in other parts of Europe such as the sale of Galbani cheese in France and Britain.(48)
The grocery and pasta products division has primarily been grown by acquisition including Birkel in Germany, La Familla in Spain, Star in Italy, HP Sauce in Britain and Lea and Perrins. The brands acquired have however been leveraged and products such as Lea and Perrins sauce placed in the hands of local BSN companies to distribute.

The biscuit division has also been acquisitive, but unlike the grocery division, has been built on the base of one large acquisition - General Biscuit in 1986. Before this point BSN was not in the biscuit market. Since this though it has acquired a number of small companies and the European biscuit division of RJR Nabisco.

The other divisions have not expanded as rapidly by acquisition since the early eighties, although the mineral water division has acquired Feralle Jointly with IFIL and Saratoga Sparkling Mineral Waters in the United States and is now attempting to takeover the Volvic brand from Perrier if Nestle is successful in its bid. Pommery and Lanson Champagnes were sold to LVMH in 1991 taking BSN out of this market. This latter move shows that perhaps BSN is no longer interested in being big for big's sake, but wants to be more focused in certain areas where it can dominate. Lecallier senior vice president of BSN said in 1988 : ' Gigantisme is not necessary. Coherence is far more important than size.'(49)

This does not mean BSN is not interested in being large, but rather that Antonie Riboud believes there is only room for three pan-European food groups and he wants to be the third behind Nestle and Unilever.(50)

Thus BSN wants to be a pan-European food company and it has removed resources from the United States to achieve this. It is driven on by Riboud's vision and wish to have a powerful French food company in Europe.

The main area where BSN is different from the Anglo-Saxon food companies, is in the number of joint ventures and equity stakes it has.Most notably its 50/50 ownership of Galbani with IFIL and its 35% stake in Star. This gives BSN control of more assets in food markets, with a limited capital supply, and also gives it a powerful ally in Umberto Agnelli.(51) This relationship would appear to have been soured by the machinations over Perrier.(52) It also must be noted that BSN is very difficult to takeover partly because of its ownership of a bank but also poison pills. The main poison poll involves the issue of new shares to loyal supporters should a hostile bid occur. This allows BSN to raise the cost of a bid as it can effectively just keep raising the number of outstanding shares capital in blocks of 50% by selling the shares to friendly holders hence diluting the potential acquiring companies stake.(53)

BSN is thus a company dominated by one man which over the last few years has grown rapidly partly using joint ventures and whose major goal is to become a pan-European food to the exclusion of other continents.

Figure App.A.9

BSN Growth Since 1966

1966 Les Glace de Bousois and Souchon-Neuvesel merger creating BSN

1970 BSN acquires Kronenburg, Societe Europeene de Brassieries and Societe des Eaux d'Evian

1972 BSN acquires Belgian glass Manufacturer

1973 Merger with Gervais-Danone

1979 Sale of part of Non-french glass interests to Pilkington

1979 Acquired Mahou 2 nd largest Spanish brewery

1979 Acquired Wuher 2 nd largest Italian brewery

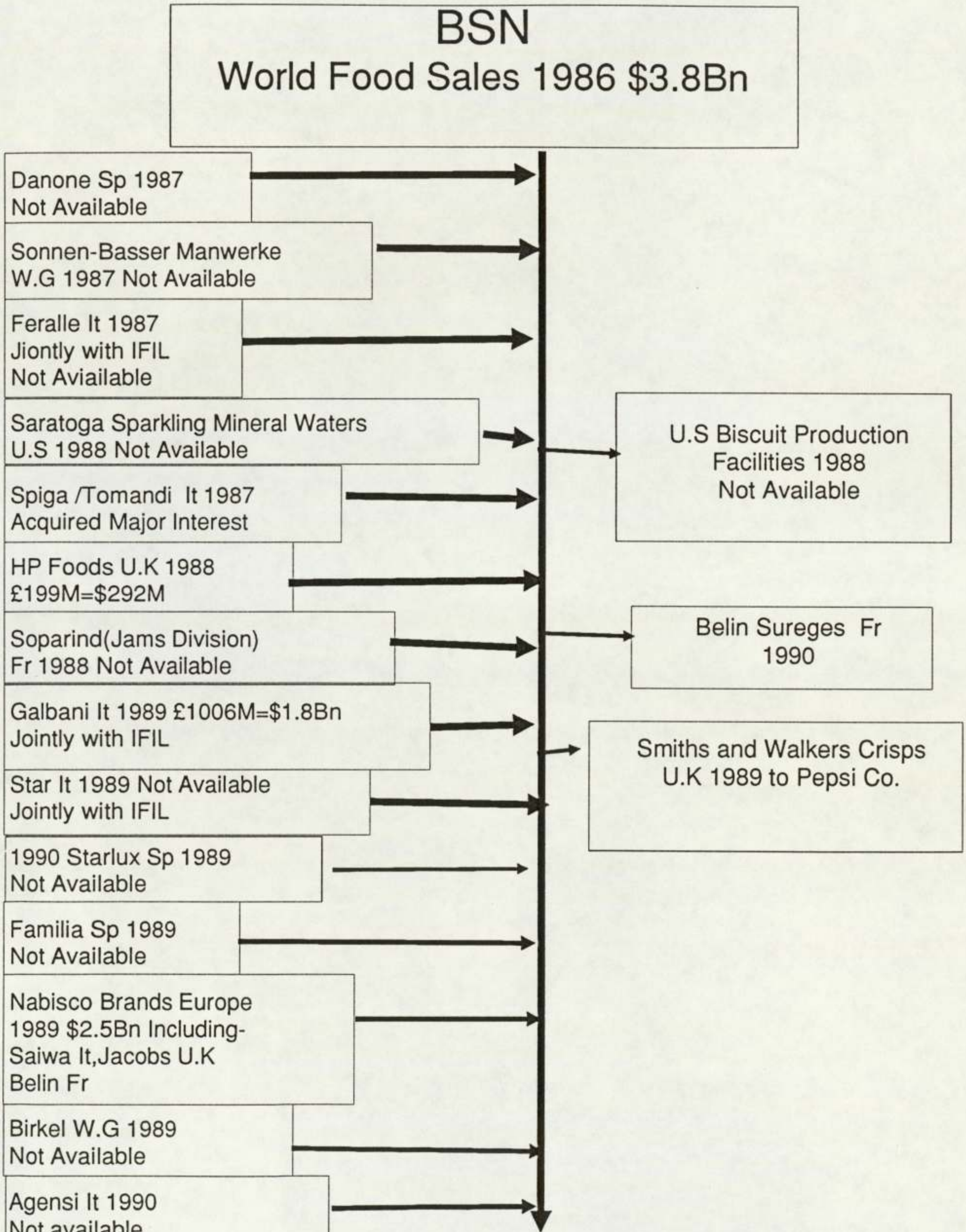
1980-1982 All flat glass subsidiaries sold off

1983 Acquires Pommery and Lanson champagnes

1985 Acquired Ponte 4 th largest pasta manufacturer in Italy.

1986 Acquires Generale Biscuit

Figure App.A.10



App.A.9 **Kelloggs**

Kelloggs is a highly focused breakfast cereal company. It has limited interests outside this field but does make such products as Mrs Smiths Waffles in the United States-primarily a breakfast product, Askeys Ice Cream Cones in The United Kingdom, and Eggo waffles syrups and sauces in the United States and Canada.

The company is still heavily dependent on the United States with 59% of sales being there and only 26% coming from Europe, of which the United Kingdom represents a major part.(54)

Over recent years Kelloggs has expanded rapidly in Europe. This has been achieved by organic growth via launching American products and building production capacity and distribution, no major acquisitions have been made.

In attempts to defend this position against Cereal Partners Worldwide (55) move into Europe it has launched a number of products similar to General Mills American offerings, (56) such as Golden Crackers which are similar to Golden Grahams. In the United States Kelloggs has suffered loss of share mainly to General Mills.(57)

Kelloggs has focused on being a low cost producer. (58) In Europe it has only 5 plants as a result of not making acquisitions. The level of importance of production can be also seen in the corporate reports of 1989 and 1990 which have extensive features on production compared to other companies who often ignore it.

Thus Kellogs has shunned the high profile bids of others and instead it has focused on launching new products while trying to make them more cheaply. It also has tried to dominate the ready-to-eat cereals market via extensive advertising. Kelloggs is thus a cereal company with a few other interests in other sectors.

App.A.10 Quaker

Quaker Oats is American food company essentially operating in three areas, breakfast cereals, pet foods and sports drinks. The majority of its sales are in North America, with 28% of sales coming from North American breakfast cereals, and 42 % other North American operations with only 30% of sales coming from its international division.(59)

The major change at Quaker in the last few years was the 1991 spin off of Fisher Price.(60) This refocused Quaker on food. It did not make many acquisitions during eighties the only notable ones being - a) Stokely-Van-Camp in 1983 for $ 238 million. This acquisition bought with it the Gatorade brand name which has since been expanded.

b) Anderson Clayton and Co. in 1986 for $801 M, this was aimed at building Quakers petfood market share in America. It however was a contested against Ralston Purina a leading American petfood company and this resulted in a series of aggressive moves against Quaker which reduced profitability.(61)

The problems in petfood combined with those at Fisher resulted in a fall in net income from $255 million in 1988 to $169 million in 1990. This was probably the stimulus for the spin off of Fisher Price it has also made Quaker wary of acquisitions in recent years it has instead focused on organic growth particularly via the Gatorade brand in Europe.

Quaker is a large American food company which in recent years has got its fingers burnt resulting in it concentrating on what it knows and is know for.

App.A.11 **CPC International**

CPC International, formerly Corn Products Corporation, is a diversified American food company with extensive sales outside the United States. Its largest geographic sales area being Europe with 45% of sales.(62) Thus CPC is a United State's company which has an international focus. CPC main brands are Hellmans mayonnaise, Mazola and Knor. Since 1986 it has changed markedly, moving out of commodity oil products and into consumer goods, it sold its European wet milling operation to Ferruzi.

These resources have been reinvested in purchases of consumer grocery brands such as Marmite, and Ambrosia.(63) It has moved into desserts in Europe including acquiring Yabon and Poti in France, Mateus in Portugal and Ambrosia in the U.K.. It has also acquired Napolina in the U.K and Conimex in Netherlands, building positions in Italian and Oriental food respectively. In addition it has bought a number of smaller companies to gain distribution for Helmans mayonnaise.

CPC has thus committed itself to expansion in Europe and attempted to build a significant position before the 'EC Single ' market comes in to place.

App.A.12 **Cadbury Schweppes**

Cadbury Schweppes is the result of the 1969 merger of Schweppes, a British soft drink company and Cadbury Brothers, a chocolate manufacturer. Hence it is a branded food company with two divisions- soft drinks and confectionary.

Since the merger Cadbury Schweppes has grown, in 1972 it added Jeyes hygiene to its other diversification attempts of earlier periods such as Kenco, Typhoo tea, and Marvel. During the seventies the major goal appears to have been to expand in the United States, this was achieved via slow organic growth starting in 1969 by importing from the U.K. In 1974 United States production was started when Cadbury Schweppes opened a plant in Pennsylvania. In 1978 to solve the problem of a lack of a distribution system to small shops Cadbury Schweppes bought Peter Paul,a maker of coconut and chocolate products. After rationalisation this left Cadbury Schweppes with four American plants. United Kingdom products were then added to the Peter Paul range including Creme eggs.(64) Peter Paul Cadbury, never, however managed to gain more than an 8.5% share in 1984 and lost money in the second half of 1985. This probably resulted in the sale of the United States confectionary division operating assets in 1988 (See chart on next page for details). Although all brand rights have been retained and Hershey pays royalties on them. The drinks stream also expanded into the United States with the 1982 acquisition of Duff-Motts, an apple products company and more recently Canada Dry Crush, and Gini in 1991.

Since 1983, when Dominic Cadbury became Chief Executive Officer, there have been other divestments- all soft drinks or confectionary interests as well as the North American confectionary operating assets.

Since 1987 Cadbury has tried to expand in two areas firstly european chocolate and then sugar confectionary as is shown in figure App.A.11.

It has built a large position in the sugar confectionary market, first with the acquisition of Lion which was fairly small and then Trebor and Bassets, to make it market leader in the United Kingdom.(65)

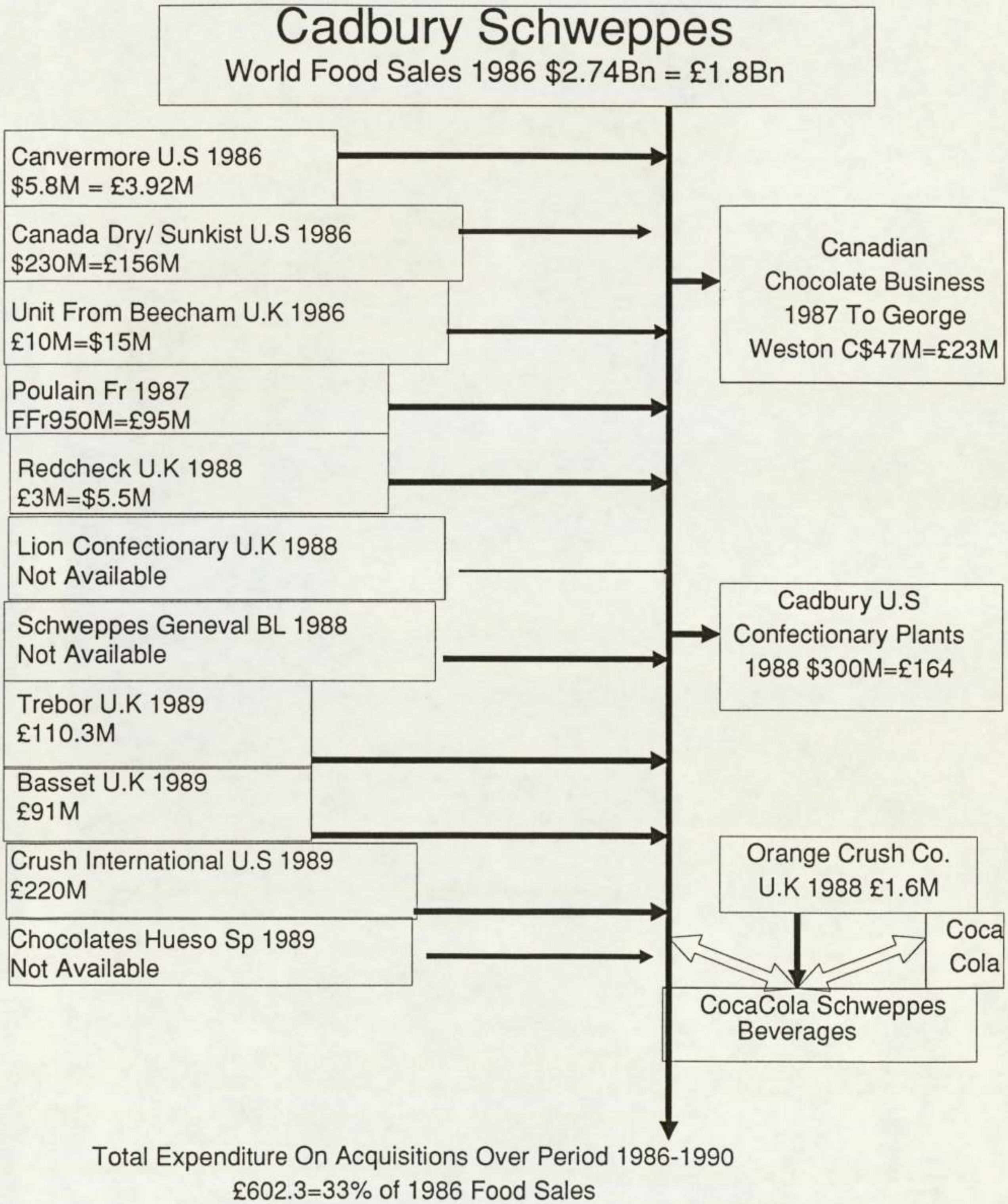
It also took the opportunity of acquiring the Crush brand when it bought Crush International in 1989.

The major factor driving the confectionary divestments seems to have been the General Cinema stake and the various acquisition rumours centring on Hershey and General Foods in the mid-eighties and Phillip Morris for the last few years, these rumours however have not yet come to fruitition. The management process which led to the sell off of none core assets seems also have been triggered by the need to maintain profit growth and the resultant focusing of minds.

Thus, in summary Cadbury Schweppes seems to have diversified like the rest of United Kingdom Business in the sixties, moved into the United States in the seventies and early eighties, slimmed down and focused in the mid-eighties and bought into Europe in the late eighties. In other word Cadbury Schweppes has been a dedicated follower of business fashion. Cadbury Schweppes has however been consistent in one area trying to buy and develop brands in its two basic areas of adult soft drinks and confectionary. The most successful example of this has been the building of Schweppes and the associated soft drink brands while trying not to pick a fight it could not win with the big two cola companies. Perhaps a lesson learnt from its American confectionary debacle. This brand building can also be seen in the reversal of its long decline in United Kingdom chocolate share via the launch of Wispa and other adult oriented products like Spira.(66)

Thus Cadbury Schweppes is a branded producer of adult and fruit based soft drinks and a producer of confectionary products in the predominately white areas of the British Commonwealth and Europe.

Figure App.A.11



App.A.13 United Biscuits

United Biscuits is a large (67) British food company with 3 main product categories: frozen food, biscuits, and snacks (and limited chocolate interests). Brands include : K.P, Mcvitie's, Keebler, Terry's and Ross Youngs. It is however centred around biscuits, it's 2 main divisions being McVitie's- the U.K biscuits division and Keebler its U.S Biscuit division. Recently it has tried to expand into Europe via acquisition, as can be seen from figure 2.12. In the European biscuit market it has acquired- Verkade a Dutch snack food and biscuit company, Oxford Biscuits a Danish biscuit company with a large market share in Scandinavia, Gyori Keksz a Hungarian biscuit company and Frazer Keksit in Finland.

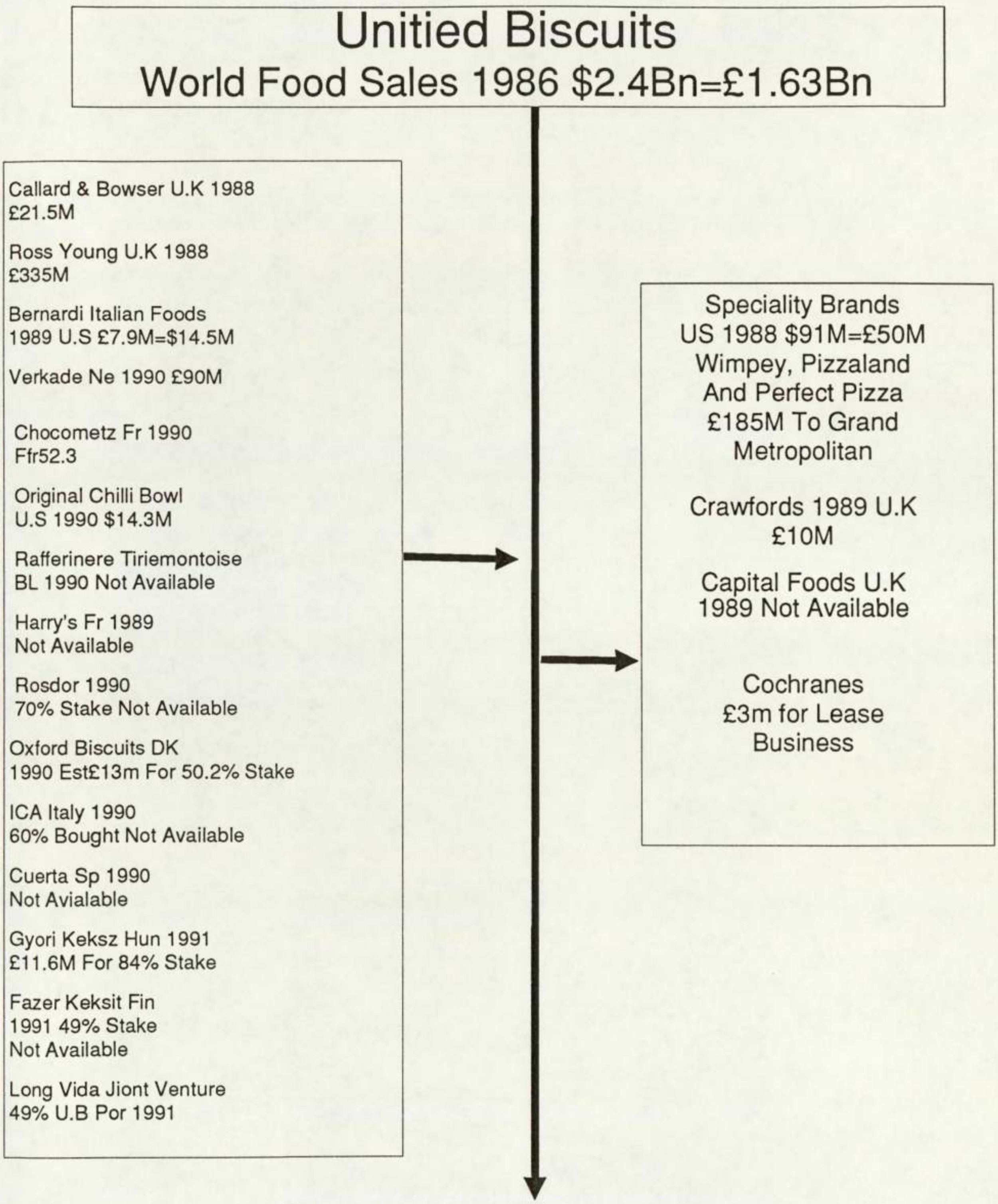
Over the last few years resources have been concentrated in the drive to maintain British biscuit profitability and push Procter and Gamble and RJR Nabisco in the United States. In Britain United Biscuits is market leader and produces over 50% of biscuits consumed, this has been achieved by being undisputed cost leader. In the United States cost cutting and living under RJR Nabisco's price umbrella has generated improving profits as RJR has pushed prices up to maximize cash flow to pay for its debt. In other areas United Biscuits has divested- firstly its small businesses division and then its restaurants, recently it has been suggested it may end its ill-fated sojourn into frozen foods which was expanded with the purchase of Ross

Young's in 1988 and has never generated adequate returns on investment. This move was aimed at gaining critical mass to make its other frozen businesses viable. This with hindsight was a mistake and has been a drain on resources and management time.

Other product areas are now being expanded including confectionary and snack products, United Biscuits does not appear to have pretensions to a large market share in the former and has not picked a fight with the big 3 confectioners in Britain.

United Biscuits strategy over the period since 1989, has been to focus on snack's and biscuits while limiting the haemorrhaging of funds from the frozen foods division once the mistake was realised and attempting to sell it.

Figure App.A.12



Acquisitions At Least £540M=33% of 1986 Food Sale

App.A.14 Rank Hovis McDougall

Rank Hovis McDougall (RHM) is focused around flour, firstly as a miller and secondly as a cake, bread and pasta maker under such brands as Mr. Kippling, Mothers Pride, Hovis and Record Pasta. In addition to this it produces a variety of grocery products including: Bisto (gravy granules), Robertsons (jam), Atora (suet), and Sharwoods(ethnic foods) in the United Kingdom.(68)

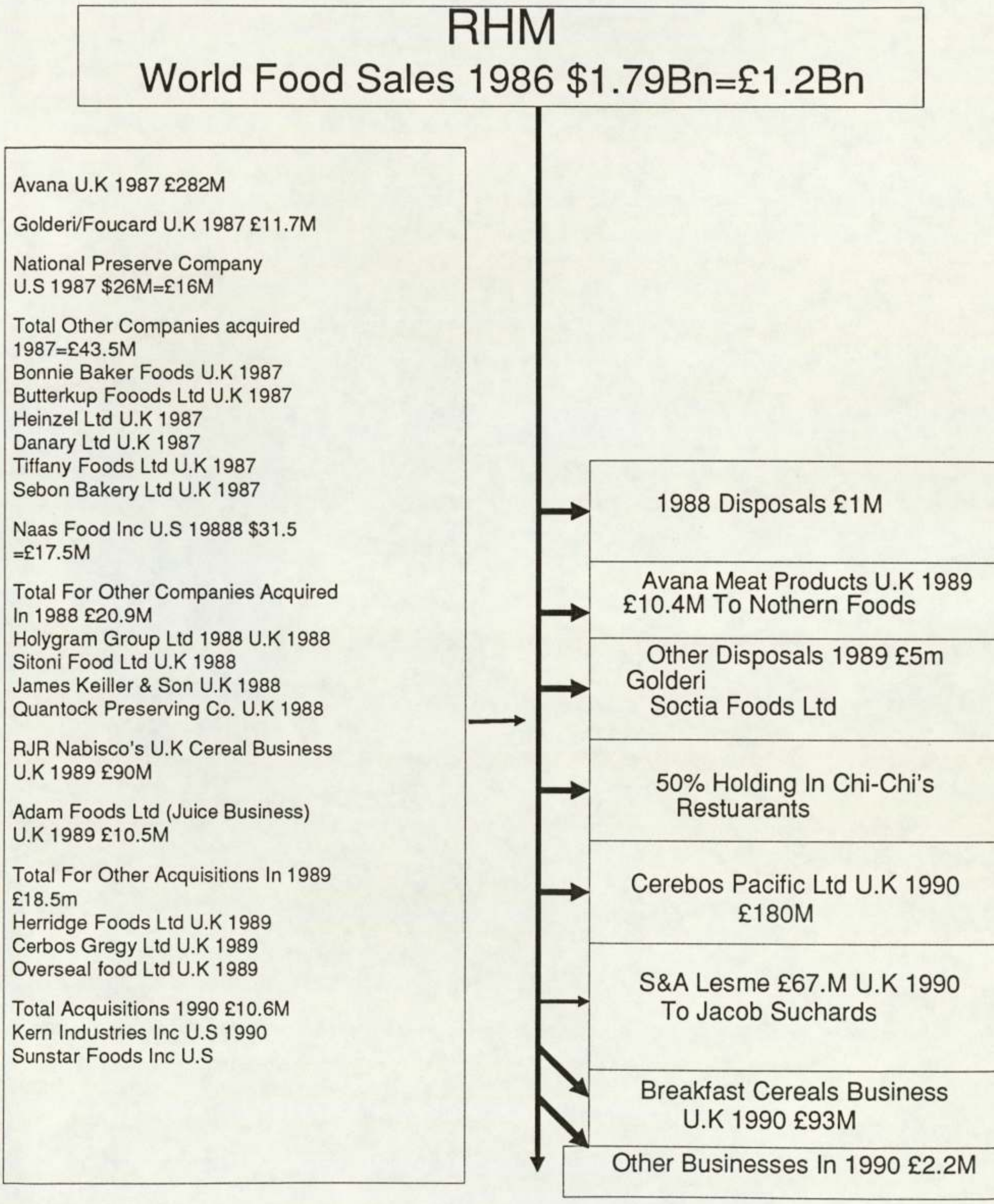
Outside the United Kingdom, RHM's presence is limited after the sale of its Pacific division. (69) In the United States it sells a range of spreads including jam and peanut butter and in France it owns a bakery.(70)

RHM is thus United Kingdom dependant and in commodity areas of low growth and margins with a rag bag of brands in other areas. With the exception of Avana, where the Robertsons name was acquired, it has not purchased any major brands outright, only a collection of small companies or in the case of RJR Nabisco's cereal business the rights to a brand in the Britain but not outright worldwide control (71). On top of this there appears to be no clear vision of the future, the cereals business being sold on one year after it bought RJR Nabisco's cereal business valuing its private label business at very little.

The other major event over the last few years has been the fight with Goodman Fielder Watties (GFW) an Antipodean baker and flour operation during 1988. The bid by GFW for RHM was opportunistic with debt rates low, RHM was easy meat to pick. The bid only failed because of opposition by the Monopolies and Mergers Commission to the excessive leverage involved and the subsequent rise in interest rates.(72) The RHM counter bid for GFW was purely a defensive reaction and not aimed at fulfilling a corporate vision, the bid lapsed as soon as it became clear GFW was not able to take RHM over, the exercise costing RHM £58M on losses on its GFW stake. (73)(74)

RHM has no strong international brands and is in a low growth area resulting in limited internal growth potential.

Figure App.A.13



App.A.15 **Hillsdown Holdings**

Hillsdown has grown rapidly over the eighties from a turnover of £ 75.2 M in 1980 to £ 4,215.2 M in 1990.(75) This growth has been achieved primarily via acquisitions in commodity food processing, such as meat packing, poultry, and bakery products as can be seen from figures App.A.14 and App.A.15.

Hillsdown has substantial interests outside the food sector, these contributed 16% of sales and turnover in 1990. These include furniture and house building.(76)

Hillsdown operates as a holding company with limited central control mainly of a financial type and a small head office function.(77)

Acquisitions have mainly been medium sized company's (the only exception being the recent acquisition of 56% of Canadian Meat Packers) and often badly managed.(78) It generates profits by turning companies around, and not by major synergies and does not seem to acquire to leverage brands. The only major brands it has acquired recently came with Premier, the Cadbury's Foods management buy-out, which included Typhoo and Chivers.

Thus Hillsdown is focused on upstream low level processing, relying on efficiency in production generated by investment to give it low cost production status and hence a competitive edge. (79)

Hillsdown is thus not one company in the sense of being a single operation but a multitude of smaller ones linked together by a holding company which acts as a insulation against the stock market.

Figure App.A.14

Hillsdown Holdings
World Food Sales 1986 £1481.3 M = $2.1 Bn

1986
Wirral Food U.K £.9M

Clearwater Foods U.S
Not Available

Rosper Food Service U.K £.7M

Sterling Wydgate U.K £4.37M

Morton Guy & Son U.K
Not Available

Beales & Co. U.K £3M

Needelers U.K £3.45M

Poupart Group U.K £2.215M

Beeson U.K £1.5M

Culrose U.K £1M

North Devon Meat U.K £3.5M

Silver John U.K £2.7M

Church Farm U.K £1.27M

Pyke Holdings U.K £17.4M

Meadowland Farm Produce U.K
£62M

Forest Hodgkinson U.K £8.5M

Inghams Stockfeeders U.K 1987 N/A

Hands Holdings U.K 1987 Acquired Major Interest £1M

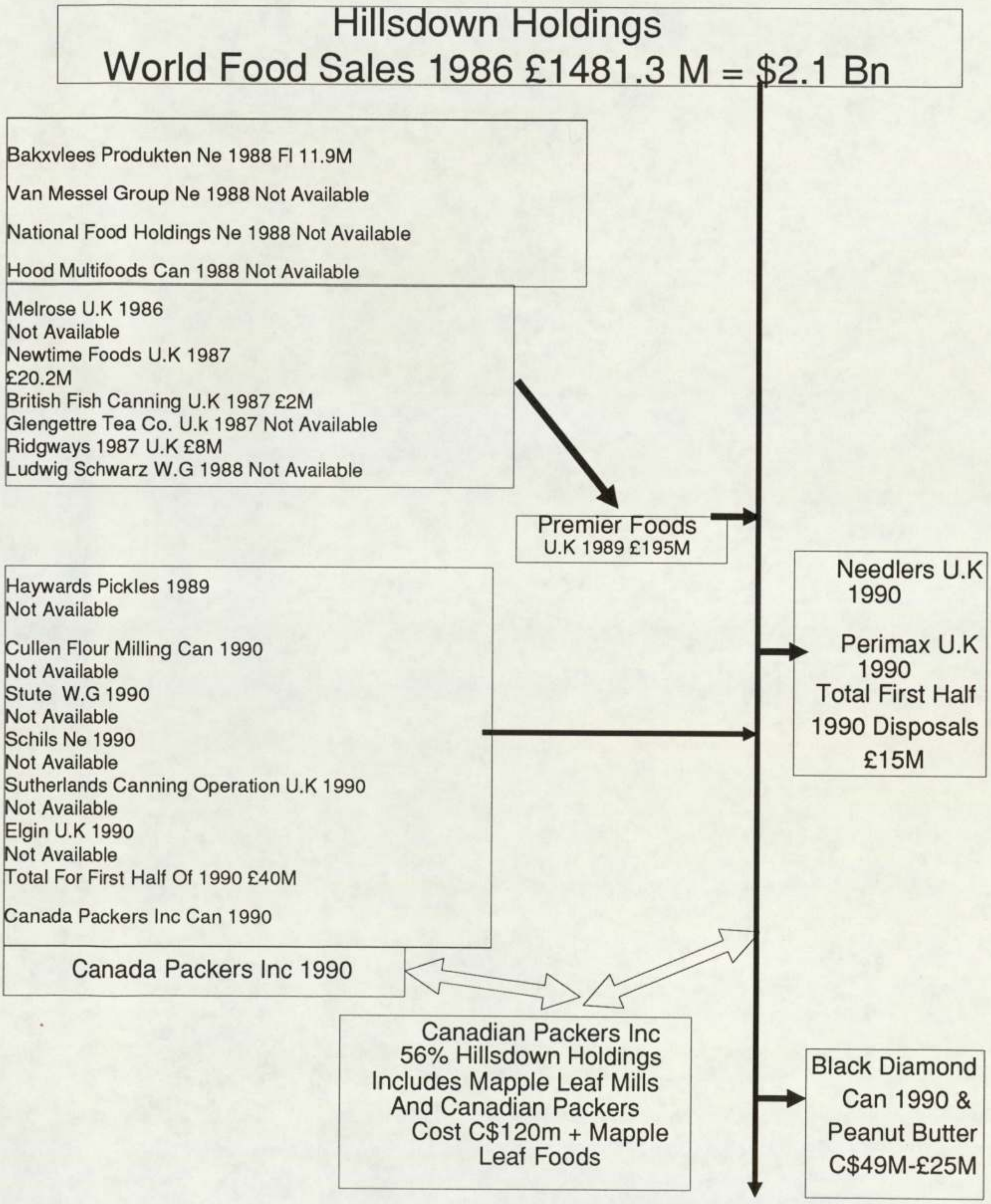
Morisis Products U.K 1987 £1.95M

Wyatt & Bruce U.K 1987 Not Available

Maple Leaf Mills Can 1987
C$ 359.5M= £175M

Hencu Beheers B.V Ne 1988 £2.9M

Figure App.A.15



Total Acquisitions £600M=40.5% Of 1986 Food Sales

App.A.16 **Hazlewoods Foods**

Hazlewoods Foods like Hillsdown has grown rapidly over the eighties, from a smaller base of £19 M in 1982 to £ 541 M in 1990. Like Hillsdown, Hazlewoods has also primarily grown via acquisition although in Hazlewoods case they have been generally smaller.(80)

Hazlewoods has 3 basic divisions: frozen foods, fresh foods and grocery. Within these divisions Hazlewoods operates in a limited number of areas.

The frozen foods division mainly consists of 2 elements, fish including shell-fishing operations and basic processing and ready meals, often based on fish products. Thus in some areas Hazlewoods is vertically integrated from owning the fishing boats to selling branded ready meals.

The fresh foods division includes convenience foods such as pasta sauces as well as basic meat processing and market gardening.

The grocery division bottles a variety of products from mineral waters to ketchup and includes a bakery. The company also includes a paper company producing such products as toilet rolls, tissues and disposable nappies.

The major overseas operations are in the Netherlands where much of their fishing fleet is based and they own a number of market gardens mainly producing such products as peppers and tomatoes under glass. Hazlewoods claims 50% of profits comes from Continental European subsidiaries (81)

Hazlewoods is thus primarily a low cost own label producer with no major brands which has concentrated on low level processing and even fishing and market gardening.

Figure App.A.16

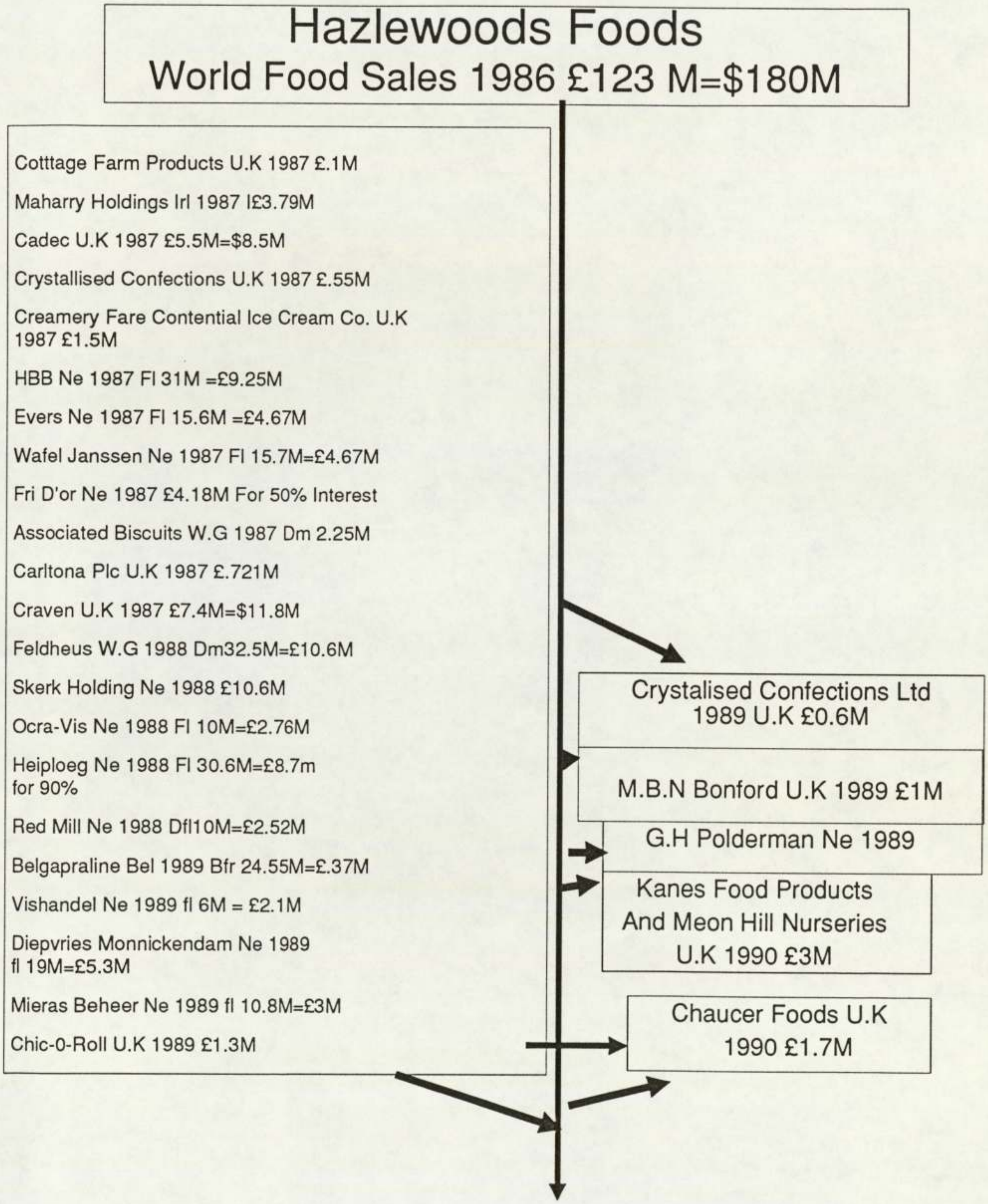


Figure App.A.17

Hazlewoods Foods
World Food Sales 1986 £123 M=$180M

Ken Perret U.K 1989 Remaining 25% For £.95M

Advang Vastgoedmaatschappji Ne 1989 Fl 50M=£13.9M

Charles Turner U.K 1989 £4M

Heidrich Confiserie W.G 1989 Dm 14.4=£4.6M

Food Enterprises U.K 1989 Remaining 20% For £1m

Van Der Endt De Jager Ne 1989 Fl 9.2=£2.9M

Lengeer Seafoods NV 1989 Fl 28M =£7.8M

Luijckx Beheer Ne 1990 Fl 25m=£7.8M

Fri-d 'Or Ne 1990 Remaining 40% in Two Instalments Total Cost Fl 27.3 M=£8.6M

Agrozumus Sp 1990 Pts 255M=£1.4M For Remaining 25%

Wirral Seafoods U.K 1990 £1

Hectare Agro Industri Sp 1990 75.75% for £1.3M

Hansen Vis Ne 1990 Fl 8M=£2.4M

Confectionery And Snacks Division Incl: Bard Brothers Golden Twin Ltd M.A Craven & Son Marianne Confectionery Hazelwood Snack Food Nut Kernel Products Limited Dragees Aus Weske Gmbh Heidrich Confiserie Confecta Susswarenhandel Red Mill Company BV U.K,Ne and W.g 1990 For £59M +License Payments

Cadec Ltd U.K 1990 £.36M

App.A.17 Footnotes

(1) Approximately £19 Bn.
(2) Sales for the first half of 1991 were 23.4 Bn Swiss Francs.
(3) Franchises is used here to mean brands in the wider sense including such things as shop and restaurant names and the logos associated with the product.
(4) Source P738, Group Mac, The cost of None Europe, The Foodstuffs Industry, Op. Cit..
(5) See P29-30, Parry, J. and Chernoff, J., Nestle's Move is Bittersweet, Pensions and Investment Age, December 12 1988.
(6) From P 13. Hyde, D., Ellert, J. and Killing, P.J., The Nestle takeover of Rowntree, European Management Journal, Vol. 19, No. 1, March 1991.
(7) P9, Development 1946-1985, Vevey, Nestle, 1985.
(8) the Rowntree bid was Nestles first hostile take-over- Source P455, Heer, J., Nestle 125 Years, Vevey, Nestle, 1991.
(9) Source Heer, J. Nestle 125 Years, Op. Cit..
(10) Evidence from interviews suggests this is far too short a time to put together an acquisition proposal a minimum of two weeks being needed for writing of the report.
(11) The split of Nestle's turnover has changed as below

	1950	1959	1974	1985
Milk Products+Baby Food+Chocolate	70%	62%	38%	34%
Instant Drinks+ Culinary Products	30%	38%	43%	38%
Frozen Foods+ Water + Wine + Cosmetics + Other	0%	0%	19%	28%

Source - P11,Development 1946-1985, Ibid..

(12) See Parry, J., Nestles Name Plan, International Management, December 1991, P54-55.
(13) Unilever's turnover in 1990 was £ 24 258M.
(14) Source P739, Group Mac, Research on the cost of None Europe, The Foodstuffs Industry, Volume 12 Parts A and B, Op Cit..
(15) 7-UP was sold in 1986.
(16) See P 83 Sherman, S.P., How Phillip Morris Diversified Right, Fortune, October 23 1989 P 82-86.
(17) See P7, Phillip Morris Corporate Report 1987 and P 26 Phillip Morris Corporate Report 1990.
(18) For an explaination of the limitations on growth by firms see Ch 9, P 197- 214 Penrose, E.T. The Theory of The Growth of The Firm, Oxford, Basil Blackwell, 1959, Second Edition 1980.
(19) Such as the U.K where Jacobs Suchard reports into KGF.
(20) Heinz like many British companies separates Europe and the United Kingdom in its accounts.
(21) Anthony J.F O'Reilly is one of the most high profile Chief Executive Officers in America he is an Irish former

British Lion and still lives part of the year in Ireland.
(22) See P 34-40, Saporito, Bill, Heinz Pushes To Be The Low-Cost Producer, Fortune, June 24, 1985.
(23) P67, Grabb, A., Heinz Meanz Brandz, Management Today, July,1988, P64-70.
(24) Retailers in the United Kingdom particularly are increasingly pushing number 2 and 3 in the market and replacing them with own label particularly if like Heinz you refuse to make own label product. ' At the same time, Heinz was beset by powerful retailers - four grocery chains control about 50% of the total market. They were pressuring the company's margins and elbowing Heinz and other brand name producers off the shelves in favour of their own private labels.'P38, Saporito, Bill, Heinz Pushes To Be The Low-Cost Producer, Fortune, June 24, 1985.
(25) See Allied Lyons Corporate reports 1986-1990 for details of this.
(26) Hedge in other words restrict exposure currency fluctuations by using such markets as the currency futures markets and financial derivatives such as financial swaps. For a more detailed explaination see, Sammuels, J.M., Wilkes, F.M. and Brayshaw, R.E, Management of Company Finance, London, Chapman and Hall, 1990.
(27) See for example P52, Sellers, P., Can He Keep Phillip Morris Growing, Fortune, April 6, 1992.
(28) From Cowe, R., Grand Metropolitan Heads For The Stars By Putting The Spotlight On The Brightest Sectors, Guardian 8 December, 1989.
(29) From Marks, D., Grand Met Plans a Homecoming of Sorts, Wall Street Journal (Europe), 10 April 1990.
(30) See P3, Grand Metropolitan's Annual Report 1991.
(31) See Morgan, P., Year-round premium products have taken over from the simple cornet, Independent, 24 May 1992 P16.
(32) See P30, Grand Metropolitan's Annual Report 1991, Op Cit..
(33) See P56, Post Balance Sheet Events, Ibid.
(34) Source Grand Met Is Seeking To Sell Alpo, International Herald Tribune, 9 February 1990.
(35) Harris, C. and Dickson, M., Condensing the formula for Campbell, Financial Times, 30 May 1990
(36) Weber, J., Campbell is bubbling but for how long, Business Week, 17 June 1991.
(37) Source, Freedman, A.M. and Geol, V.P., In the Soup, Wall Street Journal (Europe), 8 February 1990.
(38) Freedman, A.M. and Geol, V.P., In the Soup, Ibid.
(39) Figures from P14, Campbell Soup Company Annual Report 1989.
(40) Lublin, J.S., Slim Pickings, The Wall Street Journal (Europe), 16 May 1990.
(41) Freshbake was particularly hit by the merger of Iceland and Bejam and the decline in market share of this type of store - see Dickson, M. and Harris, C., Condensing the Formula for Campbell, Financial Times, 30 May 1990.
(42) P21 Independent, 11 December 1990, Fisher Acquires Campbells Food Companies.
(43) Dickson, M. and Harris, C,, Campbell to Sell Europe

Units, Financial Times, May 26 1990.
(44) Weber, J., Campbell is bubbling but for how long, Op. Cit..
(45) See BSN Corporate Report 1990.
(46) See,Bruce, L. The Hungry Frenchman's Recipe For Europe, International Management, April 1988, P20-24.
(47) BSN has allied with Nestle to acquire Perrier against Angelli. See Hill, A. and Rawsthorn, A., EC Clears Agnelli Offer For Exor, Financial Times, March 3 1992.
(48) P10 BSN Corporate Report 1990.
(49) P23,Bruce, L. The Hungry Frenchman's Recipe For Europe, International Management, Op. Cit..
(50) Source Making a Meal of Food Mergers, Guardian,5 December 1989, P 11.
(51) Umberto Agnelli is brother to Giovanni Agnelli who is head of Fiat and offers political power in Italy as well as cash. Source P22, Bruce, L. The Hungry Frenchman's Recipe For Europe, International Management, Op. Cit..
(52) BSN has agreed to purchase Volvic of Nestle if its bid for Perrier succeeds, the Agnelli family are however in opposition to Nestle in trying to get control of Perrier, the deals involved are extremely complex especially given that Exor a french wine and property company holds 35% St Louis a sugar company which the Agnellis hold a stake holds 13.8 % of Perrier and 3% of BSN and Agnellis indirectly hold 5.8% of BSN - for greater detail see Rawsthorn, A. and de Jonquires, G., Strange Alliances in Waters War, Financial Times, 21 January 1992, P1,6,18.
(53) See Purnell, S., BSN Raises Barricades Against Takeover, Independent, 5 May 1990, P24.
(54) The Corporate report does not specify United Kingdom sales.
(55) Cereal Partners WorldWide is A 50/50 joint venture between Nestle and General Mills of America.
(56) Source Hoggan,K., Kellogg Goes Crackers, Marketing, May 2, 1991, P4,8.
(57) Source Liesse, J. and Dagnoli, J., Kellogg's Golden era Flakes Away, Advertising Age, Auguist 13, 1990, P4.
(58) See P 40, Saporito, Bill, Heinz Pushes To Be The Low-Cost Producer, Fortune, June 24, 1985.
(59) Source Quaker Oats Corporate Report 1991.
(60) See Saporito,B., How Quaker Oats Got Rolled, Fortune, October 8, 1990, P69-73.
(61) Source Quaker Oats Corporate Report 1991.
(62) Source CPC International Corporate Report, 1989, 1990.
(63) Source CPC International Corporate Report, 1989, 1990.
(64) Source Walsh, J., Sweet Conflict American Style, Director, November 1983, P63-66.
(65) Source Woods, L. Cadbury Bids £91M For Bassets, Financial Times, February 3 1989 P21.
(66) Laurance, B., Few Bars to Sweet centred Success, Guardian, 7th March 1991
(67) Sales in 1990 £2,723.6 M
(68) Other brands include Keiler Marmalade, Just Juice, Paxo,Rombouts in the United Kingdom and Cerbos, for a complete list see Rank Hovis McDougalls Company Accounts

,1990.
(69) The pacific division was a 70% owned subsidiary and had a turnover of £103.4 M in 1989.
(70) The U.S division represented about 12% of turnover in. 1990.
(71) RJR Nabisco's cereal business which was in a number 3 position behind Kellogs and Wheatabix.
(72) See Jay, K., Raising Dough For Hovis Bid, The Sunday Times, 17 July 1988, P D3.
(73) See Pitcher, G., RHM sends SoS, Observer, 24 July 1988.
(74) See P7 RHM Annual Report 1989.
(75) See Hillsdown Holding Company Accounts 1986-1990.
(76) See Hillsdown Holding Company Accounts, Ibid..
(77) Blackhurst, C., Leader of the Pack, Business, Jan 1989 P44- 54.
(78) Blakhurst, C., Ibid.
(79) Source Warner, S., Solomon's Mind, Marketing, September 10, 1987, P25,27.
(80) Source Hazlewoods Company Accounts 1991.
(81) Source Hazlewoods Booklet, Preserving Nature's Goodness.

Appendix B

Questionnaire

Instructions

Could you please select one option for each question and indicate this by ticking the box alongside that answer.

1) Which one of the following four descriptions most closely fits your food company compared to other food companies. Please consider your food company as a whole and note that none of the types listed below is inherently 'good' or 'bad.'

- **Type 1** This food company attempts to locate and maintain a secure niche in a relatively stable product area. The company tends to offer a more limited range of products than its competitors, and tries to protect its domain by offering higher quality , superior service lower prices , and so forth. Often this food company is not at the forefront of developments in the industry, it tends to ignore industry changes that have no direct influence on current areas of operation and concentrates instead on doing the best job possible in a limited area. ☐

-Type 2 This food company does not appear to have a consistent product-market orientation. The company is not usually as aggressive in maintaining established products and markets as some of its competitors, nor is it willing to take as many risks as other competitors. Rather, the company responds in those areas where it is forced to by environmental pressures.

-Type 3 This food company typically operates within a broad product-market domain that undergoes periodic redefinition.The company values being 'first in' in new product areas even if not all of these efforts prove to be highly profitable. The organization responds rapidly to early signals concerning areas of opportunity, and these responses often lead to a new round of competitive actions. However, this food company may not maintain market strength in all the areas it enters.

-Type 4 This food company attempts to maintain a stable , limited line of products, while at the same time moving out quickly to follow a carefully selected set of more promising new developments in the industry. The company is seldom 'first in' with new products or services. However, by carefully monitoring the actions of major competitors in areas compatible with its stable product-market base the company can frequently be 'second in' with a more cost-efficient product or service.

Section B

Could you please select one alternative for each question and indicate this by ticking the box alongside the appropriate answer.

2) In comparison with other food companies, the products which we provide to the consumer are best characterized as:

a) A broad range of products which are innovative, and continually changing, throughout the organization and market place. ☐

b) Products which are fairly stable in certain units/departments while innovative in other units/departments and markets. ☐

(c) Products which are well focused, relatively stable and consistently defined throughout the organization and marketplace. ☐

d) Products which are in a state of transition, and largely based on responding to opportunities or threats from the marketplace . ☐

3) In contrast to other food companies, my organization has an image in the marketplace as a food company which :

a) Offers fewer, selective products which are high in quality. ☐

b) Adopts new ideas and innovations but only after careful analysis. ☐

c) Reacts to opportunities or threats in the market-place to maintain or enhance our position. ☐

d) Has a reputation for being innovative and creative. ☐

4) The amount of time my food company spends on monitoring changes and trends in the market place can best be described as:

a) Lengthy: We are continuously monitoring the market place. ☐

b) Sporadic: We sometimes spend a great deal of time and at others little time monitoring the market place. ☐

c) Average: We spend a reasonable amount of time monitoring the marketplace. ☐

d) Minimal: We really don't spend much time monitoring the market place. ☐

5) In comparison to other food companies, the increases or losses in demand which we have experienced are probably due to:

a) Our practice of concentrating on more fully developing those markets which we currently serve.

b) Our practice of responding to the pressures of the market place by taking few risks.

c) Our practice of aggressively entering into new markets with new types of products.

d) Our practice of assertively penetrating more deeply into markets we currently serve, while adopting new products only after a very careful review of their potential.

6) One of the most important goals in this food company in comparison to other food companies, is our dedication and commitment to :

a) Keep costs under control.

b) Analyze our costs and revenues carefully, to keep costs under control and selectively generate new products or enter new market.

c) Insure that people, resources and equipment required to
develop new products are available and accessible.

d) Make sure we guard against critical threats by taking whatever action is necessary.

7) In contrast to other food companies, the competencies (skills) which our managerial employees possess can best be characterized as:

a) Analytical: their skills enable them to develop new product offerings or markets.

b) Specialised: their skills are concentrated in one, or a few specific areas.

c) Broad and entrepreneurial:their skills are diverse, flexible and enable change to be created.

d) Fluid: their skills are related to the near-term demands of the market-place.

8) The one thing that protects my organization from other food companies is that we:

a) Are able to carefully analyze emerging trends and adopt only those which have proven potential.

b) Are able to do a limited number of things exceptionally well.

c) Are able to respond to trends even though they may possess only moderate potential as they arise

d) Are able to consistently develop new products and markets.

9) More so than many other food companies, our management staff tends to concentrate on:

a) Maintaining a secure financial position through cost and quality control measures.

b) Analyzing opportunities in the market place with proven potential, while protecting a secure financial position.

c) Activities or business functions which most need attention given the opportunities or problems we currently confront.

d) Developingnew services and expanding into new markets or market segments.

10) In contrast to many other food companies, my organization prepares for the future by:

a) Identifying the best possible solutions to those problems or challenges which require immediate attention.

b) Identifying trends and opportunities in the market place which can result in the creation of products which are new to the food industry or which reach new markets.

c) Identifying those problems which, if solved, will maintain and improve our current product offerings and market position.

d) Identifying those trends in the industry which other food companies have proven possess long-term potential while also solving problems related to our current product offerings and our customers needs.

11) In comparison to other food companies, the structure of my organization is:

a) Functional in nature (ie organized by department- marketing, accounting, personnel, etc).

b) Service or market oriented (i.e product departments have marketing or accounting responsibility).

c) Primarily functional (departmental) in nature :however , a product or market oriented structure does exist in newer or larger product areas.

d) Continually changing to enable us to meet opportunities and solve problems as they arise.

12) Unlike many other food companies, the procedures my organization uses to evaluate our performance are best described as :

a) Decentralized and participatory encouraging many organizational members to be involved.

b) Heavily oriented toward those reporting requirements which demand immediate attention.

c) Highly centralized and primarily the responsibility of senior management.

D) Centralized in more established product areas and more participatory in newer service areas.