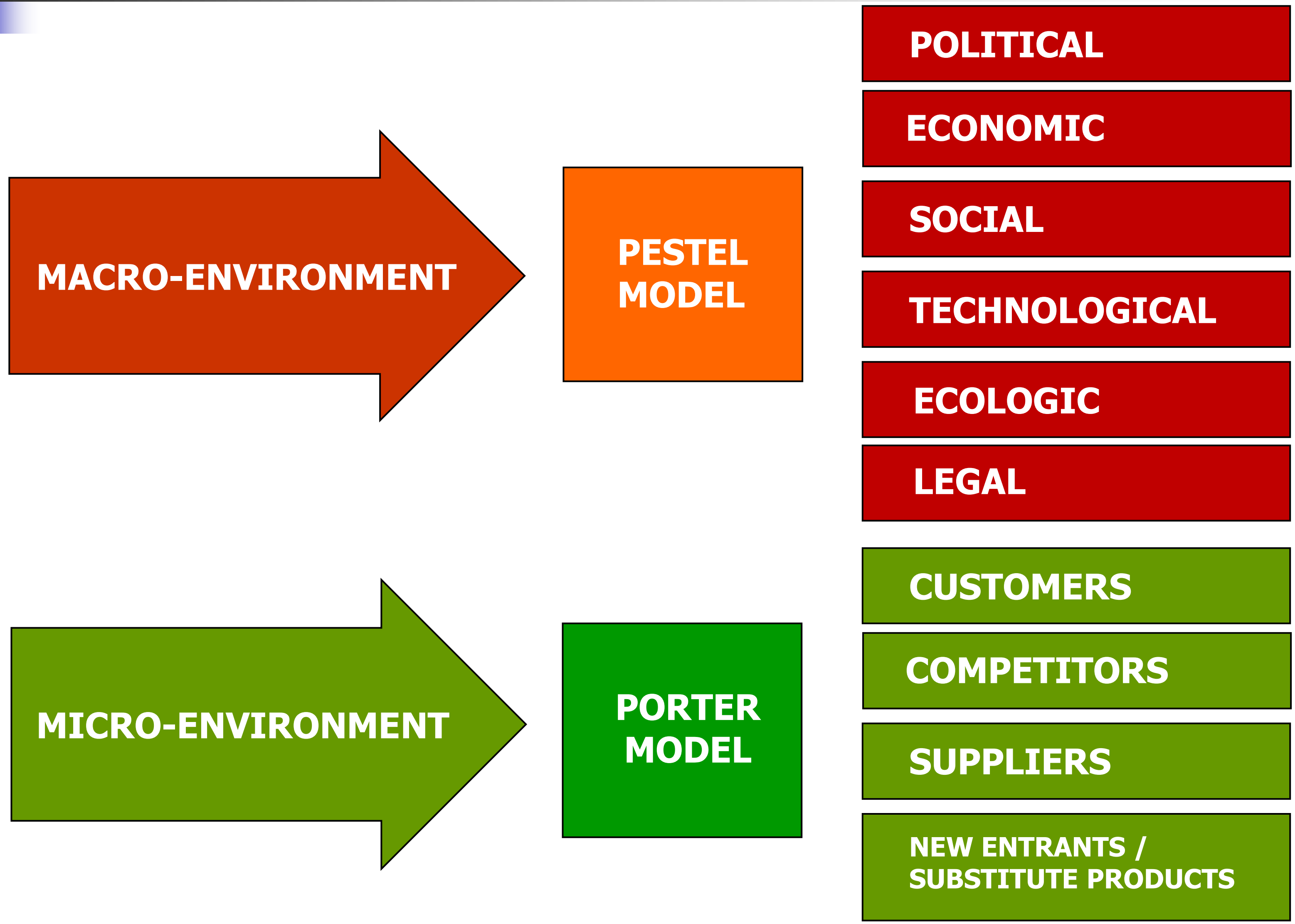
The marketing environment



The marketing environment

The marketing environment

- The success of an entrepreneurial initiative depends in a fundamental way on its capacity of interacting with the **external environment**, that can be divided in:
  - **Macro environment:** factors that affect all the firms in an industry
  - **Micro environment:** factors that affect one firm only
- Through this analysis it is possible to understand:
  - threats and opportunities for the company,
  - the critical success factors of the entrepreneurial initiative,
  - the characteristics of the demand and of the competitors.

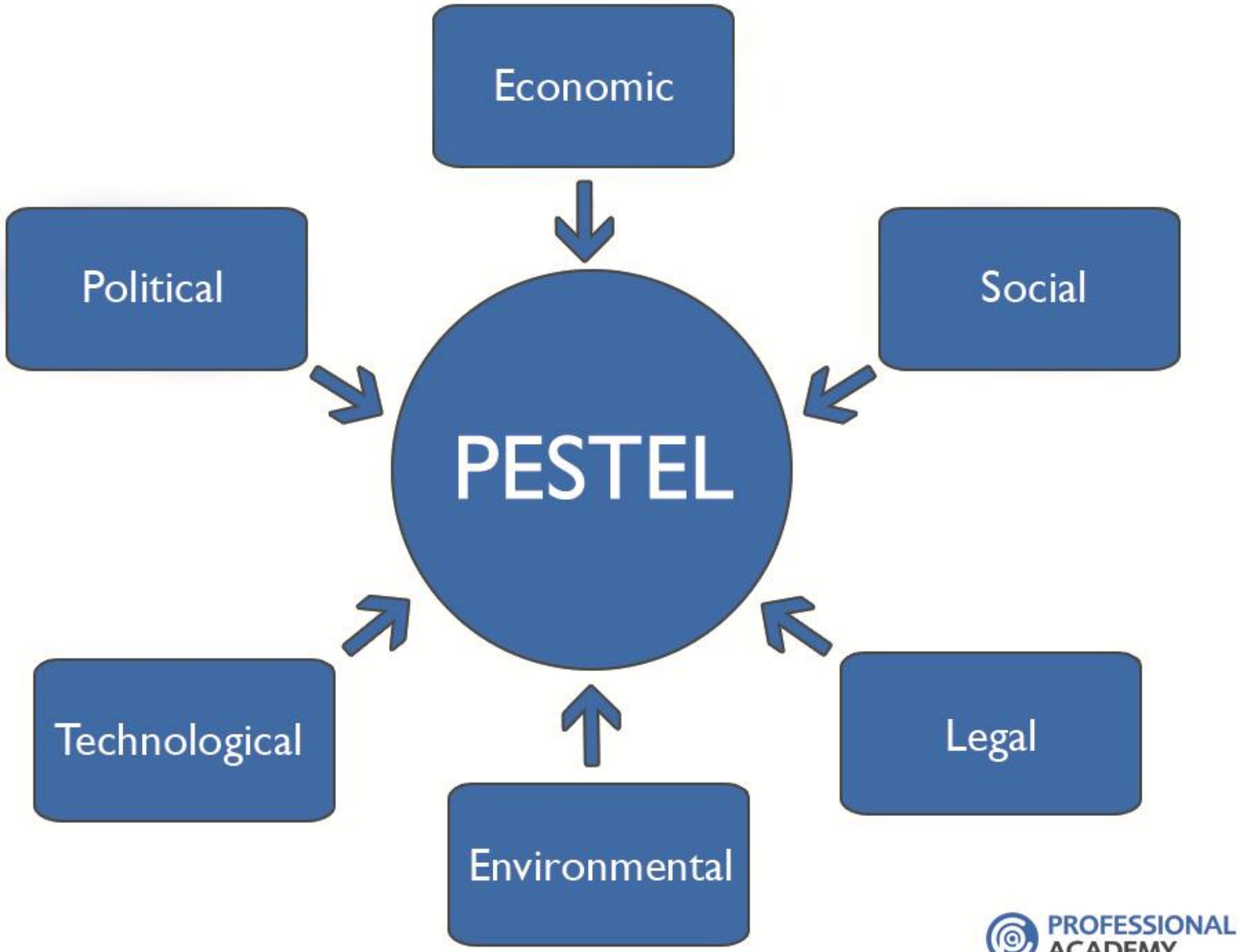
The marketing environment

The marketing environment

- The macro environment comprises those factors which are common to all firms in an industry: socio-economic environment. The macro environment variables usually are not controlled by the company but are sources of **threats** and **opportunities** (events that are not controlled by the company but can influence its results).

- The micro environment comprises those elements that impinge on the firm but do not affect all the industry: **target market** and **competitive forces** that operate on this market: **competitors, customers, suppliers**.

The macro environment



The macro environment

The macro environment

- **Economic environment:** economic cycle, interest rates, infrastructures, government interventions, inflation rate, currency fluctuations...
- **Socio-cultural environment**:
  - demographic forces: structure of the population, age, income distribution, ethnicity, immigration
  - Culture: beliefs, behaviours, customs, language
  - Social responsibility and ethics: ethical beliefs
  - Consumerism: the shift of power away from companies and towards consumers
- **Political and legal environment**: patent legislation, taxation, safety regulations, contracts law, consumer protection legislation, technical standards
- **Technological environment:** speed of technological changes, pressure on competition, access to technology…
- **Ecological environment:** climate change effects, resources availability (i.e. water scarcity), pollution, etc.

The macro environment: megatrends

Long-term megatrends

- A megatrend is a large, social, economic, political, environmental or technological change that is slow to form. Once in place, megatrends influence a wide range of activities, processes and perceptions, both in government and in society, possibly for decades. They are the underlying forces that drive trends. (Frost&Sullivan)

- **Which megatrends can we identify in the agri-food sector and what influence could they have on the sector?**

The macro environment: megatrends

Some questions

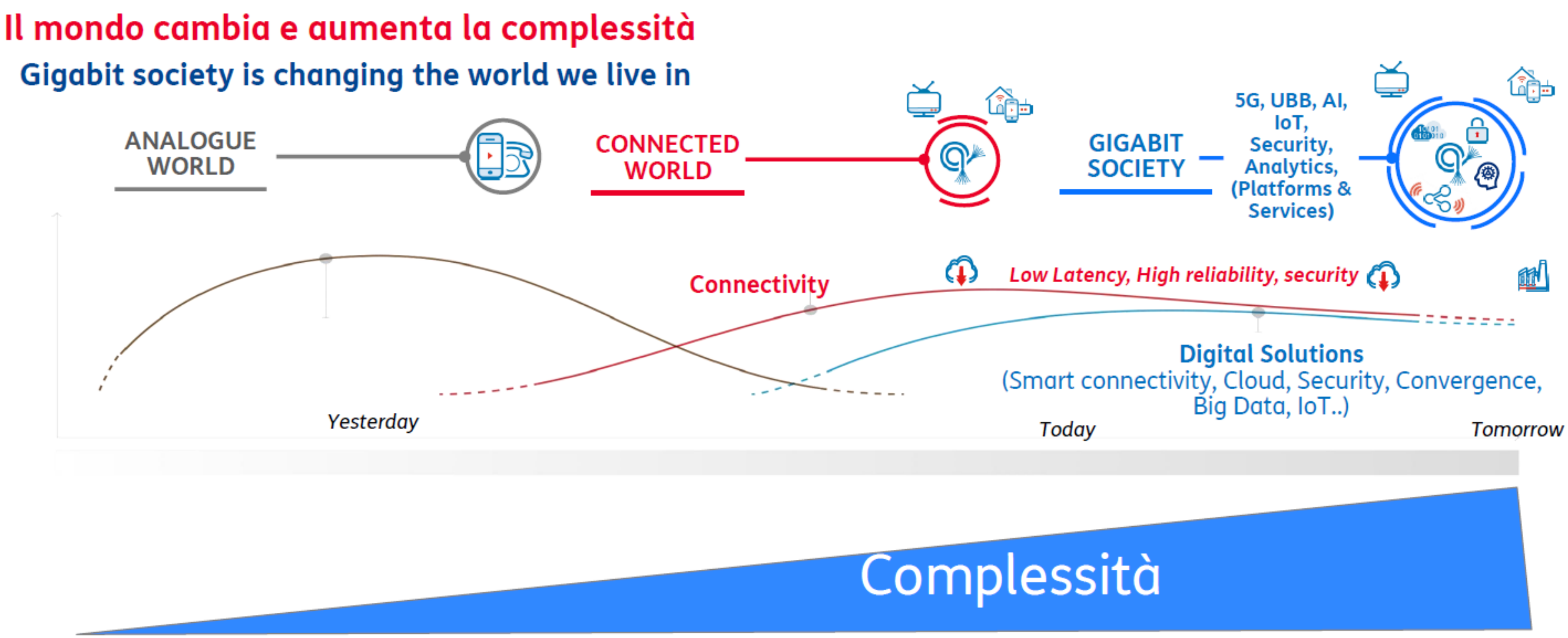
What is the right time horizon we need to consider ?

A megatrend is a large, social, economic, political, environmental or technological change that is slow to form. Once in place, megatrends influence a wide range of activities, processes and perceptions, both in government and in society, possibly for decades. They are the underlying forces that drive trends. (Frost&Sullivan)

- Climate change. Global warming. Environmental sustainability, Green priorities
- Demographic change. Population, age, different Generations, people migrations
- Evolution of Customers' bahaviours
- Trust is the most precious asset. Reputation is the new coin
- Security threats
- The world is evolving from product/service to experience
- Change is the only constant and adaptability is the answer
- Democracy, cultural changes
- Evolution and power of Platform models
- Knowledge is king
- Constant technological and Digital evolution

Source: Mario Di Mauro, Innovazione di business nell'era digitale, Presentation Wine Business Course, Tollo 22.02.2020

Strategies in a changing and complex world



- Stabilità del contesto di business
- Modello di Business lineare
- Focus su prodotti e servizi
- Focus della Strategia: ability to predict e poi tanta Execution
- Modello Manageriale & Leadership: Command & Control
- Bassa relazione con l'ecosistema
- Bassa innovazione (principalmente tecnologica)

- Constant Change. Cambiamento continuo
- Modello di Business Reticolare
- Focus su Esperienza e Trasformazione
- Focus della Strategia: ability to Adapt and lead the Change
- Modello Manageriale & Leadership: Duale (execution & Innovation)
- Parte dell'ecosistema
- Innovazione guida il cambiamento

Source: Mario Di Mauro, Innovazione di business nell'era digitale, Presentation Wine Business Course, Tollo 22.02.2020

The micro environment

Competitive forces

- Competition (identification and description of competitors)
- Customers (identification and description of different segments)
- Industry structure and power relationships (suppliers, supply chains)
- Substitute products (able to satisfy the same needs)

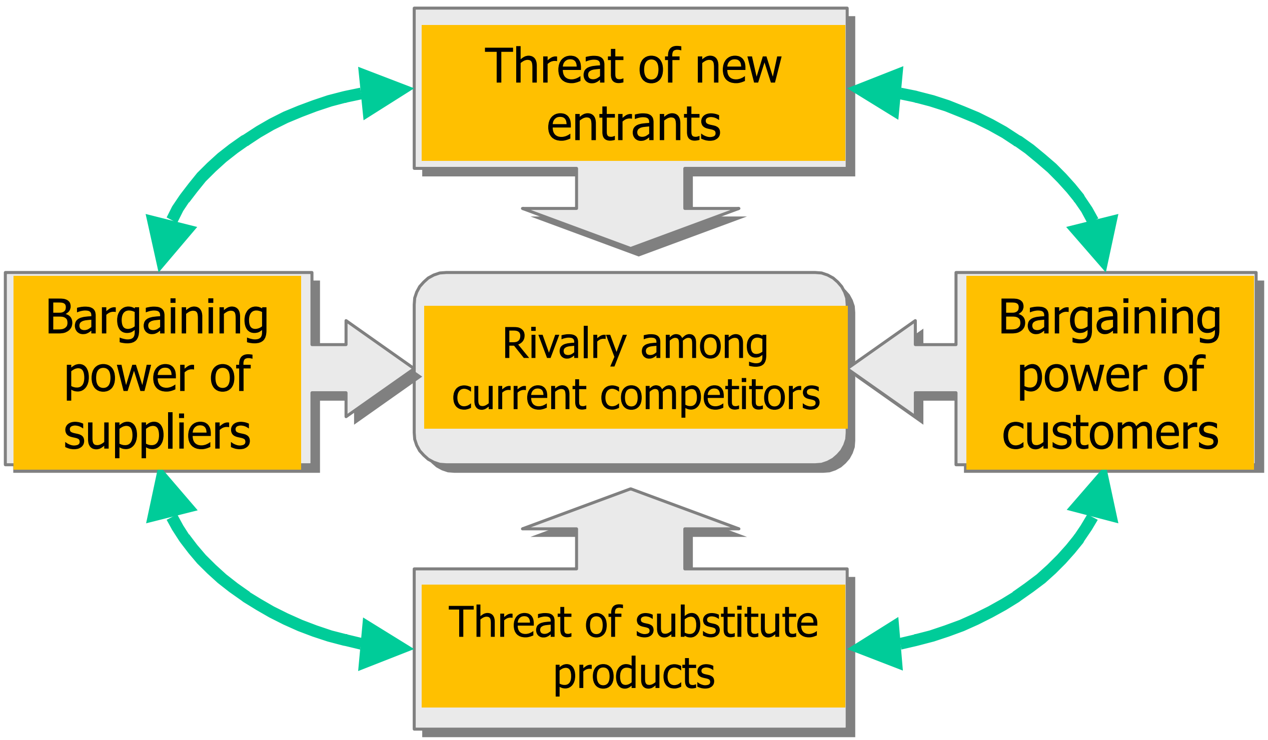
The micro environment

Competitors

- **Current competitors:** companies that offer the same product in the same geographical area (**direct competitors**)
- **Substitute products:** companies that produce different products but able to satisfy the same needs (**indirect competitors**).
- **New entrants:** companies not actually operating in the market but with the possibility to enter the market with the same product **(potential competitors)**

Porter’s five forces model

Assessing the strength of competition in a given market

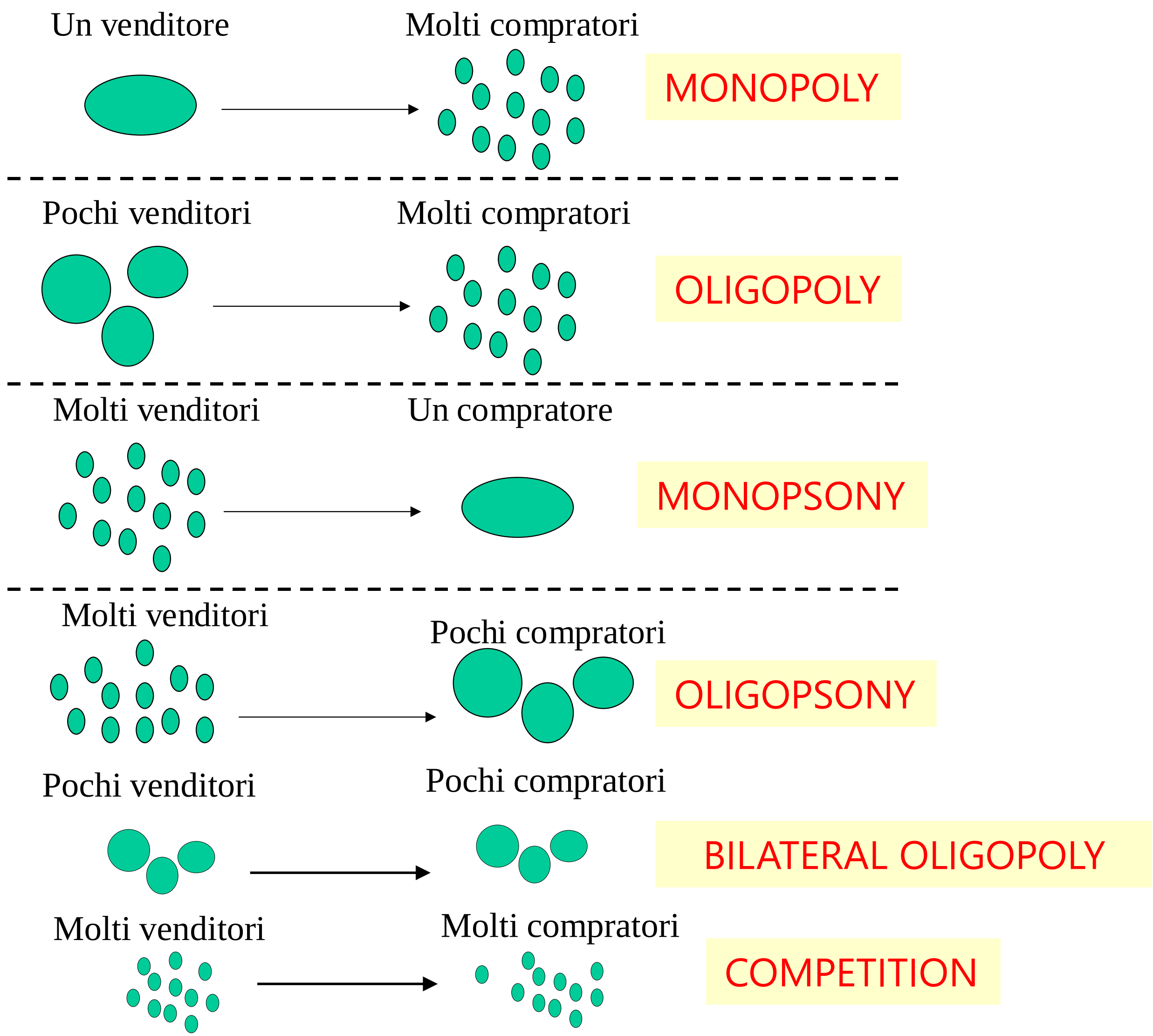


Industry issues

Type of competition

- Perfect competition
  - Many suppliers, product homogeneous
- Oligopoly (oligopsony)
  - Few companies controlling the supply (demand) of a good
- Monopoly (monopsony)
  - One company supplies (one buyer controls) the entire market
- Monopolistic competition
  - Companies differentiating their product in a competitive market

Type of competition



Industry issues

Structure and nature of the industry

- The intensity of competitive response depend on:
  - The degree of concentration in the industry (oligopoly/oligopsony);
  - The rate of growth of the industry;
  - The degree of differentiation;
  - Cost structures (i.e. presence of high fixed costs; economies of scale)
  - Investments structures
  - Contestable markets
  - Competitive information
  - Strategic objectives of competitors
  - Cost of leaving the industry

Industry issues

Concentration in the industry

- An industry is concentrated if a small number of firms controls a high share of the economic activity of a sector
- Concentration indexes:
- Number of firms (absolute measure of concentration): concentration ratio (CR4 or CR5).
  - The sum of the market share percentage held by the largest specified number of firms in an industry.
  - Low concentration ratio indicates greater competition in an industry, compared to one with a ratio nearing 100%, which would be a monopoly.
  - An oligopoly is apparent when the top five firms in the market account for more than 60% of total market sales, according to the concentration ratio.

The agri-food chain

In Italy:

- <u>Agricultural holdings</u>: 1,13 millions (Census 2020)

- <u>Food industry companies</u>: <u>53.096 (Eurostat, 2015)</u>

- Large-scale retail stores: 20.695 (CREA, 2016)
- supermarkets: 8.314
- hypermarkets: 858

-<u> Market share of the first 5 retail groups (purchaising groups) = CR5 (concentration ratio = 5):</u> ESD Italia, Coop-Sigma, Auchan-Crai, Conad-Finiper, Aicube (2016) = 65,7%

Concentration in the industry

Calculate the concentration ratio (CR5) of the Italian wine sector in 2015

Wine sector dimension: 12,9 billion euros (2015)

Main companies:

	Sede	Fatturato totale 2014	Fatturato totale 2015	Fatturato totale Variazione 2015/2014	*Rank* 2014	*Rank* 2015
		milioni di euro		%		
CANTINE RIUNITE & CIV (°)	Campegine (Re)	533	547	2,7	1	1
di cui: GIV - GRUPPO ITALIANO VINI (°)	*Bardolino (Vr)*	349	358	2,8		
di cui: CANTINE RIUNITE & CIV (*)	*Campegine (Re)*	202	201	-0,4		
CAVIRO (°)	Faenza (Ra)	314	300	-4,4	2	2
Gruppo CAMPARI (divisione vini) ($)	*Milano*	*209*	*171*	-18,2	*3*	*6*
PALAZZO ANTINORI (°)	Firenze	185	202	8,7	4	3
MEZZACORONA (°) (*)	Mezzocorona (Tn)	171	175	2,1	5	5
CAVIT CANTINA VITICOLTORI (°) (*)	Ravina (Tn)	164	167	1,9	6	7
CASA VINICOLA ZONIN (°)	Gambellara (Vi)	160	183	14,3	7	4
FRATELLI MARTINI SECONDO LUIGI	Cossano Belbo (Cn)	160	162	1,2	8	8
IWB - ITALIAN WINE BRANDS (°) (-)	Milano	140	145	4,0	9	10
CASA VINICOLA BOTTER CARLO & C.	Fossalta di Piave (Ve)	137	154	12,5	10	9

Source: Mediobanca (2016)

Concentration in the industry

Calculate the concentration ratio (CR5) of the beer sector in Italy

	2018		2019		2020		2021		2022	
Aziende Birrarie Brewing Companies	000 hl	%	000 hl	%	000 hl	%	000 hl	%	000 hl	%
Heineken Italia Spa	6.254,0	30,6	6.674,0	31,5	6.253,0	33,0	7.031,0	33,5	7.125,0	32,0
Birra Peroni Srl	3.827,0	18,7	3.822,0	18,0	3.377,0	17,8	3.610,0	17,2	3.782,0	17,0
Anheuser Busch In.Bev Italia Spa	1.911,0	9,3	1.954,0	9,2	1.611,0	8,5	1.978,0	9,4	2.124,0	9,5
Carlsberg Italia Spa	1.225,0	6,0	1.058,0	5,0	991,0	5,2	1.173,0	5,6	1.296,0	5,8
Birra Castello Spa*	1.059,0	5,2	1.068,0	5,0	1.103,0	5,8	1.148,0	5,5	1.156,0	5,2
Birra Lucana Srl**	34,0	0,2	35,0	0,2	31,0	0,2	30,0	0,1	20,0	0,1
Hausbrandt Trieste 1892 Spa	33,0	0,2	33,0	0,2	19,0	0,1	26,0	0,1	34,0	0,1
Altri (Aziende non associate ivi comprese le microbirrerie) Others (Microbreweries and non-member breweries)	1.405,0	6,9	1.450,0	6,8	1.041,0	5,5	1.269,0***	6,1	1.454,0	6,5
Importazioni di terzi non associati Non-member third-parties imports	4.714,0	23,0	5.121,0	24,1	4.494,0	23,8	4.706,0***	22,5	5.307,0	23,8
TOTALE / Total	20.462,0	100,0	21.215,0	100,0	18.920,0	100,0	20.971,0***	100,0	22.298,00	100,0

Source:
Assobirra (2023)

Concentration in the industry

Market share of the top seed production companies in EU

1985	MLN $	QUOTA DI MERCATO GLOBALE	1996	MLN $	QUOTA DI MERCATO GLOBALE	2009	MLN $	QUOTA DI MERCATO GLOBALE	2012	MLN $	QUOTA DI MERCATO GLOBALE
AZIENDA	VENDITE NETTE		AZIENDA	VENDITE NETTE		AZIENDA	VENDITE NETTE		AZIENDA	VENDITE NETTE	
PIONEER	735	4.1%	PIONEER	1500	5.0%	MONSANTO	7297	17.4%	MONSANTO (USA)	9800	21.8%
SANDOZ	290	1.6%	NOVARTIS	900	3.0%	DUPONT PIONEER	4700	11.2%	DUPONT PIONEER (USA)	7000	15.5%
DEKALB	201	1.1%	LIMAGRAIN	650	2.2%	SYNGENTA	2564	6.1%	SYNGENTA (SVIZZERA)	3200	7.1%
UPJOHN ASGROW	200	1.1%	ADVANTA	460	1.5%	LIMAGRAIN	1155	2.8%	LIMAGRAIN (FRANCIA)	1700	3.8%
LIMAGRAIN	180	1.0%	SEMINIS	375	1.3%	KWS	920	2.2%	WINFIELD (USA)	1300	3.5%
SHELL NICXERSON	175	1.0%	TAKII	320	1.1%	BAYER	645	1.5%	KWS (DANIMARCA)	1300	2.9%
TAKII	175	1.0%	SAKATA	300	1.0%	DOW	635	1.5%	DOW (USA)	1000	2.9%
CIBA GEIGY	152	0.8%	KWS	255	0.9%	SAKATA	485	1.2%	BAYER (GERMANIA)	0.4	2.2%
VANDERHAVE	150	0.8%	DEKALB	250	0.8%	LAND O'LAKES	?	?	SAKATA (GIAPPONE)	0.4	1.0%
SHARE IN GLOBAL SEED MARKET (GSM)		12.5%			16.7%			>43.8%			62%

Source: Mammana I. (2014). CONCENTRATION OF MARKET POWER IN THE EU SEED MARKET. Greens/EFA Group in the European Parliament

Industry issues

Economies of scale

- Economies of scale are the cost advantages that enterprises obtain due to their scale of operation (the amount of output produced). An increase in scale enables a decrease in cost per unit of output. At the basis of economies of scale there may be technical, statistical, organizational or related factors to the degree of market control.
  - Total cost / Cost per unit

  - 630 € purchasing cost of a barrique
  - Produce 225 litres of wine x year
  - Depreciation: 5 years

  - 9.000 € purchasing cost of a barrel
  - Produce 4.000 litres of wine
  - Depreciation: 10 years

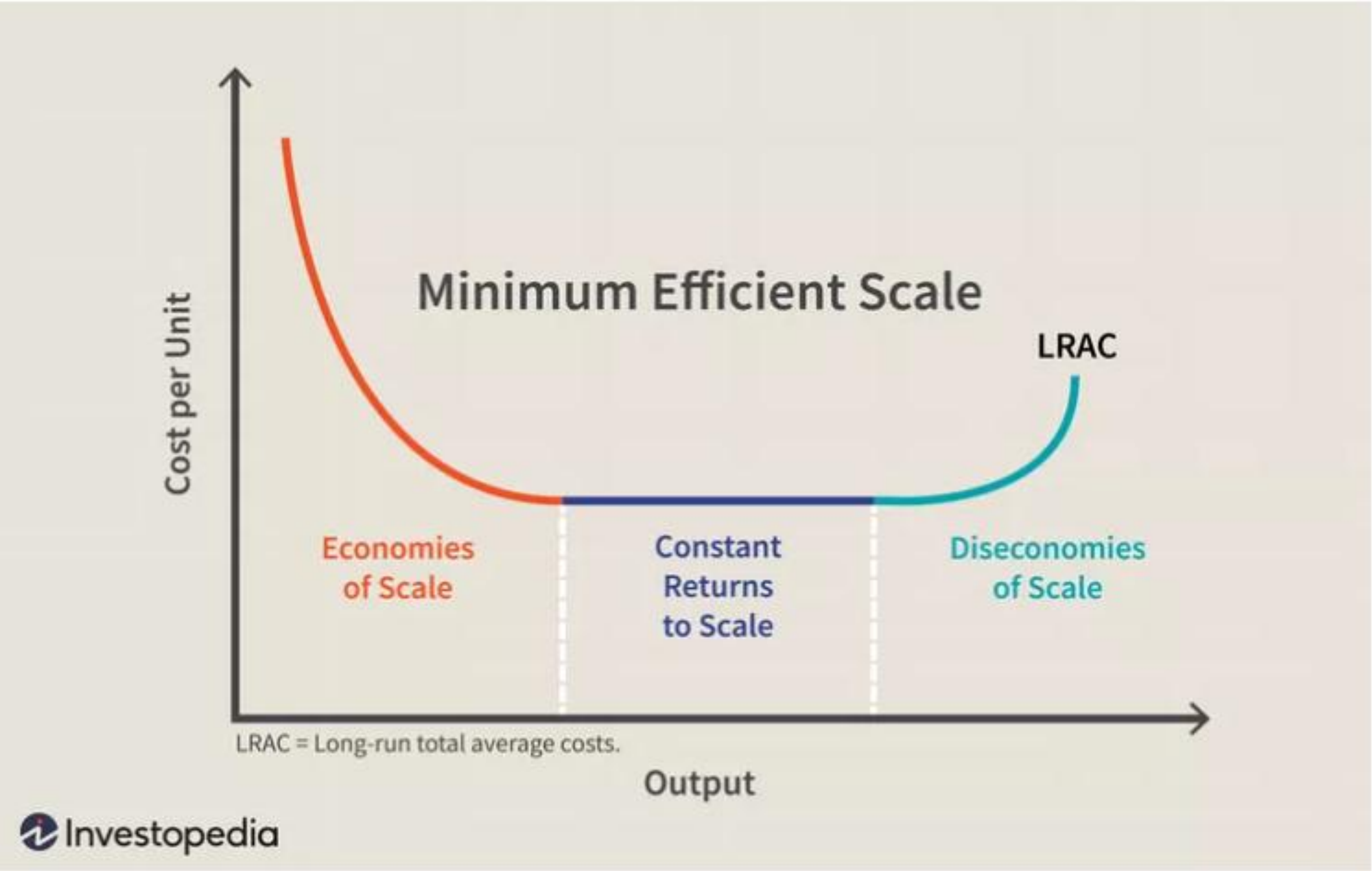
Economies of scale

Relationship between an increase in production scale (Q) and a decrease in the unit cost of the product The cost per unit (CU) is equal to the average total cost ATC = ATC/Q

What happens to the average cost as the quantity produced increases?

1. If it decreases, I have **economies of scale**.
2. If it remains constant, I have **constant returns of scale**.
3. If it increases, I have **diseconomies of scale**.

Economies of scale



Credit: Image by Julie Bang © Investopedia 2019

Economies of scale and types of competition

- Economies of scale (internal) occur primarily due to the size of production.
  - **Technical economies of scale**: larger plants are much more efficient for technical reasons (car assembly, steel industry furnaces).
  - Larger plants produce at lower costs → **monopoly / oligopoly**
- The size of their production is so large, and therefore the average costs so low, that no other company can compete.

Economies of scale

- Economies of scale in production
  - Labour economies (specialisation, time savings, automation of the production process, cumulative production volumes)
  - Technical economies: specialisation and indivisibility of production factors, set-up costs, initial costs (research and development, market research), technical/geometric relationships between plants and inputs, economies of reserve capacity
  - Inventory economies: random variations in input and output needs vary less than proportionally than the production size.

- Economies of scale in sales
  - Advertising economies, economies of large-scale sales, agreements with exclusive dealers
  - Managerial economies: specialisation of management personnel, mechanisation of managerial functions

Scope economies

Scope economies

- Combining the production of multiple outputs or multiple service activities accompanying production results in lower average costs than in the case of separation
  - Technical economies of scope (joint product technical economies)
  - Scope economies arising from the opportunity for differentiation offered by flexible facilities (joint economies of scale)
  - Scope economies in the strict sense: the production of diversified outputs (different products) allows the exploitation of underutilised inputs (e.g. distribution network)

Concentration and dimensional growth

- Growth in size
  - To reduce production costs through economies of scale:
    - At the production chain level
    - At the plant level (minimum efficient size)
    - At the plant group level
    - At the company or group level (financial, R&D, marketing, commercial, advertising)
  - To establish power relations with competitors, suppliers, customers, institutions

Concentration and dimensional growth

- Concentration
  - Technical concentration (size of production plants)
  - Economic concentration (size of companies = legal entities)
  - Financial concentration (size of groups = economic entities)

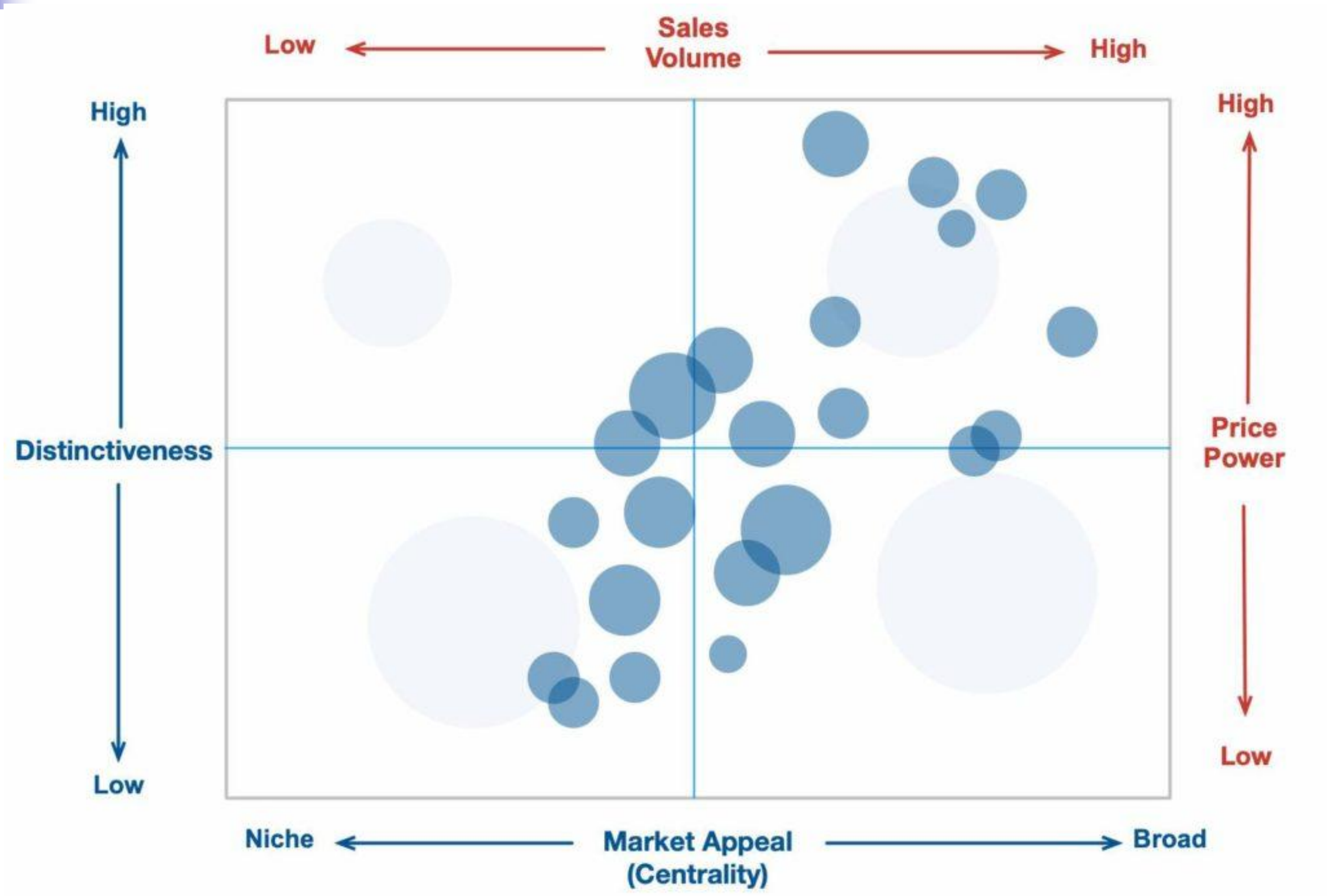
  - Horizontal concentration (grouping of companies in the same sector)
  - Vertical integration (grouping of companies along the supply chain)

The micro environment

Competitors

- Draw a profile of the competitors
  - Structure and sizing of the supply (of the industry);
  - Market concentration (market share of the different actors);
  - Presence of strategic groups (similar strategies);
  - Range of products offered by competitors, level of quality, level of prices and services;
  - Strengths and weaknesses of the competitors

Strategic positioning



Source: https://strategyforexecs.com/strategic-positioning/

The micro environment

Suppliers

- Also **suppliers** are part of the competitive environment of a company.
- Number of suppliers, their bargaining power, the specificity of the offered product, can be determinant for the company success:
    - Importance of the suppliers (in terms of alternatives on the market and importance of the offered product for the company)
    - Bargaining power of the suppliers
    - Geographical localization
    - Nature of the relationship (i.e. partnerships, outsourcing…).

Partnerships

Some questions.......

What is value and How do we create sustainable value?

Implementing and delivering Innovation
Developing and owning Intellectual properties
Developing Alliances & Partnerships
Having Partners and Vendors willing to support our growth
Developing Management & Leadership style & capabilities
Increasing Customer loyalty
Proving Customer excellent Relationships & Experience
Being part and having access to specific Industry ecosystems
Access to quality and reliable Distribution networks
Ability to attract, motivate, grow, retain talented people
Constantly developing excellent Employees relations and Engagement, Unions relations
Creating and feeding Good Community Relations
Creating, maintaning good Awareness, Reputation, Credibility, TRUST
Agility (“Quelli sono veloci”), Adaptability

Source: Mario Di Mauro, Innovazione di business nell’era digitale, Presentation Wine Business Course, Tollo 22.02.2020