EC RETAILERS AND NON-EC SUPPLIERS: THE IMPACT ON TRADING RELATIONSHIPS POST 1992

A paper prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

by

Martin Digby
Institute of Grocery Distribution

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The Corporate Intelligence Group Limited

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INTRODUCTION

This paper sets out to identify the key parameters which will shape the relationship between EC retailers and their non-EC suppliers post 1992. It is set against the background of the Single Market and its implied impact on trading relationships via the lowering of internal barriers, but is equally cognizant of the influence of political and economic change both within the continent of Europe, reference for example EC expansion and the development of the central European economics, and at an international level through revisions to the General Agreement on Tarrifs and Trade (GATT).

The context within which the development of EC/non-EC trading relationships may be judged is examined in the first section of the paper. The theoretical picture, embodied in the Single European Act, of the free movement of goods within the Community as physical, technical and fiscal barriers are lowered, is set alongside the changing demands of the European consumer and the drive for competitive advantage within the retail sector, factors which have increasingly pushed buyers to source product from outside the EC to add both diversity of range and ensure out of season quality and consistency of supply.

The nature of existing trade flows from non-EC sources is outlined and some discussion of the impact of the rapidly changing political map of Europe on such flows is undertaken. It is in this context that the issues of the current GATT negotiations and the corresponding changes to the CAP are considered.

An examination of the reaction of the major non-EC suppliers to the development of the EC retail market forms the third main section of the paper. If "Fortress Europe" was ever an issue for the non-EC supplier it is clear that many of the major externally owned suppliers, in the grocery field at least, have established significant bridgeheads within the walls. In practice of course the development of the Single European Market (SEM) has not been the spur for such action. The existence of a group of consumer markets of the like of those captured within even the existing boundaries of the EC would not realistically have been ignored by the major branded and other suppliers and such a market will always have the need to look outside its boundaries for sources of supply. As is clearly the case for retailers and suppliers within the Community, the development of the SEM has proved the facilitator to activities rather than the catalyst.

The paper concludes that the keys to successful partnership with the EC retailers are common to both the EC and the non-EC supplier. The effective management of business relationships evolving against the backcloth of the new Europe will require a focus on the needs of the customer, on customer service in its broadest sense. Technical efficiency throughout the supply chain and effective communications, whether in marketing and merchandising or in logistics and distribution management, will underpin all successful relationships and these will be born, not out of 1993 and the Single Market, but on foundations common to all, whatever their geographical locations.

THE CONTEXT

A Diverse and Competitive Market

The EC, as it is configured today, represents one of the largest consumer markets in the world. But Europe's 345 million consumers are not to be found within neatly packaged national units and, although the 279 measures detailed in the 1985 white paper on "Completing the Internal Market" will have moved the Community towards the removal of those physical, technical and fiscal barriers that exist between member states, the diversity of the regions within "the twelve" remains. This is perhaps nowhere more evident than in the food sector where the range of lifestyles, attitudes and tastes present both an opportunity and a challenge to retailer and supplier alike.

Equally significant within the context of this discussion is the extent to which the original concept of the Single Market has found itself subsumed by the enormity of the political change which has taken place in Europe. Thus, the implied theory behind the title of this paper, i.e. that the creation of the single market of the twelve, with all its constituent regulatory changes, will directly impact the relationships between EC retailers and their non-EC suppliers, now addresses only part of an increasingly complex question.

The elements of the Single Market programme are well known and their impact on the grocery retail sector has been addressed on many occasions in the previous papers in this series and elsewhere. At its most simplistic level the removal of internal barriers and the free movement of goods and services across borders should facilitate a broadening of retailers sourcing horizons and may impact the current structure wherein over three quarters of processed food output is consumed within its country of manufacturer. Whether such horizon extension will effectively be limited to within EC is a point of some debate.

Single Market legislation in areas such as food law, tax rates, the social charter, transport and even advertising and promotional activity will certainly have immediate impact in the grocery sector. Transport deregulation and freedom of movement across borders will cut distribution costs facilitating revisions to sourcing on the part of the retailer and adding competitive edge and promoting production rationalisation among suppliers in the long term. However, such factors should be set against the background of the consumer and competitive environment in which EC retailers find themselves.

At Community level consumers' expenditure has been growing in real terms by an average of 1.8 per cent over recent years and in the first half of the 1990s is expected to show an annual increase of the order of 1.4 per cent (see table 1 on the following page). However, many of the largest European markets face very limited population growth and with the proportion of consumers' expenditure allocated to food dropping across all the European member states, the prospect is for little or no improvement in food market growth rates over the next decade. Retail business growth in the most developed markets has been focused on enhanced technical efficiency, on extended and value added product range, over which increasing direct control may be achieved through the introduction of private label, and on capitalising on a service or on a price driven offer with a clear customer perception. Rapid growth of individual retail businesses has been achieved through merger and acquisition activity, by joint venture, through diversification and via internationalisation.

Table 1: EC: Spending on Food, Growth Rates by Country 1980-95
(% annual change for period shown, national currency)

Country	Constant (1985) Prices		
	1980-85	1985-90	1990-95 (F)
Belgium	1.0	1.2	1.3
Denmark	0.6	0.8	1.4
France	1.3	1.7	1.5
W. Germany*	0.2	3.2	1.6
Greece	0.4	1.2	0.8
Republic of Ireland	-0.1	0.5	1.9
Italy	1.0	1.1	1.2
Luxembourg	0.1	-0.5	0.2
Netherlands	0.8	2.4	1.7
Portugal	-	-	-
Spain	0.3	2.3	2.1
UK	-0.1	0.2	0.7
Total	0.6	1.8	1.4

* including beverages and consumption in bars and restaurants
Source: EIU

Table 2: Food Retail Trade Structure and Market Share

	Belgium	France	FRG	Great Britain	Italy	Nether-lands	Spain	EC
Multiples % (value) - 1986 - 1990	22.4 32.7	62.4 68.0	37.2 41.0	71.8 74.7	9.0 10.0	64.7 69.0	27.0 35.0	- -
Total sales area of hyper-markets and super-markets per person (m^2) - 1986 - 1990	0.18 0.24	0.16 0.20	0.17 0.20	0.07 0.10	0.04 0.05	0.10 0.12	0.05 0.08	0.10 0.13
Number of general food stores per 1,000 inha-bitants, 1990	1.6	1.4	1.2	1.0	3.2	0.7	3.0	2.0

Source: IGD/Europanel Database

Growing market share, for example among the multiples (see Table 2 on the opposite page), has not therefore been achieved through expanding the core market but by strengthening competitive position, winning share from others in the market and broadening the scope of the market, whether within national boundaries or across borders. Such opportunities are increasingly few.

The impact of this intensely competitive grocery retail environment on sourcing policy has been, and will continue to be, much much wider than that of the creation of the SEM. The drive for competitive edge makes range differentiation imperative. The need for a wider range of products of assured quality and consistency of supply, together with the need to be lowest cost purchaser, will not allow the retail buyer to fix geographic or political limits to his sourcing horizon.

Set in a Changing International Environment

It would be wrong to leave the question of the context within which we may judge the relationship between EC retailer and non-EC supplier without looking briefly at the fundamental question of what will constitute the EC in the future. How will not only the current twelve but any extended community manage their international trade relationships? The question of the impact of political change in Europe and of the GATT negotiations will be addressed specifically in the next section of this paper as we assess the EC/non-EC trade flows, but it is clear that both issues add significantly to the complexity of the supply relationships developing in Europe. In practice, this impact is likely to be confined in the short term to commodity and ingredient supply rather than processed products, but already Association Agreements with central European countries are impacting supply patterns in some sectors and revisions to the Common Agricultural Policy arising from the principles being established in the current GATT round promise to bring about further change. The political, economic and social impact of a changing Europe and the drive to international trade liberation may seem a long way from the retailer's buying decision, but we need look no further than the fruit and vegetable or meat sections of our supermarkets to find evidence of their importance today. Tomorrow, as suppliers like Unilever and Proctor and Gamble capitalise on their current long term investment in central Europe, the influence will undoubtedly spread to other product categories.

The context within which we set out here to judge what factors may influence the relationships between the EC-retailer and non-EC suppliers is therefore a complex one. The simplistic argument that the lowering of barriers within the Single Market of the twelve would facilitate a broader sourcing of product within that market is clearly clouded by the increasingly competitive nature of our retail market, the drive to differentiate and to grow business in a limited growth environment. A further complication is evident in the current international political and economic initiatives the longer term impact of which is, at this stage, extremely difficult to determine.

TRADE FLOWS

Given the complexity of this background of likely influences, it is perhaps worth considering more specifically the nature of the current trade flows into the EC from non-EC suppliers, the reasons for such flows and what the future might hold as GATT/CAP, The European Economic Area and central European liberalisation exert their influences.

Table 3: EC Food, Drink and Tobacco Trade 1987 - 1990

	1987	1988	1989	1990
Imports Extra EC	16,350	18,695	19,833	19,917
Exports Extra EC	19,653	20,810	24,360	24,861
Balance X/M	1.20	1.11	1.23	1.25

Source: Eurostat

At the broadest level the external balance of the EC trade in food, drink and tobacco products is positive with self sufficiency having risen in some key product areas and exports having grown at a faster rate than imports from non-EC sources (see Table 3). However, within the total of food, drink and tobacco the Community is not self-sufficient in all products and this demands imports from external sources. As is shown in Table 4 opposite, individual countries within the EC show a much greater level of import requirement than indicated by the global figures and the source of these imports may, for geographical or historical reasons, be external to the Community. Further details of EC imports by country are given in Appendix 1.

Table 4: EC Self Sufficiency in Certain Agricultural Products (%) 1989/90

Product	Self-sufficiency %	National Exceptions
Wheat	127	Belgium/Luxembourg, Ireland, Italy, Netherlands, Portugal
Rye	109	Belgium/Luxembourg, Greece, Spain, Ireland, Italy, Netherlands, Portugal, UK
Barley	131	Belgium/Luxembourg, Greece, Italy, Netherlands, Portugal
Grain/Maize	101	Only France and Greece self-sufficient
Total Milled Rice	76	Only Greece and Italy self-sufficient
Potatoes	100	Only Benelux self-sufficient but of the others only Ireland is significantly below 90%
Sugar	123	Greece, Portugal, UK
Fresh Vegetables	106	Denmark, Germany, France, Ireland, UK
Fresh Fruit (excl. Citrus)	85	Spain, Italy, Greece
Citrus Fruit	70	Spain, Italy, Greece
Wine	112	Denmark, Germany, Ireland, Netherlands, UK
Eggs	102	Germany, Greece, Spain, France, Italy, UK
Beef & Veal	101	Greece, Spain, Italy, Portugal, UK
Pigmeat	103	Germany, Greece, Spain, France, Italy, Portugal, UK
Poultry Meat	104	Only Denmark, France, Ireland, Netherlands self- sufficient
Sheep & Goat Meat	82	Only Ireland self-sufficient
Oils & Fat	70	Only Greece self-sufficient

Source: EC Commission, 'Agricultural situation in the Community', 1991

Even at a commodity wide level and excluding seasonality of supply from the assessment, there is a clear import requirement for products such as rice, fresh fruit, citrus fruit, sheep and goat meat and for oils and fats. At a country level these requirements are more acute. Only France and Greece are self sufficient in maize, all the southern EC states fall below self sufficiency in beef and veal, only Greece is self sufficient in oils and fats and only Ireland in sheep meat. Fresh fruit and citrus fruit are major import requirements of all EC member states except Spain, Italy and Greece. In practice, overall self-sufficiency in a category may also disguise an import requirement for a component of that category and this is often the case at commodity level where domestic production of cereals, for example, may be predominately in a single grade leaving a significant overall import requirement in other product grades.

At a commodity, ingredient and fresh product level therefore we can identify major import requirements which highlight the dependance of the EC retailer, and at the ingredient level his EC supplier, on non-EC sources. This dependence is all the more critical in product areas such as fruit and vegetable where the need for annual year round supply and for quality has led EC retailers to build relationships with non-EC suppliers. As noted earlier the drive for competition advantage in an increasingly competitive retail environment, coupled with the demands of the consumer for a greater depth and breadth of product range in critical areas such as fruit and vegetables, will almost certainly lead to a strengthening of the relationship with non-EC suppliers in the future.

Although not exclusively, it in in these commodity areas that the greatest immediate impact of EC enlargement, Central European political change and, above all, revision to international trade agreements through the GATT will be felt. There will be longer term implications for processed and branded product categories and these will be discussed later in the paper.

EC/EEA/CEECs/PECOs/PITs!*

The speed of change on the European political map has rarely been greater than in the last eighteen months and apart from getting to grips with the range of new acronym which now trip off the tongues of the Brussels followers, it is worth catching up, albeit briefly ,with the current state of play for, as our definition of EC changes, so must our understanding of the potential non-EC supplier. This is not just in the obvious sense of the political boundary but more importantly in respect of the rapid change to production facilities, practices and trading direction which may result from the changes currently facing Europe.

Table 5: EC Expansion, Applications Held or Expected

Country	Date of EC application	Commission opinion	Main problems	Likely entry date
Turkey	April 1987	Dec 1989**	- Islam - Relative poverty - Human rights	After 2000
Cyprus	July 1990	End-1992?	- Mini-state - Division of island	End of decade?
Malta	July 1990	End-1992?	- Mini-state	End of decade?
Austria	July 1989	July 1991	- Neutrality	1995-96
Sweden	July 1991	Mid-1992	- Neutrality	1995-96
Finland	March 1992	End-1992	- Neutrality	1995-96
Switzerland	Imminent	End-1992	- Neutrality - Too much direct democracy	1995-96
Norway	Autumn 1992	End-1992	- Fisheries - Agriculture	1995-96
** The opinion on Turkey said no to membership in the short term				

Source: The Economist, May '92

The community currently holds or expects before the end of the year, application for membership from Austria, Cyprus, Finland, Malta, Norway, Sweden, Switzerland and Turkey. Poland, Hungary and Czechoslovakia are known to be keen to join as soon as possible as are the Baltic states of Estonia, Latvia and Lithuania.. Romania and Bulgaria are also known to be trying to establish Association Agreements which in the very long term may build towards membership. A summary of the position is shown in Table 5.

* CEECs = Central and Eastern European Countries
PECOs = Pay d'Europe Centrale et Orientale
PITs = Partners in Transition (Poland, Hungary, Czechoslovakia)

In practice, the establishment of the European Economic Area among the EFTA countries will bring about a transitional period before full EC membership, probably in 1996. The applications from the Mediterranean countries of Turkey (already having received a negative response in 1989), Cyprus and Malta are longer term propositions, as is the prospect of the central European and Baltic states becoming full members. However the absence of full membership does not preclude an impact on trade. Association Agreement made with Poland, Hungary and Czechoslovakia for example, are already having an effect on imports to the EC. Additionally, the longer term prospect of closer ties with many of these non-members is helping to stimulate investment from both inside and outside the Community which will significantly benefit the competitive position of these countries vis-a-vis the EC market.

GATT/CAP

The other major political/economic issue impacting both intra and extra EC trade in food products is the question of GATT and its knock-on into CAP. The current round of GATT negotiation was due to be concluded in 1990 having started in 1986. It is perhaps no coincidence that this round of international trade talks proposed, for the first time, to address the area of world trade in agricultural products and in particular non-tariff barriers. GATT is unlikely to be resolved this side of the US presidential election and the detail of the various issues under negotiation would warrant a separate paper. In practice what is important to establish is the principal that protectism in international trade is under fire, Common Agricultural Policy support levels are being reduced and a move to a freer market in agricultural goods is underway.

Few would wish to place timescales on the specifics of these matters.

Food Trade Impact

The complexities of influence which are being exerted currently, and which may develop further over time as a result of EC political enlargement and the GATT/CAP relationship, are perhaps best understood by way of example. It was shown earlier that two major areas of non-EC supply to the Community's retail sector are red meat and fresh and citrus fruit. Both give valuable indication of the potential impact on trade flows.

Red Meat

The EC imported 575,153 tonnes of beef and live bovine animals, 132,466 tonnes of pigs and pigmeat and 281,968 tonnes of sheep and sheepmeat from non-EC sources in 1990. The primary source of supply of live animals were Eastern European countries while beef imports were mainly from Southern and Central America, pigmeat from North America and sheepmeat from New Zealand and Australia.

All three red meat sectors will be directly affected by EC enlargement, the transitional agreement connected with it, and by changes to CAP support linked to the GATT negotiations. However, the beef sector provides the best example of the complex nature of these inter-related issues.

The current GATT position for the beef sector calls for reductions in both the level and quantities of product eligible for export refunds. This would lead to a reduction in the competitive position of EC beef exports. At the same time there is likely to be pressure on the EC to raise the level of import quotas. However, EC producers will no doubt oppose such moves given the reduction in support to the sector resulting from the 1992 CAP price review. Intervention prices on beef have been significantly reduced, pushing more product onto the free market and placing further pressure on already weak prices. Internal trade flows may also be impacted as those member states previously making extensive use of intervention, eg. Ireland, look to new markets. Cereal beef producers will see some benefit from the significant reduction in support to the cereals sector, but grass beef producers will be reliant on compensation via the premium system. How far such balancing action will receive GATT "Green box" protection is questionable, particularly in the longer term. The GATT/CAP combination for beef may therefore see a more open EC market as import quotas rise and exports may prove more difficult. In practice, it is the international trade pattern which will be more directly impacted as CAP support fades away.

EC enlargement and, in particular, the liberalisation of trade with central and Eastern Europe will also have a significant impact. For example, Association Agreements with Poland, Hungary and Czechoslovakia already exist for beef and live cattle and calves allowing reduced import levies on product quantities which will rise year by year over the next five years. Such agreements are likely to form the basis of closer relationships with those non-EC states looking to full membership of the Community longer term.

Fresh and Citrus Fruit

The other major product category for which the EC relies heavily on non-EC suppliers is that of fresh and citrus fruit. Here again the issues of trade liberalisation and EC expansion will impact the longer term sourcing pattern against the background of rising demand within the community. Commenting on these issues, Geest has stated that "the reformed Common Agricultural Policy will discourage production of surpluses within the Community and lead to the development of a liberal external trade policy. At the same time the pursuit of quality is expected to overtake quantity as the aim of Community farm policy. The combination of these factors will provide third world countries with an expanding market and an opportunity to fiercely compete within it" (Geest 1991).

The EC currently imports around 6 million tonnes of fruit and 800,000 tonnes of vegetables. These serve to satisfy demand for out of season product and for produce not grown in sufficient quantities with the EC to satisfy demand. Imports are growing at around 7 per cent per year as retailers make increasing use of fresh produce as a competitive tool, enhancing their range/quality perception and margin potential. Geest suggest major opportunities for increased trade with the Mediterranean countries, highlighting Turkey and Morocco as having particular potential. With the added impact of improved logistics and technology, it is difficult to see anything other than a strengthening of the relationship between EC retailers and non-EC suppliers in the future.

The examples of red meat and fresh fruit and vegetables serve to highlight the dependance of EC retailers on external sources of supply and the potential strengthening of such relationships which may result from both EC enlargement and international trade reform. The question remains, however, as to what will influence trading relationships outside the commodity and fresh produce categories. What have been the reactions of non-EC supplies of manufactured product to the forthcoming Single Market and what does this evidence tell us about the likely future relationship between the EC retail sector and these non-EC sources of supply?

SUPPLIER REACTIONS TO EUROPE

During the late 1980's the casual observer would have been forgiven for assuming that the only tools in the food manufacturers strategic portfolio for application in Europe were merger and acquisition. London based strategy consultants OC&C recorded an increase in the number of merger and acquisition deals in the European food industry from 269 in 1988/89 to 463 in 1990/91, the effect of which has been to increase concentration levels within individual product categories as manufacturers strive to lead rather than follow in their sector. If the Single Market is to bring increased competition to the food manufacturing sector, those best placed to take advantage of the opportunities generated will be those who have generated sufficient size and scope of operations.

There are many examples of this drive for category leadership. Industry research published by OC&C suggests that almost 70 per cent of the chocolate confectionery market in Europe is controlled by just five companies with Nestle/Rowntree holding a market share in excess of 20 per cent overall and as high as 36 per cent in the rapid growth Spanish market. In the snack sector United Biscuits hold a European market share approaching 22 per cent through KP and again just five companies control around 63 per cent of the sector. BSN, among the most active of the European manufacturers on the 1980's expansion trail, dominate their domestic biscuit market with a 50 per cent share and are building share across Europe with UB hard on their heals.

As the costs of acquisition have risen and the availability of attractive targets begins to dry up, attention has shifted towards joint venture opportunities and to the organic development of multi-national brands. Eastern and Southern Europe, however, continue to attract inward investment.

For the non-EC supplier the options remains clear: secure a position in the rapidly concentrating EC arena or establish a bridgehead in part of the new Europe. Trade into Europe from an external manufacturing base (other than in new Europe) is not a preferred option. The example of the United States suppliers is instructive in this respect. While the EC represents the second largest processed foods export market for the United States after Japan, trade is, as highlighted earlier, primarily in the form of bulk commodity type products. Apart from niche products, the majority of branded and other packaged product is produced in or near to its target market. In these cases the relationship between the EC retailer and the non-EC owned supplier is built through a local production, sales and marketing operation.

Buying into Europe

Of the 463 food industry M&A deals recorded by OC&C in the year to June 1991, 157 involved a cross-border move. Of these, 33 involved non-EC European companies and 22 involved non-European companies, the majority of which were US based. The most popular target nations were Germany (11) the UK (11), Denmark (10) and the Netherlands (6). Further evidence is provided by the results of a recent survey of 440 US businesses conducted by the University of Baltimore.

Table 6: Company's Strategies for Competing with the new EC: Survey of 440 US Businesses

	High knowledge group (n=215)		Low knowledge group (n=255)	
	Has used	Would use	Has used	Would use
Sales office in EC	22.5%	20.2%	4.1%	10.1%
Add new product lines	21.6%	20.7%	2.8%	16.1%
Joint ventures	16.4%	36.2%	4.6%	22.1%
Task force to study issues	16.4%	13.6%	3.7%	10.6%
Use export agent	14.1%	13.6%	3.7%	12.4%
Core of 'Euro-managers'	13.6%	16.0%	1.4%	9.2%
Adapt products	13.6%	20.7%	4.1%	9.2%
Subsidiary in EC	13.6%	15.0%	2.3%	5.5%
Change pricing strategy	9.4%	24.9%	1.8%	14.3%
Acquire/merge with EC firms	10.8%	26.3%	2.8%	9.7%
Adapt advertising	12.2%	21.1%	3.7%	12.9%

Source: Harmonisation of the European Market: Implications of American Business, Vol 1 Part 1, July 1992, A Randolph and D Smith-Cooke, Merrick School of Business, University of Baltimore

When questioned about strategies for competing in the EC, 36 per cent of companies with a "high knowledge" of Europe stated that they would use joint venture with 16.4 per cent having already done so. Just over 26 per cent of companies would use M&A as a preferred option. Among those companies with less detailed knowledge of the European markets a similar profile was given to the joint venture and M&A approaches.

Whilst the days of doubling European sales through acquisition, as Philip Morris did when it acquired Jacobs Suchard in 1990, are either already gone or numbered, inward investment to build market position clearly remains attractive to non-EC suppliers. PepsiCo for example will invest $1bn in Spain over the next five years to develop its snack foods, drinks and fast food business; Kellogg acquired the Italian breakfast cereals operation Gram last year, and the world's fourth largest food processing company, US owned ConAgra, has moved into the Portuguese meat and poultry sector with 50 per cent stakes in two companies. This is a tactic that can be used in reverse of course, as was shown by BSN's acquisition of Nabisco's European business in 1989 and Grand Metropolitan's purchase of Pilsbury in the same year. A summary of recent acquisitions made in the EC by non-EC companies is given in table 7.

Table 7: Major Acquisitions of EC Food Companies by Non-EC Purchasers 1988-91

Year	Purchaser	Target	Sector
1988	Marabou (Sweden)	AS Lagerman Jar (Dk)	Chocolate
	Cerealia (Sweden)	A/S Paaskebrod (Dk)	Bakery
	Procordia (Sweden)	Marina A/S (Dk)	Seafood
	Jacobs Suchard (CH)	Paulides (Greece)	Confectionery
	Jacobs Suchard (CH)	DS Italiana (Italy)	Confectionery
	Nestle (CH)	Buitoni (Italy)	Various
	Goodman Fielder Wattie (Australia)	Meneba Nv (Neths)	Bakery
1989	Procordia (Sweden)	Benzon Brands A/S (Dk)	Confectionery
	Borden (USA)	Congo (Dk)	Dairy
	Hugli (Switz)	Firma Heiler (D)	Dairy
	KGF (USA)	Fini Brand (Italy)	Pasta,Cheese, Salami
	PepsiCo (USA)	Walkers/Smiths (UK)	Snacks
	Mitsubishi (Japan)	Princes/Trex	Oils/fats
1990	Huhtamaki (Finland)	Gepro (Belgium)	Confectionery
	Nora (Norway)	Danish Fancy Food (Dk)	Snacks/Bakery
	Nora (Norway)	Dragsback (50% stake) (Dk)	Margarine
	CPC (USA)	Heidelberg (Dk)	Dressings
	Hero (Switz)	Les Verges d'Alsace (Fr)	Fruit Juice
	Procordia (Sweden)	Lindavia (D)	Fruit Juice
	Procordia (Sweden)	Rayner & Co (UK)	Beverages
	Procordia (Sweden)	Damel (Spain)	Confectionery
1991	Procordia (Sweden)	Glyngore limfjord (Dk)	Seafood
	Cerealia (Sweden)	Harnemollerne (Dk)	Bakery
	Hershey (USA)	Gubor (D)	Confectionery
	Lindt & Sprungli (Switz)	Lindt & Sprungli (D)	Chocolate
	Heinz (USA)	Copais Canning Industry (Greece)	Tomato processing
	HBDI (USA)	Canard Dore SA (Greece)	Foie gras
	Parke Davis (USA)	Alipark (Italy)	Cereals
	Kellogg (USA)	Gram (Italy)	Cereals
	Meiji Seika (Japan)	Tedec-Zambeletti (Spain)	Health Foods
	Nabisco (USA)	Conservas Ibericas (50%) (Spain)	Canned Foods
	ConAgra (USA)	Isidoro (50%)(Portugal)	Meat & Foods
	ConAgra (USA)	Cobral & Oliveira (50%)(Portugal)	Poultry
	CPC (USA)	Heidelberg (Denmark)	Dressings

Source: Seymour Cooke

Targets on the EC borders, in central and Eastern Europe, have also proved attractive to both EC and non-EC food companies. During 1990/91 for example, BSN invested in Poland and Czechoslovakia, while Nestle took positions in both Hungary and Czechoslovakia. PepsiCo and Gerber moved into Poland and Sara Lee took up a position in the Hungarian coffee sector (Table 8).

Table 8: Eastern Europe - Examples of Acquisitions by US Food Companies

Acquiror	Acquired	Country	Sector
Gerber	Alima (60%)	Poland	Baby food
PepsiCo	E Weddel	Poland	Confectionery
Sara Lee	Compack Trading (40%)	Hungary	Coffee

Source: Seymour Cooke

Joint Venture and Alliance

There have been a number of high profile joint venture agreements between major US and European companies over the last two years which illustrate the effectiveness of this route to growth in Europe. The Nestle/General Mills development of Cereal Partners in 1990 as a challenge to Kellogg's leadership in the cereal market is one such example, followed up by Nestle last year when it joined forces with Coca-Cola to develop products in the ready-to-drink tea and coffee sector. Nestle has also found benefit in joint venture with others in Europe. BSN for example proved a valuable, if forced, partner for the acquisition of a biscuit and confectionery manufacturing base in Czechoslovakia and the cooperation between the two in the Perrier bid has also proved important.

Joint ventures between non-EC suppliers for development in Europe have been a less common feature. The 1992 agreement between PepsiCo and General Mills for development of the snacks market in Europe presents one of the few examples. In practice this relationship owes a great deal to the production base already held in Europe by the two companies and highlights the often "one off" nature of many of these strategic opportunities.

Distribution joint ventures have also been a significant feature. Kellogg, for example, have developed important alliances with companies in Italy and Greece for cereals distribution with similar agreements in Finland and Norway pathing the way for involvement in the expanded Community. Kraft and Campbell have developed similar relationships.

Developing International Brands

Developing international brands which lend a global orientation to the business has also been a route employed by many in the food industry. In practice however, many such brands are, as noted previously, manufactured locally either in owned facilities or under licensing agreements. Thus, while moves to develop such brands will ensure a strong paper relationship between EC retailers and the parent companies managing international brands for whom national boundaries are becoming less and less significant, in practice the day to day trading interface will be regionally based.

EC RETAILERS AND NON-EC SUPPLIERS: CONCLUSIONS

Significant trade flows exist between the EC in its current form and non-EC suppliers. These relationships have been forged in response to a lack of domestic supply, a need to ensure out of season stocks and as a result of the drive to compete in servicing the consumer with a greater choice of product. However the physical trading of goods across the European border is largely confined to commodity and ingredient areas such as fruit and vegetables and meat.

Branded and processed packaged product tends not to be traded over great distances. Hence those non-EC manufacturers currently trading with EC retailers have long established local production facilities. This localised supply base has not been developed in response to the Single Market but it might be argued that the vigorous M&A activity witnessed in Europe in the late 1980's was in part prompted by a need to ensure positioning as sector concentration increased rapidly.

More recently the focus of activity has been shifted with both EC and non-EC manufacturers identifying opportunities to invest in production facilities in the former East European countries. These investments have not been made purely to service the 'new' markets.

The drive to become least cost supplier to a retail sector increasingly demanding of that facility has led many national and international manufacturers to rationalise their production towards a European supply structure. Investments in the former Eastern European countries, whilst high risk in the short term, will provide an advantageous cost base from which to bring product into the EC in the longer term.

Increasingly therefore, national boundaries have become irrelevant in determining sources of supply and EC boundaries perhaps even less so, except where Community policy remains eg. in commodity areas. Overtime, as trade is liberalised and the Community expands geographically, the question of EC and non-EC in terms of food industry trading relationships will be less and less important.

It is likely, therefore, that the factors which will govern the development of successful trading partnerships between EC retailers and non-EC suppliers will be no different from those which provide the foundation to the relationship with any other supplier.

The essence of success will be customer service at its broadest level. Service of the end consumer, of the demands which that consumer is placing on his/her retailer and consequently of the pressures which those demands put on the retailer's business. Faced with the need to compete harder for limited growth markets, Europe's successful retailers have continued and must continue to drive for focus within their business operations. Whether this focus has resulted in strategic growth within a single national market with a range, quantity, or customer service base, or with a price offer, or it has led to the transfer of a format (eg. French style hypermarket or limited line discount) across borders or perhaps to an alliance with others, the preferred suppliers will be those who can demonstrate an understanding of the needs of the retailer, and who understand the consumer trends which influence their category and the broader inter-relationships within the business. They will be those who can offer assured supply, assured quality, technical efficiency in systems and those who show themselves to be innovative in response to the increasing demands of the consumer.

Such criteria are not bound by 1993 or by political boundaries but will be the cornerstones of the successful relationships built between retailers and suppliers both within the Community and outside.

APPENDICES

Appendix 1 - References

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Appendix 2

Extra EC Food Imports by Importing Country (Jan-Sept 1991) (000 Ecu)

Major Import Product Categories	Total EC	Belgium/ Luxembourg	Denmark	Germany	Greece	Spain
Live Bovine Animals and Meat	427,740	4,761	790	110,454	26,388	3,643
Fish	2,527,851	39,053	375,461	414,623	30,551	342,436
Cereals	16,035,846	1,564,211	95,858	1,679,208	21,701	3,013,529
Rice	500,063	85,590	784	62,424	1,499	44,918
Fresh Fruit and Vegetables	3,705,845	355,994	28,672	822,732	27,324	91,861
Processed Fruit and Vegetables	2,263,208	126,241	48,711	841,311	25,656	69,370
Oils and Fats	26,668,782	1,828,805	1,344,908	5,701,015	271,134	3,319,535
Grains and Seed	364,622	4,102	3,554	59,477	8,626	27,892
Sugar	4,810,222	210,060	183,977	238,795	839	332,934

Major Import Product Categories	France	Republic of Ireland	Italy	Netherlands	Portugal	UK
Live Bovine Animals and Meat	20,307	126	147,777	24,766	2,264	86,464
Fish	314,645	11,472	307,293	157,862	119,821	414,634
Cereals	1,578,977	501,131	1,517,566	3,704,044	1,166,568	1,193,053
Rice	77,448	1,308	18,992	117,816	12,445	76,839
Fresh Fruit and Vegetables	614,655	14,016	214,591	678,525	39,181	818,294
Processed Fruit and Vegetables	277,364	12,069	115,665	428,181	8,904	309,736
Oils and Fats	3,075,570	105,597	2,506,191	5,405,462	1,074,907	2,035,658
Grains and Seed	30,125	369	96,767	104,537	16,759	12,414
Sugar	814,011	176,733	516,479	671,883	290,142	1,374,369

Source: Eurostat