



# MS4UK410 – Principles of Marketing

Assignment 1 – Research Report

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## Introduction

Associated British Foods Plc. (ABF), an international food, ingredients and retail group, was established initially as a small bakery in 1935, and is now expanding into several other segments as well. Headquartered in London, the company operates in more than 50 countries across Asia, Africa, Europe, the Americas and Australia. The diversified business has enjoyed the highest degree of autonomy in its operations with its flagship retail brand, 'Primark', and over 40 highly known grocery brands (Associated British Foods Plc., 2022a). The devolved operating model is comprised of five major business segments, i.e. Sugar, Grocery, Retail, Ingredients, and Agriculture. The company processes sugarcane and sugar beet in-house and sells them to the industrial users. Also, it manufactures animal feed and associated products, including several bakery ingredients, yeast extracts, enzymes, lipids, and cereal specialities. Furthermore, it serves many industries, including pharmaceutical, agriculture, retail, and food (Global Data, 2022).

The purpose of the ABF is to make safe, highly nutritious, affordable food available to consumers along with a great value for money. The company's mission is to operate in an entrepreneurial and financially prudent manner, directed at long-term success over the years, creating value for shareholders and other stakeholders. ABF's stakeholders include customers, employees, shareholders and investors, vendors, governments and local communities (Associated British Foods Plc., 2022b).

Our paper aims to analyse the company's current status by analysing its internal and external environment. This will be succeeded by a set of recommendations on marketing strategies ABF can adapt to survive the market competition.

## Environmental Analysis

### SWOT Analysis

#### Strengths of the company towards the marketing process

One of its subsidiaries, 'Primark', is known to be the largest brand in the UK in terms of volume. It has strong growth potential in both newer and existing markets. According to Associated British Foods Plc. (2021), it bears profitability potential through expansion in selling space in Iberia, France, the US, and Italy due to strong brand recognition, good relationships with key landlords, and an established track record of successful store openings.

Strong consumer base in Australia ('Live Well'), United Kingdom ('Superblends'), US ('Wellness Teas'), and France ('Twinning's'). The company is a market leader in France's "tea and herbs sector".

2019 Acquisition of Anthony's Goods, a fastest growing digital-first company with a strong consumer base, by ABF's US-based grocery business has helped with e-commerce growth. Also, several products of Anthony's Goods are top-selling items on Amazon in North America (Associated British Foods Plc., 2021).

ABF is committed to a 30% reduction in greenhouse gas emissions by the end of 2030, per its compliance with the United Nations' Fashion Industry Charter for Climate Action (Associated British Foods Plc., 2021).

Sugar business AB Sugar is a diversified and top manufacturer of sugar and related products in Africa, Spain, North-East China, and the UK.

### Weaknesses of the company towards the marketing process

Understanding market and consumers' preferences are key to capturing significant market share. However, the Group often implements the same standards and norms in different markets, which is not an appropriate strategy.

While most companies in the food sector have completely automated processes, ABF's scale of technological innovation is still not matured to help it achieve economies of scale in most markets.

The asset turnover rate is considerably higher than competitors (2021 – ABF: 0.91, Campbell Soup Company: 0.72). Also, ABF's net income margin is only 5.13%, compared to 11.23% for Campbell Soup Company (Seeking Alpha, 2022).

### Opportunities of the company towards the marketing process

*Ingredients* – Through the use of its new pilot plant (opened in Finland through a joint venture with *Roal*) in AB enzymes' growth strategy, ABF can attract new customers and develop its product portfolio (Associated British Foods Plc., 2021).

Associated British Foods Plc.'s (2021) new Global Technology Centre will help improve the entity's capabilities regarding enzyme separation, crystallisation, granulation, fermentation, etc., to reduce overall costs, and to help achieve economies of scale.

The Group possesses major growth opportunities in Iberia, Italy, and France and is planning to add four more stores in France, which is anticipated to help increase market share.

### Threats of the company towards the marketing process

The global industry tends to suffer substantial rises in food prices, which can deteriorate ABF's performance in developing economies due to a consumer buying power decline.

The success of Associated British Foods Plc. depends on different sources of competitive advantage, such as sustainability, efficiency in proprietary production processes, value-addition activities, and deployment of innovative ingredients with unique functionalities. Any failure by ABF to incorporate these factors into its strategies can lead to the loss of competitive advantage (Lee and Falahat, 2019).

The company's major segment is bakery ingredients, which is expected to suffer a huge loss due to rising consumer consciousness (Perera, 2017).

The company faces strong competition from large global scale players, such as Nestlé, Tesco, and Sainsbury, which pose risks to its market share due to the high bargaining power of consumers.

### PESTLE Analysis

Various factors in ABF's external environment also affect its marketing processes to help understand the market, customers, market opportunities, and strategies to market its products in different markets.

### Impact of Political factors towards marketing process

The food industry is one of the most tightly regulated sectors, requiring strict standards for labourers and storing and transporting produce to ensure the highest nutritional quality and safety levels.

The minimum wage standard in different countries is important in entering new markets or marketing new products (Dube, 2019).

The current Brexit transition period may cause serious disruptions to the entire supply chain. Also, ABF may experience increased administrative trading costs or duties related to trading with the EU (Barons and Aspinall, 2020).

#### **Impact of Economic factors towards marketing process**

Being a multinational group, any changes in exchange rates expose the entity to transactional and translational risks. For instance, the recent increase in the Sterling's strength against most of its trading currencies led to a translation loss of £36million in 2021 (Associated British Food Plc., 2021) (Associated British Foods Plc., 2021).

Commercial implications and the inflationary impact of the commodities and energy is a global factor affecting the food and agriculture businesses and reflected directly in the pricing of products. For instance, corn oil's price increased significantly in 2021, affecting the profitability of ACH, a grocery brand of ABF.

Similarly, market uncertainty in the UK and European markets caused an increase in energy prices in those markets, directly influencing the price risk.

Likewise, the increase in Sugar prices in Africa and Europe posed serious implications to the marketing of Sugar in these regions while adding to the profitability of this product.

#### **Impact of social factors towards marketing process**

Any failure to adapt to changing consumer health choices, or to address consumers' preferences and nutritional concerns at the time of product formulation, may lead to a loss of consumer base.

ABF needs to focus continually on improvement in the nutritional value of its products, to be able to better market its products in the market than the competitors.

With the increase in social sustainability compliance requirements, the food industry must also cut back on its carbon emissions, including packaging. In 2021, the company used 233,000 tonnes of plastic in the packaging (Associated British Food Plc., 2021).

#### **Impact of technological factors towards marketing process**

Many food companies are identifying ways to simplify and automate processes and enhance cost-efficiencies to optimise their marketing opportunities. For instance, ABF has recently implemented innovative, automated processes across the entire supply chain for its sugar businesses in Spain.

ABF has employed several mobile applications to help with making irrigation decisions, deciding on the right quantity and location for the application of fertiliser, and monitoring water levels and climatic conditions (Associated British Food Plc., 2021).

However, a substantial risk with automated technology is that any problems within the system may lead to disruptions across the entire supply chain.

Automated technology can help ABF achieve cost-efficiencies, allocating such costs to identify other useful activities.

#### **Impact of environmental factors towards marketing process**

Any human-led or environmental problems can likely impact the marketing strategies regarding existing products and entrance into new markets.

The recent pandemic outbreak led to high volatility and uncertainty in the UK, Europe, United States, and other markets. For instance, ABF's yeast and bakery ingredients business in Argentina faced implications during the post-pandemic period.

ABF's 'Primark' model is most vulnerable to the external environment due to its dependence on the store retail model. For instance, it suffered substantial losses during COVID-19.

### Impact of legal factors towards marketing process

The company's tax and treasury policies require all businesses to comply with relevant local legislation, including EU cases, country-specific tax regulations, and other investigations on tax rulings.

Governments in its operation also require carbon taxes that may impact ABF's future operations in those countries (Associated British Food Plc., 2021).

The recent corporation tax increase in the UK and the proposed increase in Ireland may exert upward pressure on the effective tax rate (Associated British Food Plc., 2021).

ABF should also regularly monitor developments in other jurisdictions regarding OECD's "BEPS (Domestic Tax Base Erosion and Profit Shifting) 2.0 proposal".

The Group is also vulnerable to any changes in legislation and public policy related to employment, corporate governance, agricultural policies, and climate and environment-related matters.

## Recommendations and conclusion of the report

Associated British Foods Plc. is transforming operations through technology and has expanded operations by creating operational hubs in key foreign markets. These hubs enable the business to roll out its products and technology platforms and achieve market share in new markets (Associated British Foods Plc., 2019). The company uses modern technology to conduct automated market research before launching new products or entering new markets.

Learning lessons from Nestlé, ABF can employ 'Data Analytics' and 'Artificial Intelligence techniques to conduct market research and understand customers to help accelerate the digital transformation processes.

The company's acquisition of Anthony Goods is a good initiative to enter the e-commerce sector. However, replicating the marketing strategies of Amazon can be useful for the company to compete with large scale competitors and make the expansion strategy efficient. For instance, ABF can ensure more transparency in the information it provides to the consumers and provide a platform for customer surveys.

Operations in 53 countries with sales and supply chains in even more regions expose the company to global market forces, societal unrest, market uncertainty, geopolitical uncertainty, and a range of legislations and consumer trends (Associated British Foods Plc., 2021). However, using appropriate tools to conduct market analysis and understand the market structure and customers in the new markets can help the company design suitable expansion strategies.

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