1. INTRODUCTION

Corporate strategy is certainly a topic that is exciting and challenging. It makes fundamental decisions about the future directions of organisations. And it has the potential to have a real impact on people's lives.

But it isn't the easiest subject to study. There are several reasons for this:

*It's a young academic subject when compared to more traditional topics like economics and organisational behaviour. This means that there is a lot that we still don't understand.
*It's a complex subject that involves many different aspects of organisations, all of which may be important. This makes it difficult to record and analyse.
*And it's a subject that lacks a widely agreed body of accepted knowledge. Different strategists have different opinions on what is important and how strategy should be developed.

All these factors make it quite tough.

Certainly, some strategists argue that there is a place for strategic analytical frameworks like Professor Michael Porter's Five Forces. But the same strategists also point out the most successful strategies need to be more experimental and creative. For example, they argue that the successful strategy of Dell Personal Computers - selling directly to customers, cutting out the distributor - owed much more to innovation than to traditional strategic analysis.

In more general terms and arguably to oversimplify strategy theory, strategic processes need to be both prescriptive and emergent. We'll explore the models of these two approaches to corporate strategy later in this exercise.

The case we're going to look at is an important strategic battle between two of the world's largest food companies. On one side, we have the Swiss company Nestle, which was exploring how to enter the market for prepared breakfast cereals in recent years. On the other side, we have the American company Kelloggs, which has dominates the market. Kelloggs launched its first breakfast cereals many years ago and went on to establish itself as the leading branded breakfast cereal company worldwide.

Before analysing the market from prescriptive and emergent perspectives, it makes sense to begin by setting out the basic facts. That's the next two sections of this case study - how Nestle chose to attack the breakfast cereal market. The sections that come afterwards then explore the strategic reasoning behind the facts.

To get the most out of the case, you may like to pause after you've seen the data sections and think about how you would develop a strategy to attack Kelloggs. However, we're all humans so you may be tempted to keep reading and see the answers. It's up to you.

2. BASIC STRATEGIC DATA

Kelloggs breakfast cereals began in the USA but they are now a truly international company. They have worldwide ingredient product sourcing and modern factories. They also have experienced marketing and selling subsidiaries in every part of the world with very good contacts with supermarkets and other food chain distributors of their products.

They also have a strong brand name, good quality products and a range that is tailored for individual countries.

What this means for a company thinking of challenging Kelloggs is that the competitive advantage of Kelloggs is very substantial indeed and it's going to be tough to make headway against such a company.

For the purposes of our case, we're going to focus on the European part of the world wide breakfast cereal market. And we're starting with the late 1980s when Nestle was examining whether it would enter the market and, if so, how.
Nestle knew that the European market was large with a projected figure of 3 billion dollars for 1990. The United Kingdom within that was the largest part of the European market with sales of 1.4 billion US dollars. This was followed by Germany at 350 million US dollars and France at 250 million dollars.

From a strategy perspective, this data is already significant. The German population is the largest in Europe, yet their consumption of breakfast cereals was below that of the United Kingdom. This suggests that the UK might need to be treated differently from Germany in strategic terms.

Not only was the European market large and therefore attractive, it was also growing much faster than other food products.

Breakfast cereals across Europe had an average market growth of around 10 per cent. This compared very favourably with other food markets like chocolate confectionery where the market growth was only around 1 to 2 per cent.

For a company with the strategic purpose of growth in sales and profits, such as Nestle, breakfast cereals were much more likely to deliver its growth objectives. In BCG Matrix terms, the breakfast cereal market would probably be classified as a star.

Within the average growth across Europe of 10 per cent, the UK was growing a little more slowly around 7 per cent. This reflected the greater size and maturity of the UK market. This lower growth was then counterbalanced by growth around 14 per cent in Germany, 15 per cent in Spain and as much as 25 per cent in France.

Although much of the European market was still embryonic in strategic lifecycle terms, there were some clear market segments in the early 1990s. There were three main parts to the market - staple products, healthy products and children's products. Although the children's market was the smallest segment, some strategists considered that it had the most potential because children were more likely to try new tastes and be attracted to strong brand concepts. And within each market segment, one company - Kelloggs - was both the market leader and was highly profitable, suggesting that the market was highly attractive.

From a strategy perspective, all this raises important questions of how a company tackles the European market. For example, do you treat the UK differently because it is more mature? For example, do you enter the whole of Western Europe simultaneously or do you pick off individual countries or groups of countries? Do you target particular market segments or launch products for all segments?

All these considerations made Nestle very interested in breakfast cereals in the late 1980s. The market was large, but clearly still had growth potential and good profitability. The difficulty was that a dominant company, Kelloggs, would be very difficult to attack. In the late 1980s, Nestle had no manufacturing expertise in breakfast cereals, no breakfast product range and no reputation in this product area.

Clearly, one strategic option would be for Nestle to acquire a company making breakfast cereals - possibly even Kelloggs itself. But Kelloggs was a public company so the acquisition price would probably have been high - perhaps well in excess of the profit stream from Kelloggs products after acquisition by Nestle. So Nestle needed to consider other, lower cost strategic options.

So, now we have the strategic opportunity for Nestle in the late 1980s:

* A large, fast-growing market.
* Strong branding with good profit margins.
* Clear market segments to provide entry opportunities.

But there were also some real strategic problems. In essence, Nestle had no strategic resources in the breakfast cereals market. And then the company had a bit of luck. We'll look at this in the next section. In the meantime, you might like to think about Nestle's strategy for entering the European market.

3a. WHAT HAPPENED NEXT
Luck is important in strategy. And in 1989, Nestle had some of it. There was another big branded company making breakfast cereals called General Mills. But GM was operating mainly in the United States of America.

During the 1980s, GM had become increasingly successful against Kelloggs in the USA. The GM market share had risen from a lowly 15 per cent to a high 22 per cent of the market over this period. And it was Kelloggs' share that was taking a beating.

How had GM been so successful? By introducing new products, by selling quality products, by developing strong marketing and by delivering good value for money. All classic tools in business strategy.

Importantly, GM in the late 1980s into the early 1990s had a strategic purpose of growing internationally. It had tried to export its American range of products but without major success. And then along came Nestle looking for a way into the breakfast cereals market.

In 1989, General Mills and Nestle agreed to combine forces in a new joint venture to launch prepared breakfast cereal products outside the USA. It was a fifty-fifty partnership between the two parents to be called Cereal Partners.

The new company had its own staff and headquarters in Switzerland. And it brought the expertise and strategic resources of its two parents. From Nestle, it was agreed that it would use the Nestle brand name, which was much better known worldwide than the General Mills brand.

From Nestle also, it brought its extensive contacts in each country with the powerful supermarket chains like Tesco in the UK and Carrefour in France.

From General Mills, the new joint venture acquired its expertise in manufacturing high speed, quality products. It is not a simple task to pack millions of boxes of breakfast cereals every week and to undertake this at the lowest possible costs. GM also supplied a ready-made range of products that had been successful against Kelloggs in the USA.

Importantly, Cereal Partners agreed its strategic purpose with its parents: it would take 20 per cent of the European breakfast cereal market by the year 2000. What strategies did the new company then adopt for Europe?

Cereal Partners started its European strategy in the UK. In 1990, it acquired the UK breakfast cereal company Shredded Wheat for around 180 million US dollars from a UK company that was keen to withdraw from the market. This gave Cereal Partners an immediate presence in Europe's largest market. It also gave the company two large factories and a well-established brand.

In strategy, it's not only what moves you make in the market that are important but how your competitor reacts to your moves. In the case of Shredded Wheat, Kelloggs had known about the Shredded Wheat product for many years and therefore made no specific competitive response to its acquisition by Cereal Partners.

Over the next five years, Cereal Partners went on to launch a series of products into the UK market. It began in May 1991 with Golden Grahams. This was a product that had been successful for General Mills in the USA and CP hoped that it would be equally successful in Europe.

Kelloggs immediately responded with a relaunch of its own product Golden Crackles. This had a similar name but was not the same product as the Cereal Partners product. It had some success in blunting the CP launch but in the long term the Golden Grahams product is still around, rather than Golden Crackles.

Cereal Partners then targeted the UK children's market with the top-selling children's product from the USA - General Mill's Lucky Charms. It launched this product into the UK in early 1992. The product was a combination of oat grain cereal and crispy marshmallow in primary colours, specially designed to appeal to young children with a sweet tooth.
Kelloggs immediately responded with its own product - a relaunch of Kelloggs Ricicles - also with marshmallow pieces.

In spite of initial interest, Lucky Charms was not successful for CP and was withdrawn after about one year. But its lack of success had nothing to do with Kelloggs’ perfectly proper competitive response. Lucky Charms was simply not acceptable to British tastes and customer demand.

There's an important strategic lesson here. Although much of strategy theory focuses on competitive advantage, customers also matter. It is the customer that buys the product at the end of the day, not the competitor. Thus, products like Lucky Charms have to appeal to customers as well as beat competitors. And in this case Cereal Partners was not successful.

In May 1992, CP then introduced a totally new product for the UK market place - Clusters. This particular product was not a copy of any product from the GM portfolio in the USA. Kelloggs struggled to find a competitive response. Initially, it responded with a revamped Kelloggs Golden Oatmeal Crisp product. This was then followed by a similar product to Clusters, Kelloggs Nut Feast.

Unfortunately for Kelloggs, the Nut Feast product was good but offered no real reason to switch for those customers buying Clusters - it had no competitive advantage in strategic terms. Thus, the Nut Feast product was quietly withdrawn after several years.

In spite of failure with Lucky Charms, Cereal Partners continued to seek products that would appeal to the children's segment of the breakfast cereal market. For example, the company considered the competitive resources of one of its parents - the Nestle company. Nestle owned the well-known, branded children's chocolate drink - Nesquik.

Cereal Partners applied the concept to a chocolate flavoured breakfast cereal. Nesquik was launched in 1995 and targeted at children. The product invited a response from Kelloggs in terms of its existing chocolate flavoured cereal and this was duly forthcoming - a relaunch of Kelloggs Coco Pops.

From the perspective of strategic theory, the launch of Nesquik cereal is important. This particular well-established brand could never be entirely matched by Kelloggs, which did not possess a chocolate drink brand. This meant that the Nesquik product had a competitive advantage over Kelloggs. Cereal Partners borrowed this resource-based strength from one of its parents and used it to launch a new product, which had significant value added.

3b. WHAT HAPPENED NEXT OUTSIDE UK

Although we've so far concentrated on the UK, Cereal Partners was also developing its strategy in other European countries. It did this on a phased basis:

France, Spain and Portugal were entered in 1991. Italy followed in 1992. Then came Germany in 1993 and Benelux in 1995. Other western European countries then followed with Russia and central Europe by year 2000. Importantly, it was only in the UK that Cereal Partners acquired a company. For the rest of Europe, it developed new breakfast cereals - in some cases, the same as in the UK.

An important part of the Cereal Partners strategy was to vary the product range launched in each country. There were two reasons for this.

*First, to meet differences in national demand for breakfast cereals - for example, children's products in one country, staple products in another.
*Second, to keep Kelloggs guessing as to which products and which segments would be under competitive attack during the launch.

Cereal Partners never launched Shredded Wheat outside the UK and it never launched a corn flake product in Europe.

From a strategy perspective, you might like to think about why CP didn't launch corn flakes in Europe. And why, nevertheless, it went on to launch corn flakes in some Asian markets. There are useful strategic principles here that are answered in a later section of this case.
Turning to the future from a strategy perspective, there are some important considerations that apply now. They are particularly useful when considering emergent strategies.

The breakfast cereal market is changing with a demand for healthy eating from some customers. This means developing products that have lower sugar, lower fat, more fruit and perhaps products with a healthy image like yogurt.

And there is also a growing demand for products that don't require sitting down and having a meal at breakfast time. As people's lives become busier and the traditional concept of a family breakfast diminishes, some people don't want to take time for a sit-down breakfast meal. Both Kelloggs and Cereal Partners have responded to these trends by launching new breakfast bars. And there are probably also other products that they could launch into this area. This is a new approach and a new phase for breakfast cereal strategy. It probably requires experimenting with new products to find those that have the most demand.

So, let's summarise the strategic issues at the end of this section on the battle for the breakfast cereal market.

*Issue 1: How would you analyse the strategic environment for breakfast cereals?*

*Issue 2: From the perspective of Cereal Partners, what strategic resources did it bring to the market place? What are its competitive advantages? And where was the value added?*

*Issue 3: What was Cereal Partner's strategic purpose? What were its vision, mission and objectives and over what timescale?*

*Issue 4: What strategic options were available to Cereal Partners to achieve its objectives? From a prescriptive and/or an emergent perspective?*

*Issue 5: What choice did Cereal Partners make from a prescriptive perspective? And what is the strategic reasoning behind such a choice?*

*Issue 6: And, finally, what was the evidence of an emergent strategic process here? What experimentation and dynamic happened in the market place?*

The next sections will explore these issues. But you may like to pause first, look back at the last two sections and arrive at your own conclusions.

4a. STRATEGIC ANALYSIS. ENVIRONMENT (I)

In the next few sections, we will go through each of the elements of a prescriptive strategy analysis for Cereal Partners. It is important to note that the reasoning and comments in this section are my own conclusions and interpretations of what happened in the market place. They do not come from Cereal Partners, and they don't come from Kelloggs.

Corporate strategy involves considerable judgement and these sections are designed to show you one way of analysing and applying such judgements. But they are not the only approach and you may have an alternative view that is equally valid. This means that you are entitled to disagree with the reasoning that follows.

When developing strategy, the important points are, first, to explain the strategy with evidence and logic and, second, to apply the strategic principles generally accepted in corporate strategy. Exploring the way that strategic decisions are made should help you to understand the basic principles of strategy.

In the next three sections, we look at a prescriptive approach to strategic decision-making. After that, we take an emergent approach to strategy.

You will know that the prescriptive model starts with analysing the strategic environment. It then analyses the strategic competitive resources of a particular company or organisation that is actually or potentially involved in the environment. The prescriptive model then defines the purpose - that is the vision, mission and objectives of the organisation. Finally, it explores the options to achieve that purpose and makes a choice between them and implements the chosen alternative.
You can think of this as being like the way that a medical doctor analyses a patient's symptoms and then prescribes a treatment for the illness from a range of options available.

Let's begin in this section by looking at the strategic environment of the market place for breakfast cereals. In later sections, we will look at other aspects of the strategic process.

In analysing the environment, we need to concentrate on those elements that really matter.

Another important point is that our strategic analysis of the environment is from the standpoint of a company proposing to enter the market - Cereal Partners in the late 1980s and early 1990s had no products in the market place at that time. Thus we are looking to find the strategic market opportunities and our strategic task is to develop an entry strategy.

In this case, the market size, market growth and market share of Kelloggs are all important. The large size shows that it is a significant and therefore attractive market. The relatively fast growth is also attractive when compared to other food products. High market growth makes it attractive for a new entrant like Cereal Partners because it is usually cheaper to build sales from new customers than steal sales from a strong rival like Kelloggs.

We also note that growth is higher in some European countries than others. Specifically, the UK is a more mature market than other European markets - we'll return to this point later but the Market Life Cycle strategy concept is relevant here. It was for this reason that Cereal Partners developed one strategy - acquisition - for the mature UK market and a different one - new product launches - for the smaller but faster growing markets of the rest of Europe.

With regard to market share, it is self-evident that Kelloggs dominates the market around the world. This is because Kelloggs developed the market for breakfast cereals and therefore has first-mover advantage. When we come to our strategy options, we must therefore address this important point - you will recall that Porter has much to say on tackling companies that dominate markets - for example, it may be more productive to attack a niche part of such a market rather than attacking head-on against a dominant competitor. We will return to this under strategic options later in this case study.

4b. STRATEGIC ANALYSIS. ENVIRONMENT (II)

Let's look at some of the other elements of strategic analysis. We begin by analysing the degree of turbulence in the marketplace. Although the market is growing relatively fast, it is growing in a predictable way. This means that the degree of turbulence is relatively low. We can therefore use prescriptive strategies with some confidence.

With regard to PESTEL Analysis, there really isn't much to say. We can make a long list if we really want but, in my opinion, it does not add much to the strategic environmental analysis here. So we won't pursue it further. However, you may disagree and certainly the PESTEL concept is still relevant in other cases.

With regard to the competitive balance of power in the industry, we can undertake a Porter's Five Forces analysis. Let us start with the bargaining power of the buyers.

In common with many markets where products are sold through distributors, there is the potential for some confusion here that is not clearly recognised in Porter's model.

Essentially, there are two forms of buyer. The first is the buyer who actually purchases the product from the breakfast cereal manufacturer - grocery supermarket chains like Tesco and Carrefour. These chains have immense buying power because of their size and importance for breakfast cereal sales. This is a key element of our strategic analysis since it will affect our ability to make a sale to the second form of buyer. If you don't get your product distributed you cannot sell to the second buyer.

The second form of buyer is the individual customer who walks into the supermarket to buy the product - families, children, adults, and so on. Individually, these have very limited bargaining power - for example, if you or I write to Kelloggs to make a point we are hardly likely to make much impact on the company. By contrast, if Tesco writes to Kelloggs, they are likely to sit up and act immediately.
Individual customer buyers therefore have low bargaining power. We will return to individual customers in our analysis shortly.

Now let us turn to the other competitive forces acting in the breakfast cereal market. The suppliers to the breakfast cereal manufacturers are companies that make sugar, oats, wheat, packaging and so on - there are plenty of these around, so in general terms their bargaining power is low.

With regard to the threat of new entrants, there are probably some other companies around - possibly the supermarkets wanting to launch their own branded versions of breakfast cereals - but we are new entrants ourselves. Thus from our perspective, there is no additional threat.

With regard to the threat of substitutes, there are clearly substitutes for breakfast cereals but they do not pose a specific threat, which is therefore low. We'll return to new substitutes when we examine emergent strategies later.

Finally, we have the immediate competition: the Kellogg company is clearly important and forms a major part of our analysis.

Now let us turn to the co-operative forces acting in the industry. We need to examine each of the potential links between Cereal Partners and others in the market place to see whether any are important for our strategic analysis. The importance of such co-operative links and networks comes from their ability to deliver competitive advantage.

Unlike some markets where government forces are important, breakfast cereals is essentially without such influence. Thus government links and networks are relatively unimportant. Equally, we have no information that formal links and networks are important in this case.

However, given the importance of the food supermarket chains, informal links and networks between the manufacturers and the supermarkets may be extremely important. Indeed, it may be impossible to undertake business long term without such co-operation. Moreover, the market growth is so attractive that supermarkets might be interested in a manufacturer able to make breakfast cereals to compete against Kelloggs.

And it is a well-known fact that Kelloggs won't do this - they say that on their packs. Maybe there is a strategic opportunity here? Perhaps, the new breakfast cereal company could negotiate to make breakfast cereals for the supermarkets? This would have the important strategic advantage for a new company by putting extra volume through the manufacturing facility and therefore make, as a minimum, a contribution to manufacturing overheads - perhaps even a small profit?

Finally, there is always the possibility of strategic complementors. In this case, one of the parent companies - Nestle - has a range of other food products - like its chocolate drinks and its milk products - that might provide opportunities for some form of complementary link up. We have also seen that General Mills has some complementary products - its North American breakfast cereals - that could be introduced into Europe and the rest of the world. There is real strategic potential here. We will return to this when we consider the strategic resources and strategic options shortly.

4c. STRATEGIC ANALYSIS. ENVIRONMENT (III)

The next part of our environmental analysis should be about our immediate competitors. In this case, Kelloggs is a powerful and sophisticated competitor for two reasons. First, the company is well-established with strong brands, good distribution and good profitability. We need to find strategies that recognise its market power.

Second, Kelloggs had a strong manufacturing base in Europe so it was likely to have major economies of scale and therefore to have the lowest costs in the industry - this is important when considering options associated with Porter's Generic Strategies concept. We need to find strategies that recognise the low-cost manufacturing base of Kelloggs or we will fail.

Finally, in analysing the strategic environment, we need to look at individual customers and, in particular, at market segments. We have some limited information here on the different market segments in the
breakfast cereal market - the markets for healthy cereals, child-oriented cereals and - the largest segment of all - basic cereals like corn flakes.

The reason for this lack of data is that such segments were in many European countries in their early stages of development in the early 1990s - there was little useful data. However, we know that in the more developed USA and UK markets, such segments are important and it may be that, over time, we can attack Kelloggs by moving into such segments across Europe. We will return to this when we explore strategic options later.

Let's summarise some conclusions from our strategic environmental analysis for Cereal Partners:

* The market is large and growing fast. It is therefore attractive.
* Kelloggs is the dominant company and will be difficult to dislodge: it may be better to find a market segment rather than to attack the company head-on.
* Gaining distribution through large supermarkets is vital. We need to develop a package of activity that will persuade supermarkets to stock our product range.
* We need to explore the scope for own-label breakfast cereal manufacture for the supermarket chains.
* We may be able to exploit complementary products from our parent companies - Nestle and General Mills.
* We need to examine potential market segments, perhaps based on North American and UK market experience.
* To compete against Kelloggs we need to find a way to deliver low cost manufacture.

5a. STRATEGIC ANALYSIS. RESOURCES

Now let us turn to the next important task of analysing the competitive resources of Cereal Partners. In essence, we're looking for the sustainable competitive advantages - both actual and potential - of the Cereal Partners company and we're looking at value added - where the profits are made. These two concepts are inter-linked so we'll focus on competitive advantage here.

In the breakfast cereal market, we are talking about a new company that has few assets of itself. So we need to focus more directly on more obvious areas. These are based on the work of Hamel and Prahalad and the writings of John Kay.

So let's explore the work of Hamel and Prahalad and Kay in the context of the parents of the new company - Nestle and General Mills. What competitive advantages could each of the two parents contribute to the new joint venture? Let us take each of the main concepts in turn.

Core competencies: technical skills and knowledge that deliver the competitive edge of some companies. In this case, one of the parent companies - General Mills - brings its expertise in mass production of breakfast cereals. Arguably, these are not superior in themselves to those of Kelloggs. However, they are important for two reasons.

First, if the new joint venture is to compete on price in the market place, then it needs all the help it can get in low cost manufacturing. So it needs the core competence of GM. In addition, we can recall that Kelloggs does not make products for any rival company, including supermarkets. Here is an additional opportunity for Cereal Partners to reduce its costs by the extra economies of scale that will come from making cereals for the leading supermarket chains.

Second, GM does make some different products from Kelloggs in the USA that have proved quite successful - Cheerios for example - and arguably these include specialist technical knowledge of such products that can be contributed to the new joint venture. Thus, they must exploit the competitive advantage of GM in the area of core competencies.

Now, let's turn to John Kay's three areas: architecture, reputation and innovative capability. In terms of architecture - the network of relationships inside and outside the organisation - Nestle can be expected to provide its very strong relationships with the supermarket chains based on its existing product ranges - Nescafe, milk chocolate and so on. This advantage must be passed on to the new joint venture.
In terms of reputation, we mean both the general standing of the company and the more specific customer knowledge of well-known brand names. At that time, General Mills was not really known outside the USA. But Nestle was a very strong brand name world-wide and thus able to contribute this reputational competitive advantage to breakfast cereals. Use the Nestle brand name.

With regard to innovative capability, we know that GM made inroads into the Kellogg market share in the USA through the introduction of a range of innovative products. Arguably, this is a real competitive strength that the new company - Cereal Partners - can build upon. What this means is that the new joint venture needs to examine the US product range of General Mills and see if any of their products have potential for launch into Europe.

5b. KEY FACTORS FOR SUCCESS

Finally, let us look at key factors for success in an industry. You will recall that it is sometimes useful to identify the factors that are essential for any strategic plan to address. They will not lead to strategic success but without them it is unlikely that the strategic purpose will be achieved. We can use our analysis of the strategic environment and resources to identify these for the market for prepared breakfast cereals.

They include quality products, low cost manufacture, strong network contacts with the leading supermarket chains.

They may also include strong branding. But this is not necessarily correct; companies can choose to follow a strategic route of only making supermarket brands - sometimes called own brands. In the case of Cereal Partners, which already possessed some competitive advantages in its brands, strong branding is likely to be a key factor for success.

Let us therefore summarise some conclusions from our strategic resource analysis and the key factors for success in the breakfast cereal industry. Cereal Partners competitive resources include:

* Manufacturing core competence from General Mills.
* The network of good contacts that Nestle has with the major supermarket chains across Europe.
* The brand name Nestle as a reputational strength.
* The innovative capability captured in the product range of GM from the USA.

In practice, these may need some adaptation to the new company but they represent a useful starting point in developing the competitive resources that will deliver the company's objectives. And that's the next section.

6a. DEVELOPING PRESCRIPTIVE STRATEGY

What we need to do in this section is to look at the purpose of Cereal Partners, the strategic options to achieve that purpose and then make a choice between the options, which we will implement. Let's begin with company purpose, which is explored under the three headings of vision, mission and objectives.

In the case of breakfast cereals, we have been told the purpose of Cereal Partners. It is to achieve 20 per cent of the European market for prepared breakfast cereals by the year 2000. There is no mention of profit in the company purpose, nor any reference to shareholders. However, we can assume that they would expect to make reasonable profits.

Clearly, this brief statement of purpose oversimplifies a very important aspect of strategy. In practice, organisations often spend considerable time developing their purpose. They may well look at the analysis of the environment and resources and the demands of shareholders and other stakeholders in developing their purpose.

Clearly, this all makes sense. It's not logically possible to develop strategies to achieve a purpose if you haven't identified the purpose in the first place! However, in this case, we will accept the limited definition of purpose provided by Cereal Partners and move on to consider the prescriptive strategy options.
Based on our earlier strategic analysis of the environment and resources, there are at least three options for the company:

* Head-on against Kellogg's.
* Flanking via market segment.
* Totally new breakfast format.
* Perhaps more options.

Notice here that we have identified only three main options. It is usually possible to produce a long list of possible options for any prescriptive strategy. I once saw a strategic plan with over twenty options! The problem is that long lists are difficult to analyse in sufficient depth and most organisations can only cope in practice with a limited number of options: this is the important concept of 'bounded rationality' in the words of Cyert and March.

Clearly, there’s no particular significance in the choice of three options. In this case, the three chosen options are based on the four main attack strategies usually described in textbooks. The fourth option - guerrilla strategy – has been left out because this is a short-term option and does not make much sense for Cereal Partners, which intends to be around for at least ten years.

6b. PRESCRIPTIVE STRATEGY OPTIONS (I)

Our next task is to make a choice between the strategic options. Given the large size and geographic spread of the European market, some immediate strategic questions include:

* Do we tackle the whole of the European market with one launch or do we move from country-to-country over time?
* If we tackle individual countries, where do we start? Does the more mature UK market come first or last?
* Do we attempt to match the broad range of Kellogg’s’ products in the market place or do we focus on some special segments?
* How do we exploit our resource-based competitive advantages? What does this mean for the options that we are considering?
* How can we gain economies of scale and the low-cost manufacture that is essential in this market?
* Are there any special strategic opportunities that we might wish to exploit? Perhaps opportunities that exist now but might disappear over time?
* How do we tackle the possible opportunity of making own-label cereal products for some leading supermarket chains?

To answer these questions, we need to remind ourselves of several important strategic principles:

* First, a strategy that concentrates its resources is more likely to be successful than one that spreads its activities thinly. This means that it is probably better to focus on an individual country rather than across the whole of Europe at the same time. And, as we saw, Cereal Partners started with its UK launch in 1990. Then it moved into France, Spain and Portugal in 1991 and Italy and Germany in 92 and 93.
* Second, it’s important to treat the UK market with its much greater size and maturity differently from other faster-growing European markets (the industry life cycle strategies for mature and growing markets have to be taken into account). In practice, this meant that to gain UK market entry it was probably necessary to think about an acquisition rather than launch slowly into the UK market. This was particularly important because Cereal Partners needed to build economies of scale fast for the reasons we’ve already explored.

Around the time when Cereal Partners was beginning its strategy, there was a major strategic opportunity. In 1989, a company called RHM wished to exit the UK breakfast cereal market. So it put up for sale its well-established cereal brand, Shredded Wheat. This would deliver not only a well-known brand to a purchaser but also several efficient UK factories that would bring immediate economies of scale -perhaps not to the level of Kellogg’s’ low costs but certainly a good starting base. It was for this reason that Cereal Partners bought Shredded Wheat for 180 million US dollars in 1990.

Importantly, this was a strategic opportunity to be seized - this meant that the United Kingdom came first rather than last in entry strategy for Cereal Partners.
6c. PRESCRIPTIVE STRATEGY OPTIONS (II)

The largest single product segment is that for staple products like Cornflakes and Kelloggs dominates this market niche with a good product. Any rival product from Cereal Partners is likely to be a copy cat product with no technical superiority and therefore no competitive advantage. This means that Cereal Partners should ignore such segments and focus on some special segments of the market where it can exploit its competitive advantages and attempt to take a reasonable market share.

For precisely this reason, Cereal Partners has never launched a cornflake product in Europe. However, where breakfast cereal markets are much younger - embryonic in industry life cycle terms - such as those in parts of Asia, there is a case for Cereal Partners to launch a cornflake product alongside Kelloggs. And the company has done so.

If it's not the best strategy to attack Kelloggs head-on, then a good alternative strategy is to attack a segment of the market. Essentially, this meant picking segments of European markets that were most likely to grow and then positioning products within those segments.

Outside the special situation of the UK market, this is the strategy adopted by Cereal Partners - launching a small range of about four branded products, often at the children's or health market segments, into a European country under the brand name Nestle. In addition, the product range country-by-country was changed to meet the particular customer needs of each European country and to make it more difficult for Kelloggs to predict what Cereal Partners would do.

We have clearly identified some important competitive advantages of Cereal Partners - the brand name Nestle and the network of contacts that Nestle possesses with key customers; the manufacturing skills and American product range of General Mills. We've explored these earlier so we are not going to repeat them here.

However, it’s important to emphasise one point. The core competencies of General Mills should help to deliver low manufacturing costs at Cereal Partners. And that's important if the new company is to deliver value for money to its customers and compete against Kelloggs. Making own brand breakfast cereals for supermarkets will also help to reduce costs. Porter's concept of Generic Strategies emphasises the competitive advantage of having the lowest costs in an industry. Cereal Partners may never be the low-cost leader. But breakfast cereals are a mass-market, low cost business and therefore CP needs to get its costs near to Kelloggs if it is to be profitable in the long term.

Let us therefore summarise the chosen strategic options of Cereal Partners:

* The UK was treated as a special case.
* Cereal Partners rolled out its products country-by-country across Europe.
* The Nestle brand name was chosen.
* Cereal Partners used the Nestle supermarket contacts and prepared a convincing launch story to persuade supermarkets to stock the product range.
* Cereal Partners offered to make own brand breakfast cereals for the major supermarkets.
* The company used the manufacturing knowledge of General Mills at the newly-acquired Shredded Wheat company and later at other European manufacturing locations to deliver low cost production.
* Some parts of the General Mills' US product range were launched into Europe - with mixed success.

From all this, it will be clear how the new prescriptive strategy was developed. The earlier part of this presentation showed how it happened in practice.

But, and most important, prescriptive strategies miss important elements of strategy development. We also need to examine emergent strategies. Cereal Partners needs to be creative, experimental and innovative if it is to stand any real chance of achieving its share objective against Kelloggs, the powerful market leader. We tackle this in the next section.

7a. DEVELOPING EMERGENT STRATEGY (I)
Let's now look at emergent strategies. We know that the process is probably more important than a specified outcome.

We can begin by starting with an analysis of the strategic environment and strategic competitive resources. This is similar for both prescriptive and emergent processes. The next stages of the emergent process are then much less clear - purpose is deliberately left vague and experimental. There is no clear and specific choice mechanism, as in prescriptive strategy. Rather, there is an acknowledgement that it is more important to launch products and then learn from experience in the market place. We can use double-loop learning and the learning-based mechanism of Peter Senge and others to help here.

Although emergent strategies can start in much the same way as prescriptive strategies when analysing the environment and resources, there is one important qualification to this approach. Because we want to be more experimental and investigative, we will want to lay more emphasis on new market trends and tastes.

In breakfast cereals, this means three trends in particular:

*First, the trend away from sitting down for breakfast - some people at least claim that they no longer have time for breakfast as such. They want breakfast 'on the go.' This is where the breakfast cereal bars come in - they allow people to eat breakfast on their way to work.
*Second, the trend towards more healthy eating - some people want to have more natural ingredients, less refined products, more organically sourced products and so on. This is where the trend towards more organically grown products with lower levels of fat and salt.
*Third, the desire of other competitors to take part of the market - perhaps through specialist premium breakfast cereals.

You can probably name some other recent food trends that might be included - perhaps, exploring new tastes and ingredients.

It's also important to consider further the competitive advantages of Cereal Partners - such as the existing product ranges of its parent companies - to see whether there is anything further that might be exploited in the new breakfast cereal company. Perhaps a new product launch or a new technology developed by the parents. It is really important here to be creative and imaginative as well as logical and fact-based.

Let us now turn to strategic purpose in emergent strategy. We know that the process takes a more divergent path than prescriptive strategy - rather than having a fixed purpose, the aim is to experiment and trial new products. They are not immediately judged by whether they meet some specific criteria like return on capital employed - they are just allowed to happen and allowed to evolve. The purpose remains essentially unresolved for at least a period of time. Cereal Partners' purpose - '20 per cent by the year 2000' - does not disappear but it is not the immediate driving force.

And this means that the prescriptive approach of developing a set of options and then making a choice is no longer correct. By all means develop the options but do not make a choice between them - experiment, trial some in the market place. And use the learning process. With regard to breakfast cereals, this meant that Cereal Partners trailed a number of products in different countries to find out what was most successful.

In reality, the company could also take this further by setting up special project groups to develop new product ideas - perhaps groups that are multi-disciplinary, perhaps groups that have people from outside the company, perhaps groups that have some quite unusual members - artists, musicians and so on. Importantly, such groups do not have a specific brief and are not blamed if they fail to produce a commercial product - the important point is that they are innovative and different with the best allowed to develop commercially.

7b. DEVELOPING EMERGENT STRATEGY (II)

In this context, let's look at two products: Lucky Charms and Cinnamon Grahams from Cereal Partners.
Lucky Charms was launched in the UK in 1992 but withdrawn after about a year. It is still a major product in the USA and Canada but was not successful in Europe. Importantly, there is no shame in this - Cereal Partners did the right thing. They experimented and tried something different - the innovative process needs to include a 'no blame' culture.

Cereal Partners launched Cinnamon Grahams in 1998. It also came from the United States where the flavour is very popular. The company has had some success with this product and it has taken its place, at least in the UK, as part of its regular product range. However, the product is not widely available in Europe where the company has different product ranges and tastes. The innovative process needs to experiment with customer demand in different countries.

During this period, Kelloggs has also been experimenting with new products. As market leader, it needs to do more than merely react to its smaller competitors. Strategically, Kelloggs needs to grow the market and it has had some real success here. For example, it has pioneered the concept of breakfast bars to replace sit-down breakfast meals. These have been so successful that Cereal Partners has now responded with its own breakfast bars.

This is important strategically because it shows that strategy is dynamic. Your competitor launches a product and you respond. Emergent strategies are better at coping with this concept because they make the explicit assumption that such activity is central to strategy development.

More recently, Kelloggs is experimenting with the new concept of Fruit Winders. The product extends the idea of breakfast to other snack occasions. Good strategy takes risks and learns from the market place.

So let's summarise the emergent strategic process in breakfast cereals:

*Environment and resources analysis is similar but with more emphasis on new trends and opportunities - changes in breakfast eating habits, for example.
*Purpose is left more indistinct and experimental - the 20 per cent objective is no longer dominant.
*Strategic options and strategic choice are merged with the emphasis on the learning-based mechanism - try new products like Kelloggs breakfast bars and Kelloggs Fruit Winders.
*There needs to be more focus on innovation and experimentation without being tied to specific targets and without blame if targets are not met - Lucky Charms for example.
*Strategic process matters just as much as outcome - new groups of people to develop new product ideas for example.

8. FINAL COMMENTS

Finally, this strategic battle is not over. There are more countries to be conquered and more products to be launched. For example, we heard that in the early 1990s Cereal Partners launched Clusters. It's been quite successful in some countries and Kelloggs have now hit back with their own version of Clusters.

For Kelloggs, it’s not a knock-out blow against Cereal Partners. But I don't think that this was the intention of Kelloggs. It simply wanted to make life more difficult for its rival and meet customer demand for a particular product name. In addition, Kelloggs has now started to make own label breakfast cereal for at least one supermarket chain, Aldi, in Germany. This emphasises that strategy is dynamic and unfolding over time.

More generally, we've seen how it is possible to analyse the strategic environment and strategic resources of a company - in this case, Cereal Partners. It is then possible to develop a prescriptive strategic plan to meet the objective of 20 per cent of the European market by the year 2000. Incidentally, Cereal Partners has largely achieved this aim, though it has not been equally successful in all countries.

At the same time, Kelloggs has defended its market well and it has developed new and innovative products through experimentation in the market place.

Strategy has its planned, prescriptive elements. But it also has its creative, emergent elements.

And that's what makes corporate strategy so interesting.