

Across the globe  
campbell soup  
company marketing  
essay



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The first and most prominent problem for Campbell's Soup Company is a declining condensed canned soup market in the United States. This is evidenced by a 40% reduction in demand for cooking soups used in recipes and an overall reduction for canned products. This was caused, in part, by the changing consumer preference toward fresh and/or natural food products as opposed to canned or frozen products. In addition, the percentage of meals eaten outside of the home has been increasing, and in 1998 approximately 45% of all meals were eaten away from home. Considering that the Soups & Sauces division of Campbell's accounts for approximately 2/3 of total revenue, this would have a severe impact on the future profitability of the company.

Add to this the slow international expansion of the company, which has not helped Campbell's to capture global market share. Worldwide soup sales continued to grow at 3 percent during 1998, but U. S. soup consumption declined 1 percent. This may be partly due to Campbell's inability to understand differing ethnic tastes and preferences in multi-cultural environments and foreign preparation techniques.

## **DATA AND ANALYSIS SUMMARY**

Across the globe Campbell Soup Company sells more than 2,000 products and manufactures in more than 40 nations. The flagship of the company is the red-and-white label on its canned soups. Its corporate strategy has evolved with each change in leadership and its diversification strategy has shifted as each new CEO pursued a different course. To succeed completely in the marketplace, a company must realize that the overall environment and customer preferences are not static, but constantly changing. How can a

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company survive in this versatile business world? How can it meet the demand in the marketplace? Any company must understand and analyze the whole environment in order to find the right direction to effectively and efficiently utilize the company's limited resources. In the last 20 years, the structure of society has dramatically changed in the United States, prompting companies to shift their strategies. Today, more than half of all households consist of only one or two members. Women comprise 43 percent of the national workforce and 60 percent of total family income is a result of two income households.

Due to smaller family units and dual income earners with more disposable income, less time is spent on meal preparation. As a result, the percentage of meals eaten at home is declining. At the same time, people have become more health conscious and prefer fresh produce and natural food products to canned or frozen alternatives. Consumers are concerned not only about the contents of the food but also the image of the food itself. They believe in the "they are what they eat" philosophy.

The influx of immigrants is also constantly increasing in the United States. The rapid growth of ethnic groups including Hispanics, African-Americans, and Asian-Americans are influencing the marketing strategy of many firms. Because of the diverse customs, habits, and lifestyles, they have varying demands for products. Companies are challenged to make strategic adjustments to meet these needs. All of these changing forces offer tremendous potential in the food industry.

Knowing the market and understanding customers are not enough. In the technology area, if a company doesn't maintain a good technology support system, it will lose market share and will become extinct in its industry. Since the early 1900's, when John. T. Dorrance successfully developed a process for creating canned soup in a condensed form, there has been little technological achievement at Campbell's. This technology issue is a vital weakness of Campbell Soup Company. Campbell Soup Company needs to continue working harder to maintain technological advantage in the food industry.

In 1980 when Gordon McGovern took over, the company was organized into six business units; Campbell's U. S., Pepperidge Farm, Vlastic Foods, Mrs. Paul's Kitchens, Other U. S. and International divisions. Each business unit was widely diversified with several having similar, if not competing, products. Campbell's U. S. accounted for 50% of corporate revenues and was divided into eight profit centers, yet the majority of other business units maintained a high market share of their products. The Other U. S. Business Division consisted of several unrelated, unfamiliar businesses compared to the core food products units. Restaurants and fitness equipment were included in this unit.

Under the umbrella of the six business units, McGovern restructured the company into 50 autonomous units. This decentralization of management facilitated entrepreneurial risk-taking and new product development. He gave each manager leeway to develop any new products to grow the unit, even if the new products were closely related to another business unit's products. McGovern believed that managers would be more creative and  
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venturesome in developing profitable new products using this approach. He also supported this with a compensation plan to reward these efforts.

From a marketing aspect, McGovern's strategic focus was on the consumer. Consumer hot buttons such as nutrition, convenience, price, quality and uniqueness were identified and responses to consumer perceptions were promoted. He developed several key business unit strategies to support his focus on the consumer:

Improve operating efficiencies

Develop new products to capitalize on consumer trends

Update advertising for new and established products

Continue emphasis on high production standards and premium quality products.

New product introductions in the industry commonly had high failure rates. Only 20% of new products lasted longer than 1 year. During the 1980's Campbell's had a success rate of only 1 out of 8. However, under McGovern, new product introduction was driven through extensive market research and guided through a test market approach suggesting that they should have had a stronger acceptance rate.

McGovern had four financial objectives: 15% annual increase in earnings, 5% increase in volume, 5% increase in sales and an 18% return on equity. From 1980-1989 average annual growth in sales was 7.9%, and average earnings was 9.1%. Sales growth was being achieved with less than expected

earnings. In the same timeframe the marketing budget went from \$275 million to \$552 million and advertising expenditures went from \$67 million to \$197 million. This suggests that a large increase in cash was required to generate additional sales growth, but incremental profits did not cover the cost, therefore earnings failed to increase at the targeted rate.

Finally, the production aspects under McGovern stressed the importance of high quality. He believed that if Campbell's couldn't produce quality, they should get out of the business. This concept was instilled in every employee at every operation. Market considerations and consumer trends governed machinery and production capabilities. Strengths during the late 1980's in this area included a worldwide system for obtaining raw materials, a broad range of products that could be used for developing, producing and marketing new products, and emphasis on low-cost production.

In 1989 the soup business was considered a relatively mature market. As a result, the growth of the company was supported by aggressive market research that identified changes in consumer preferences such as requirements for more nutritious, low-calorie, low salt and microwavable products. Market growth strategies were aimed at providing new varieties of products in convenient packages, expanding into the dry soup mix market and creating a new frozen gourmet line. The dry soup mix market in the U. S. was growing faster than canned soup.

Competition within food industry markets was dominated by a few major players; making market entry difficult. Lipton dominated the dry soup market and they aggressively responded to Campbell's test marketing and entry into

this market. There was also a high degree of private label brand competition and a highly competitive frozen foods market.

The International Division was Campbell's second largest division achieving 20% of total revenues in 1989. Attempts to gain market share were focused by capitalizing on consumer trends and preferences with new varieties of existing products and expansion into competitive markets. Under David Johnson, Campbell's maintained itself domestically as a mature market. One major consumer trend shift was the replacement of ketchup to salsa as the leading condiment, which led to Campbell's acquisition of Pace.

The markets and opportunities under Johnson were becoming more global. A need to understand and penetrate international markets that would achieve company growth was presenting itself along with a supporting need to continue maintaining core business domestically. Most important was the increasing demand in the world market for processed food. International demand for processed food products was projected at twice that of the U. S. industry. Johnson recognized this opportunity and assigned International Marketing to address the taste preferences and eating habits of the various markets and develop multi-country strategies. In addition, international product familiarity with Campbell's condensed soups was required and consumers had to be persuaded to switch to different preparation techniques. International growth continued to be the focus by enhancing the differentiated image of Campbell's products in these markets.

Johnson's growth strategy concentrated on growing sales of core brands, increasing U. S. market share of core brand categories, and increasing

penetration of foreign markets. This strategy was guided by the following four corporate level strategic principles:

The primary purpose of the corporation is to build shareholder wealth.

Exploit Campbell's brand power - focus on core brand strengths.

Empower employees by encouraging individual risk-bearing and teamwork and rewards based on results.

Preserve the company's independence - resist outside threats for control of products or business.

Johnson initiated his growth strategy by divesting poorly performing and non-strategic business units and reorganizing Campbell's six divisions into three. The U. S. A., Bakery and Confectionery, and International Grocery business units were designed to improve communication and share technology between businesses of similar products and geographical areas as well as provide more emphasis on international businesses.

He also required new products to exploit strengths, core competencies and organizational capabilities as well as the potential to achieve his financial objectives. Additionally, he wanted to focus on global marketing of company competencies and capabilities followed by installation of low-cost corporate business systems to support the strategic business units. And finally, improved asset utilization was required to maximize return to stockholders.

Johnson planned to offset divestitures with acquisitions of higher margin businesses with growth potential. This was mainly intended to add brands and infrastructure to support growth of international business.

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New product development and marketing aspects under Johnson took on a more cautious approach. More aggressive marketing of existing products with heavier research and testing of new products prior to market release were employed. New products were required to generate a faster payback of investment and limited to areas of production and marketing expertise.

Financially, Johnson had three objectives. Known as his 20-20-20 rule, it required the company to achieve a 20% growth in earnings, a 20% return on equity, and a 20% cash return on assets.

The effects of divesting in Johnson's first 18 months resulted in the selling of 8 plants, shutdown of 12 other plants, a workforce reduction of 8, 000 people and an overall capacity utilization increase from 60 to 80 percent. Beyond 18 months, more than 6 additional plants were closed, 14 businesses were sold and 2, 100 more administrative and operational positions were eliminated.

## **SWOT ANALYSIS**

### **STRENGTHS**

Research and development - aggressive market research and product testing of new products.

Brand recognition - the red and white label of Campbells is highly recognized in the industry.

Production capabilities - facilities and machinery were designed around market considerations and consumer trends. Campbells has over 40 worldwide production facilities.

Focused organizational structure - the core competencies and company growth.

Financial strength - sound objectives and second most profitable food company.

## **WEAKNESSES**

Technology - slow to develop or acquire needed technologies.

International market research - poor analysis in understanding international food preferences and tastes.

## **OPPORTUNITIES**

Food Service industry - current market would support approximately \$300 billion in revenue.

Pacific Rim expansion - utilize Arnott, LTD to establish presence there.

Fortun Foods technology (wet soup) - container to kettle technology allowing for penetration into the food service market.

International expansion - growth potential greater than the declining domestic market.

## **THREATS**

Declining domestic canned soup market - 40% reduction in canned soup demand.

Increased private brand labeling - consumer shift toward low priced alternatives.

## **ALTERNATIVE SOLUTIONS**

### **Alternative No. 1**

Campbell's should continue portfolio restructuring. New product introductions should continue, but only after intense market testing and adequate advertising. Campbell needs to explore new uses for existing products and continue high profile advertising for existing products along with appealing product packaging. Campbell's also needs to more aggressively promote the healthy and natural aspects of their products and continued reduction of salt, fat content and other unhealthy additives. Campbell's addition of new technologies to provide fresh soups to restaurants, cafeterias, etc. needs to be strongly marketed, promoted, and sold. This represents a major opportunity where growth is unlimited, as eating out now exceeds eating at home.

Private brand labeling adds an additional niche that may help recapture market share, and strengthen domestic sales. The competition here is a threat and Campbell's must either reduce costs or meet this threat head on. This could lead to soup products at Wal-Mart groceries with a Sam's Choice or Great Value Brand.

In addition, Campbell's should explore the idea of joint ventures with businesses outside their core product line. Possible joint venture prospects might include one of the major airlines, to provide in flight meals (soups), a specialty sandwich shop such as Subway or Goodscents to provide soup as a compliment to sandwiches, or some tie in with an internet sales program to pick, order and buy from home.

## **Alternative No. 2**

Campbell's has endeavored to strengthen its core business and now must embark on diversification. Too much of its business lies in the Soups and Sauces with two-thirds of its total sales coming from this area. Campbell's has great market strength in its R & D, production and marketing capabilities, and could use these to venture into other markets without detracting from its core business. Acquisitions that may enhance Campbell's portfolio include companies such as H. J. Heinz, (condiment producer), McCormick & Co., (seasonings), Tavolo, (internet kitchen & cooking company), Kiman Food Co. (seasoning, soy sauce, etc.), or Williams Foods, (seasonings for chili, taco, etc.).

## **Alternative No. 3**

Campbell's has established itself as the premier maker of soups in the world and now has the mechanisms and techniques to provide soups to virtually all markets. To continue to grow Campbell's must improve their international research marketing capabilities and be able to introduce products that are accepted internationally. This can also be accomplished by expanding marketing and distribution of products through Arnott's, LTD. to the Pacific Rim. Additionally, continued expansion of Godiva's chocolates, and Kettle chips, is a must. Fortun Foods, with their wet soup products, are more conducive to market entry in Europe, and could lead to increased market share there.

## **SOLUTION AND IMPLEMENTATION**

Although each alternative brings great possibilities for Campbell's, Alternative No. 1 seems to be the most beneficial for immediate implementation. After McGovern's extreme diversification approach to running the company, it has taken Johnson's restructuring to bring the company back to core competencies. Campbell's should continue to operate and concentrate on the three main divisions: Soups and Sauces, Biscuit and Confectionery and Food Service. Joint ventures could in turn become very helpful to Campbell's growing international presence.

Campbell's has just now redefined a purpose and should not lose sight of what it can do as a corporation-make good, quality food products-not exercise equipment. They have been successful with their Swanson's broths, V8 Splash, and Franco-American pasta offerings. New product introductions and packaging like Superiore Hearty Twists and a re-closeable plastic package for Tomato Soup have helped growth.

## **ASSESSMENT**

Campbell's must get close to the customer.

## **SUMMARY**

Campbell's has ridden the corporate waves through very distinct eras: McGovern and Johnson. Each CEO has brought their positives such as McGovern's growth, Johnson's restructure and refinement. Although the great growth era fostered the way for the big problem-over diversification, succeeding eras have brought Campbell's back in alignment. Campbell's now

faces the challenge of introducing new innovative products and growing internationally, all the while, keeping focus on core competencies.