

# Kelloggs growth strategy in india



**ASSIGN  
BUSTER**

As Kellogg's strategy for entering and growing in the Indian market has involved a number of different stages, a critical discussion must explore each stage of Kellogg's approach in turn. The first stage of Kellogg's entry in India was in 1994 when the company entered the market with three variants of cornflakes, expensively packaged and focused on the crispiness of the product. This, therefore, indicates that in terms of the marketing mix, Kellogg's began by assuming that product was the most important factor in comparison with other less significant aspects such as pricing (Kellogg's cereals were being sold for INR 4.5 more than the locally produced Mohan Meakins cereals). This focus on product and brand image is often deemed to be the most effective strategy for entering a new market as it is the product which is seen to be the most important element in convincing new and potential consumers to purchase the goods. One study goes as far as to suggest that "one may regard product as the diamond in the integrated setting of the integrated marketing mix to create the irresistible marketing jewel." (Curtis, 2007: 85)

However, in order for the product to be appreciated and valued by the consumer it must adhere to customer trends and be based on sound research and knowledge. This is where this particular growth strategy was unsuccessful as Kellogg failed to appreciate the market's dislike for cold milk and the unsuitability of the product itself to be consumed with warm milk. Thus, whilst the organization prides itself on selling a quality product (which might potentially be acceptable to the consumer for a higher price than that offered by competitors), the failure to create a product which truly addresses

the likes and dislikes of the target market makes this focus on ' product' somewhat redundant.

In the late 1990s, the company had improved its growth strategy by changing the packaging and product to appeal more to consumer tastes. This was followed by a process of product development and diversification- two key growth strategies as suggested by the well-known Ansoff's matrix:

By introducing ethnic flavors such as coconut and mango, Kellogg's have embarked on a process of product development. It goes without saying that the concept of product development is essential as a growth strategy as it allows the organization to benefit from a market which is already established and is likely to appreciate an updated version of an existing product. This can be compared with a strategy of market penetration which is based on competing head-to-head with more established organizations which would be extremely challenging particularly as Kellogg's has newly arrived in an unfamiliar market and cannot expect consumers to select its products over a local established brand. What makes Kellogg's strategy all the more effective is the fact that the organization has not simply embarked on product development without a particular motive in mind; indeed, Kellogg's early introduction of cereals drew attention to the need for paying greater attention to customer needs. And, to that end, the new products are deliberately intended to appeal to the ethnic flavors favored by their consumer base. The significance of having a prime motivator for product development can be seen in the model by Iacobucci (2001: 132):

Diversification has been exemplified by Kellogg's when they introduced Sunrich and Cheez-it; two products focusing more heavily on the snack food market rather than the breakfast cereals market. In theory, diversification comes with a number of additional benefits which the company can leverage. According to Markides (2000: 76) the most significant of these benefits is the fact that the organization can acquire new skills and knowledge by competing in a completely different industry. This new knowledge can be utilized in three different ways. Firstly, organizations can use the knowledge to improve operations in the new product market. Secondly, firms can use learning from diversification to create capabilities in a new market at a faster pace or more cost-effectively in comparison with competitors. Finally, companies can utilize new learning to benefit from 'synchronicity'. Aside from this, diversification enables the organization to present its brand name more widely and to alleviate the risk of focusing heavily on an individual market.

For Kellogg's, however, the new products were unsuccessful regardless of the additional efforts invested in realigning the marketing mix to focus on aspects such as pricing (Sunrich were introduced as a low-priced brand) and distribution channels (as an impulse food product, Cheez-it required a suitable network for distribution). This indicates, therefore, that rather than focusing on its strengths (the breakfast cereal market), Kellogg's attempted to enter a completely new industry in which it had little knowledge. Thus, the failure of the strategy lies in the fact that rather than resolving the initial issue of limited market research in relation to breakfast products, Kellogg's impulsively entered new markets in which it again lacked basic knowledge.

It is only in 2003, that Kellogg's can be said to have introduced its most effective growth strategy; that of carrying out thorough market research before acting. This led the company to appreciate the importance of price for the Indian consumer; thereby causing Kellogg's to again reposition the marketing mix to place more emphasis on the low prices offered for KPak. This focus on price is indeed a key strength of the growth strategy adopted by Kellogg's as it addresses increased price consciousness on the part of consumers who have been impacted by factors such as inflation, the recession and growing global competition. However, the negative effect of creating a sub brand is that the brand image as a quality breakfast cereal alternative is somewhat diminished as Kellogg's is not perceived to be an up-market product.

A further result of the market research conducted was segmentation to focus on urban women concerned about weight. This leads to benefits such as the possibility to focus specifically on the product and marketing needs of a select group of consumers; however, it can be simultaneously detrimental by narrowing the consumer base even further particularly whilst a company is still in the process of establishing itself within the market.

Whilst Kellogg's has demonstrated a great deal of stamina and perseverance in attempting to both enter and grow within a particularly challenging market, one of the key failings of the strategies employed is the failure to appreciate the significance of conducting adequate market research prior to entrance. This suggests that the company has assumed that a 'one size fits all' policy will suffice in entering a market which is no doubt very different to the other well-established markets in the west.

PESTEL analysis conducted at Annex One demonstrates that some of the greatest challenges facing Kellogg's in India are economic challenges. Firstly, as has been evidenced by Kellogg's multiple efforts at introducing new products in the Indian market, the market is very much segmented in terms of the spending power of individuals in different regions. This, therefore, means that a 'one size fits all' approach will not suffice. This might prove to be a particular challenge for Kellogg's when attempting to find an adequate balance between suitable pricing strategies for more deprived areas of India whilst simultaneously offering a high-quality product which differentiates it from the offerings of competitors. Whilst India has not been impacted as much by the recession as many Western countries, it is likely that the Indian population will feel some impact of the economic downturn in terms of their spending power.

Another key challenge facing Kellogg's is in relation to the political atmosphere which appears to be more focussed on priority areas such as technological advancements rather than consumer goods. Indeed, a combination of a number of factors might be said to adversely affect the potential to develop foreign investment in India:

When public sector enterprises need foreign technology or investment, there has generally been a preference for government sources rather than private industries.

Payment of dividends abroad, repatriation of capital as well as inward remittances are subject to stringent laws.

Corporate taxation has generally been fairly high

<https://assignbuster.com/kelloggs-growth-strategy-in-india/>

Legal procedures for foreign investors are complex. (Cherunilam, 2008: 347)

Although, there is no evidence that adverse pressures from the political sphere have impacted upon Kellogg's performance up till now; it might well be that as the organisation expands this will become more of a challenge and a reason for the company to experience diseconomies of scale.

Regardless of environmental pressures on foreign investors in India, increasing competition is clearly a crucial challenge facing Kellogg's in India. As demonstrated by the Poster's Five Forces Analysis at Annex two, Kellogg's faces competition from both rival firms who have introduced breakfast options similar or almost identical to Kellogg's range but also competition from outlets such as McDonalds that take the concept of convenience foods one step further by offering a ready cooked alternative. This competition is likely to continue to increase in future years as India emerges as a country with great economic potential. Figures demonstrate that foreign direct investment has approached approximately \$3 billion annually in recent years, in comparison with an average \$200 million in 1985-91 (Ayres, Oldenburg, 2002: 59).

The growth of foreign investors in the region is also influencing local brands to restructure their operations and compete head-to-head with international firms. This has been reflected in part by the increasing number of mergers and acquisitions in the region following a relaxation of regulation in 1997. This, therefore, enhances the challenge facing Kellogg's as they are also having to compete with stronger local competitors who clearly have an

advantage in terms of knowledge and understanding of the needs of the Indian market.

Based on key factors which might be derived from a SWOT analysis for Kellogg's, the following recommendations might be put forward for Kellogg's to continue to grow in particularly challenging circumstances. Firstly, the organisation should focus on market research as a foundation for conducting any activity. This market research will need to be conducted on a regular basis and demonstrate an awareness of India as a whole- as the region encompasses a great deal of diversity in terms of consumer spending power and tastes, it is vital for the market research to be all-encompassing.

Additionally, as India continues to develop at such a rapid pace, it is vital for this research to take into account how the development of the country might have an impact on customer preferences and spending power. To this end, it would be useful for Kellogg's to create a dedicated research unit which regional hubs. These hubs should be tasked with the process of carrying out regular market monitoring and feeding back to the central term.

As Kellogg's greatest strength lies in its experience of the breakfast cereal's market, the author would recommend that Kellogg's maximise upon this particular strength rather than attempting to enter new markets at present. This, therefore, would mean focusing on a product development strategy rather than a diversification strategy. Saying this, however, Kellogg's should take account of the fact that this particular market does in itself consist of a number of opportunities which might be leveraged. For instance, as the segmentation activity already undertaken by Kellogg's has demonstrated; the current market provides scope to introduce differentiated products for



specific target markets including urban women and children. Thus, whilst focussing on the breakfast cereals market, Kellogg's should simultaneously utilise market research to create variation in its product range.

Furthermore, as competition is certainly a key challenge, Kellogg's should harness the opportunities offered by increasing modes and channels for communication. In 2006, for instance, India was thought to have 9.4 million internet users (Logan, 2008: 204). This, therefore, represents a key opportunity which might be maximised in order to overcome the challenge presented by rival firms. By focussing on different modes of communication, and particularly technology as a means of communicating with customers and creating brand loyalty, Kellogg's is likely to be in a better position to spread brand awareness. Regardless of this, however, the organisation should ensure that the communication strategies address the most suitable communication channels depending upon the region in India which is being targeted.