

# Nestle refrigerated foods: contadina pasta ; pizza

[Business](#), [Company](#)



## **INTRODUCTION**

The case is related to Nestle Refrigerated Foods and provides a detailed look at the use of simulated test markets to forecast a new product's potential. Stephen Cunliffe, the president of the Nestle Refrigerated Food Company (NFRC) is seriously pondering the introduction of a refrigerated pizza to the refrigerated food category. In the late 1980s, NFRC had successfully launched refrigerated pasta and sauces to the US market. The product was an immediate success, with sales of over \$50 million in the first year. Sales grew to \$100 million by 1990, even with the entry of a strong competitive product by Nestlé's International rival, Kraft. At the time of the case, however, the pasta market is showing signs of saturation and NFRC must decide whether to launch its newly developed pizza product. The case illustrates the new product development process followed by Nestle for its successful pasta introduction. It is also an introduction to simulated test markets and provides a detailed explanation of the BASES (a market research firm) model used in Nestlé's new product forecasting. It outlines the pizza business opportunity and questions whether NFRC should proceed with the launch.

## **PROBLEM DEFINITION**

The Primary decision for Cunliffe to be taken is whether to launch Pizza or not. And if it is to be launched then the following questions need to be answered:

1. Which form of pizza to be launched, the pizza " kit" or the pre-assembled, heat-and-eat pizza?
2. How large a market could be targeted?

### 3. What market share could be achieved?

#### ANALYSIS

At the very onset, let's analyze the Pasta launch. A commendable outcome indeed is a result of risky initiative. Following risks were taken while the launch of Contadina pasta and sauces:

A small company, Lambert's Pasta ; Cheese was acquired at a premium in order to be the first company to bring refrigerated pasta to market on a national basis. Heavy investment was done in distribution to get the product to market without high spoilage rates.

Brokers were used to sell the product, instead of using the traditional sales force.

As a result, the product was huge success and Contadina became the market leader in refrigerated pasta and sauces. But to continue the rapid growth NRFC needed other new product opportunities.

Here it is worth noting that the tests used were BASES tests. Let's analyze the strengths and weaknesses of the BASES I (concept test) and BASES II (concept + taste test). Both tests measure market potential to a degree. The results can be used to gauge level of awareness and possible usage of a product as well as to understand customer's perception of the product/brand. These results can be used to potential sales and marketability of the product. However, the BASES I test do not utilize any actual products (taste testing) to ascertain customer reaction. It depends solely on the replies from potential customers to forecast marketability and impressions of the product. This type of survey can be conducted quite

quickly with relatively little expense. On the other hand, BASES II includes a taste test along with its concept test to gather similar information for forecasting. Hence, the results could find relevance in Pizza case also.

Now let's consider the problem statements for the case. The first question is whether to launch pizza or not. This decision would depend on the obvious financial viability of the product in the long run. Thus the estimated demand (trial and repeat) for the two pizza options under consideration by the firm {the pizza " kit" (containing a crust packaged together with separate packets of cheese and sauce) and the pre-assembled, heat-and-eat pizza} could be considered.

For the two categories, a preliminary concept test was conducted by MRD . findings from the study were promising. Positive purchase intent for the kit was about 58% overall whereas for the pre-assembled option positive purchase intent was approximately 52%. From the exhibits, where mean concept attribute ratings before trial are given, results indicate that people believe that an assembled pizza is less likely to have a soggy crust. Also read an essay Pizza Hut business strategy

Further investigation by the R; D group indicated that the refrigerated pre-assembled concept was infeasible from a production standpoint. Not only did the flavors of the sauce and toppings migrate into one another, but also the sauce and toppings infiltrated the crust resulting in a poor quality product. The kit product was feasible. Also the national distribution was a possibility.

Forecast of demand using the BASES model described in Exhibit 9:

Taking the cue from the case of pastas and sauces, the key determinant of the trial volumes was the trial rate forecast. Research results are analyzed as follows:

Pizza and topping

Pizza only

### **CONCEPT PURCHASE INTENT**

17% definitely would buy

59% would probably buy.

### **CONCEPT PURCHASE INTENT**

15% definitely would buy

43% would probably buy.

### **ADJUSTED TRIAL**

Industry rule of thumb: 80% "definite actually buy" and 30% of "probable" buy

Therefore adjust trial:

$$(80\%)(17\%) + (30\%)(59\%) = 31.3\%$$

### **ADJUSTED TRIAL**

adjust trial:

$$(80\%)(15\%) + (30\%)(43\%) = 24.9\%$$

### **ENVIRONMENTADJUSTMENT**

Seasonality

**ENVIRONMENT ADJUSTMENT**

Seasonality

**MARKETING PLAN ADJUSTMENT**

\$13 MM advertising = 2330 GRPs = 48% awareness

58% ACV

$(31.3\%)(48\%)(58\%) = 8.71\%$

**MARKETING PLAN ADJUSTMENT**

\$13 MM advertising = 2330 GRPs = 48% awareness

58% ACV

$(24.9\%)(48\%)(58\%) = 6.21\%$

$(\text{Trial household}) \times (\text{repeat rate}) \times (\text{repeat purchase occasions}) \times (\text{avg. repeat transaction amount}) = (77.4\text{MM})(8.71\%) \times (22\%) \times (\text{avg. } 2.0) \times (1.4 \text{ units}) = 16.61$

MM units

$(\text{Trial household}) \times (\text{repeat rate}) \times (\text{repeat purchase occasions}) \times (\text{avg. repeat transaction amount}) = (77.4\text{MM})(6.21\%) \times (22\%) \times (\text{avg. } 2.0) \times (1.4 \text{ units}) = 2.96$

MM units

In the above analysis certain assumptions were that the environment adjustment and the marketing plan adjustments for pizza ; topping and pizza only are same as that used for pasta. Also, as no actual product had been used in the concept test, we can use consumer reaction to the concept. Hence I took target households as 77.4 million. In exhibit 21, there is a big difference between Contadina users and non-users on the “ top two box” scores. This will obviously affect the forecast depending on what proportions are used for Contadina users versus non-users in the population. Besides this

Nestlé's marketing research departments cautions us that parent brand image could vary from 5% to 25%. It would be worthwhile to judge the sensitivity of the forecast under 5%, 15%, and 25% parent brand penetration scenarios.

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