

Marketing analysis: kellogg cornflakes



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Kellogg's has persisted in the market as a strong brand in the FMCG industry. Its cereal flakes is a line of product that has been accepted worldwide as one of the most convenient ready to eat meal for breakfast. Over the years people in most countries has consumed more of Kellogg's products than any of its competitors'.

Annual report of the company shows in late 1980's the company had reached all time peak, gaining a staggering 40 percent in the US ready to eat market and thereby prompting a yearly sales of US \$6 billion.

In 1990's since the industry in the core markets of U. S and U. K started to face stiff competition with lots of players entering, Kellogg's made a decision to migrate into the Indian market. The market potential was huge since it was a population of 950 millions, out of which 250 million were middle class and was a completely untapped market.

In 1994 Kellogg's entered the Indian Market by investing US\$ 65 million into launching its flagship product Corn Flakes. However the Indian Consumers found it hard to merge the concept of Corn Flakes with their lifestyle. The most prevalent practice was boiled vegetables and hence the concept of ready to eat failed in India.

Even though the first year sales were encouraging, the sales started falling from the second year. It was becoming apparent that people mainly purchased it as a onetime novelty purchase.

This study reflects the possible ways in which the brand can be sustained as a successful one in the Indian market.

Devising a Marketing plan using the SOSTAC Model:

Situational Analysis using SWOT:

Strength:

High Global Market Share: Kellogg's has 65% global market share according to the audit of March 2010 conducted by KPMG, in the ready-to-eat cereal products and it is also the leading producer in this category.

Strong Brand: As a brand the worth of Kellogg's is 13 billion USD at the present time, and even in the period of strong economic crisis it is regarded as one of the profitable brands in US and the European Countries. Some of the brands under Kellogg's are widely accepted. Nutri-gain, Pop-tarts, Kebbler and Ego are just to name a few of them.

Large Product Line: In terms of the depth and width of the product mix, Kellogg's has got a wide variety of packaged cereal flakes. It has also stated producing products in assorted categories other than cereal flakes such as choco flakes for children, and also categories such as vegan, certified halal meat, low sodium content and gluten free flakes. Kellogg's also has a healthy food category.

Continuous Research to reduce cost: Kellogg's invests a substantial amount on Research and development in order to reduce cost. They have also set up their manufacturing plants in South East Asian countries in order to produce at the expense of cheaper labour and to reduce cost on logistics.

Weakness:

High Price: A package of 475 grams of Kellogg's corn flakes cost 130 INR which is considered to be pretty high from the Indian perspective. Most housewives who are potential shoppers do opine that this pack lasts for a maximum of 3 usages. This is not regarded as economical from the Indian perspective.

Unsuitable for Indian Lifestyle: The general Indian practice was of using warm milk, which was very contradictory to the American concept of using cold milk. Due to the usage of warm milk, the flakes became soggy.

Declining Sales: Asia represents only 2% of the Kellogg's worldwide sales. Since its inception in 1994, the countrywide sales have dropped by 25%.

Bad relation with Supermarkets: To be in tandem with its pricing Kellogg's should establish itself to sell more through the Supermarkets. However Kellogg's recently had to suffer a lot due to its bad relationship with Supermarkets. For instance Kellogg's products were moved from the shelves of Food Bazaar since it was giving the retailer a much lesser margin than Tasty Treat which is its private label.

Opportunity:

Globalisation: Due to the effect of globalisation, Indians are now more exposed to the International Cultures. The youth in India now tries to imitate a lot of the lifestyles prevalent in U. K and U. S. A.

Increasing level of Disposable Income: Being a growing economy, the income level is rising, hence if Kellogg's can switch over from being a premium

pricing brand to a slightly competitive pricing brand, it would be able to extract the money from Indians.

Advent of Television Advertising: Due to a continuous improvement in the quality of television advertising, advertisement campaigns are creating awareness and interest towards a brand at a faster. A brand like Kellogg's Choco can be very popular in this way.

Threats:

Private Label Brands: With supermarkets such as Food Bazaar, Spencer, More, etc gaining more margins on private label brands, it is becoming difficult for Kellogg's to maintain its shelf space in super markets.

Local Competitors: Some local and regional competitors such as Crunchy Oats are becoming stronger players due to their low pricing strategies.

The Environmental Analysis Using Porter's 5 Forces:

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Degree of Rivalry: (High)

Face a stiff competition in Indian market from Local and Regional players such as Crunchy Oats and private label brands such as Tasty Treat. Even global players such as Nestle are giving them tough competition in products within the kid's segment.

An oligopolistic competition structure exists within the industry.

Switching cost is negligible, and most consumers regard switching to be profitable since they get better quality product at a lesser price.

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Growth is stagnant for the last five years whereas the Industry is expanding.

Bargaining Power of Buyers: (High)

Supermarkets are continuously forcing to reduce price of products to obtain higher margins, hence consumers are more inclined towards private label brands.

Switching cost is again negligible.

In certain semi urban and developing areas of the country, people still find it difficult to associate with the concept of consuming cereal flakes in cold milk.

Bargaining Power of Suppliers: (Low)

The company has a central manufacturing unit in the country and about 20 other units across the world. Raw materials are sourced from the local market. Hence the supplier bargaining power is low.

Threat of Substitutes: (High)

Other ready to eat and packaged food products are more popular among Indian consumers such as Maggie Noodles. Maggie noodles are more preferred since they are served hot.

There is no switching cost involved.

Threat of New Entrants: (High)

It is difficult for competitors to develop new products in this category since they would require investment and time to develop.

Distribution is a major concern. High slotting & promotional fees, limited shelf space, and the need to create retail demand are additions to the manufacturing cost.

Capital costs are very high since setting up production facilities and distribution chain takes into account a high upfront investment.

Objective Setting at different strategic levels:

Corporate Strategy: To increase profitability by 23% worldwide by 2011

Business level Strategy: To gain 50% market share countrywide in India by 2011.

Marketing Strategy: To become the breakfast meal of 70% of the urban Indian Household by 2011.

Developing Strategies:

Creating a Growth Strategy using the Ansoff's Matrix:

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Kellogg's operates in a country wherein it is an existing brand for the last five years. All products in the product line are known to consumers and a market for such products has also developed. Hence the strategy that Kellogg's should undertake in order to increase its sales is Market Penetration.

Kellogg's being an established brand would not have a problem in penetrating the market and increasing its share. The risk factor would also be considerably low.

In order to penetrate Kellogg's has to look at two things:

Creating a different position for the brand through a better communication and in turn developing a new improved value proposition.

Kellogg's must make utilization of cost reduction in order to gain price leadership in the market. Once the product appeals to consumers they will purchase it readily due to the low price. If the company can sell a higher volume at a lesser margin, then they can combat competition successfully.

Creating a competitive strategy using Porter's Generic Strategies:

Kellogg's being an FMCG product has to have an Industry wide strategic scope. However according to the research Kellogg's should practice a combination of Differentiation and Overall Cost leadership.

Kellogg's as a brand has a large portfolio of products and each product have its own uniqueness. Hence they should continue to leverage on the differentiation aspect. However a major challenge that Kellogg's faces is its premium pricing, on gaining a cost leadership, it can implement a competitive pricing. This will make the brand more attractive.

Tactics employed in order to achieve strategic objectives:

Product:

Pack Size: Since most of the products within the product mix are widely accepted across the globe, Kellogg's should not change the range of cereal flakes that it has. However in order to increase the frequency of purchase, Kellogg's can reduce the minimum pack size from 475g to 250 g so that it becomes more popular amongst young individuals who live a fast life and stay single. For such group of target customers the basket size of purchase is much small. Hence smaller size packs will attract them to a greater extent. Apart from this value packs must be issued initially to pick up sales. These are packs of 500 g at the price of 475g packs.

Packaging: Most of Kellogg's packs do not have the nutritive benefits engraved on them (except for Special K). They only contain a small label showing the nutritional ingredients. Over the recent years the urban Indian population has become more diet conscious. Hence it would be advantageous to engrave the nutritive benefits on them.

<http://economictimes.indiatimes.com/photo.cms?msid=3190216>

Present packaging new packaging

Price:

Kellogg's flakes are priced higher than competitors. Prices of three most manufactured Indian Brands are higher than most competitors. 475g of Kellogg's Corn Flakes costs Rs 130, whereas its closest competitor delivers 500g at Rs 109. Kellogg's thus should reduce the price. In the recent company audit report from KPMG it has been found that the most highly <https://assignbuster.com/marketing-analysis-kellogg-cornflakes/>

purchased product, the Kellogg's choco is priced at Rs 125 for a 375g pack, thus making it difficult for a middle class Indian household to avail it.

Kellogg's should promote more of this product by reducing the price.

Also in order to obtain better penetration in the market Kellogg's should try and sell more through Supermarkets rather than corner grocery shops.

Hence Kellogg's should supply more volume at lesser margin to supermarkets and hypermarkets.

Place:

Internet: One of the medium through which urban customers are purchasing more of their FMCG products is the internet. The advent of online retailing, Kellogg's must try and sell more through online medium. Especially for institutional sales such as to hospitals and school or college hostels, where purchases are made in bulk, Kellogg's should encourage online sale of products. This will help them in reducing the time to deliver their products faster and help them to sell higher units.

Also, the negotiation terms with supermarkets, hypermarkets and convenient stores should be laid in a way such that Kellogg's cereal flakes occupies maximum shelf space in its particular product category. The main objective should be to gain maximum shelf space rather than trying to earn more margins per unit.

Promotion:

The most important element in the marketing mix of Kellogg's is the promotions.

When Kellogg's entered India about fifteen years ago, they lacked research of the behaviour of the Indian consumers. They took no notice of the fact that Indian's disliked the concept of consuming cold milk, and the flakes became soggy in warm milk. Hence in order to promote the practice of the consuming normal or cold milk Kellogg's should use the television advertising media effectively. This would create a separate value proposition for the brand.

For example time can be used as a parameter to create urgency for the brand. A television advertisement showing this concept will create response among customers.

Idea- Showing a household wherein every member is rushing for his or her work or school. In such a short time boiling milk and consuming flakes is a lengthy process. Hence normal milk is used and it even tastes nice.

The new mission statement of the brand could be Kellogg's: Your Fast Breakfast...

The other forms of communication channels should be advertising hoardings, posters in super markets and magazines such as Graphiti.

In order to promote kids products such as Kellogg's Choco the company can organize event promotions through various retailers and also through sponsorship of kids' activities and competitions at schools.

Sales promotion would also be done throughout the year through the distribution of freebies. Freebies such as a bowl can be given with a pack of

475g of Kellogg's Corn Flakes. This would be of utility in the consumption process and would in-turn increase sales.

Process:

Distribution is the pivotal processes that should be taken care of in achieving the objectives

After the manufacturing process, the distribution chain should be controlled from different centers. There should be four regional distribution centers (RDC) at the four different zones- Delhi (North), Calcutta (East), Mumbai (West) and Bangalore (South). Each distribution center should supply in its particular zone and each distribution center should use the hub and spoke model. All four distribution centers should be interconnected to each other.

The distribution model is as follows:

Actions followed to achieve the tactics:

The head office of Kellogg's is situated in Mumbai. All plan of action should be coordinated from the Mumbai head office and the decisions should effectively pass on across the distribution centers up to the store level where the product gets handed over to the end consumer.

Usage of 2009 Financial Statements (Historical method): The budget is planned based upon an analysis of the income statement of 2009. In the fiscal year 2009 as per the annual reports of the company the net income \$1, 212 million. The net cash flow in the last quarter has been \$1230 million and also as per the last quarter the liquid cash reserves of the company is

\$527 millions. Hence Kellogg's Corporation can invest a high amount in the development of the Indian market in order to bring it to a growth.

The total budget allocated towards marketing activities of the Indian market is—-. The allocated amount is divided into five discrete divisions to carry out activities. These divisions are packaging, sponsorship, advertisement, sales promotion, event promotion and value packs.

To map the budget according to the activities of the organisation a GNATT action chart is used.

Activity

Time

Staff

Amount

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Packaging

1

Sponsorship

2

Advertisement

3

Sales Promotion

4

Event Promotion

5

Value Packs

6

Gaining Control over the plan:

Control can be gained over the process by using two different approaches:

Periodic control: A periodic control can be exercised over the plan by performing Marketing Audits from time to time. The company must not rely only on external auditors such as KPMG, they should also gain control through internal audits performed by auditors within the company. Through marketing audits performance gaps should be identified. The extent to which the results vary from the desired targets should be noted and corrective measures should be taken accordingly.

Continuous Control: A continuous control should be introduced by maintenance of a Balanced Scorecard customized specifically for stakeholders' perspective of Kellogg's.