

# [Nestlé refrigerated pizza case](https://assignbuster.com/nestl-refrigerated-pizza-case/)

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In 1990 Nestle RefrigeratedFoodCompany, NRFC, subsidiary of Nestle S. A, had to decide about the launch of a refrigerated pizza, under the name of Contadina pizza, continuing the build of the refrigerated food category it started few years ago with the launch of the Contadina pasta and sauces, and where the satisfying results exceeded expectations, NRFC would be then the first mover in this new category product, pre empting its serious and major competitor: Kraft general food who was on his way to make a similar launch(their launch is expected within six months).

The market studies consisting of the forecast of the estimated demand show that the pizza launch is recommended, and it should better be with the pizza and topping product instead of the pizza only, and that the basic business requirement $45 million(factory dollar sales) could be met with a minimum of 7% of market penetration. The opportunity is great since the Italian ethnic food market is developing very fast, but NRFC should be very careful since bad results could seriously hurt the Contadina brand name built with the success of the pasta and sauces.

The price of the offering should be adjusted to lower levels and a heavy advertising support should be carried. Situation Analysis: NRFC first entered the refrigerated food market by launching the Contadina pasta and sauces . it was an undeveloped market in 1987 where fresh pasta was considered to be a premium product sold only in specialty stores. At that time refrigerated foods were responsible of 7% of Nestle global sales with very little contribution from us market.

The refrigerated food was perceived as fresh, very convenient and with high quality, but in the us market it raises a serious problem of distribution because of its nature as refrigerated, for what NRFC devised a highly distribution system from the factory in Danville, Virginia, and took the option to utilize food brokers, who earned a 3%-5% commission, who acted as sales agents. The results were very satisfying, and Nestle became the established market leader: $150 million retail sales by 1990.

Refrigerated pizza was the natural extension of this introduction. The threatening competition came from Kraft’s DiGiorno pasta and sauce, a 90day shelf life against the 40 days for NRFC products. Kraft was a subsidiary of Philip Morris Companies, Inc, the food division of which was one of the largest manufacturer and marketer of frozen food in the USA. Kraft’s had operating revenue of $25 billion, in the time the total Nestle sales were at 54, 500 millions of Swiss francs.

And beside their test for the pasta and sauce products, Kraft test-marketed a refrigerated pizza of which the rumor said the launch would take place within six months, increasing pressure over NRFC management who were looking for the first mover advantage, as they had with Contadina pasta and sauces. The pizza market in the USA, evaluated at $18, 4 billion, was targeting 95. 5 million households, and was dominated by restaurants, with 88% of total sales, even if 60% of pizza were eaten at home; with a large national franchisors – such as Pizza Hut and Domino’s pizza- as well as numerous local competitors.

The consumers were perceiving the pizza in general as very convenient, easy to prepare and to serve, adequate for the wholefamily; and the frozen pizza was seen as less valuable than the take out pizza or the Contadina kit / the assembled pizza set for evaluation ( exhibit 13 and exhibit 14). Concept tests: The main products tested by NRFC for the pizza launch were the pizza kit with the option of available toppings (pizza and topping) and the pizza kit with no additional toppings (pizza only), and they used the BASES model to forecast the estimated demand.

Numerous assumptions were used in the purpose to make the tests very close to reality, such as the parent brand penetration and the total brand awareness. (-the parent penetration was estimated at 24% by the marketing staff, but MRD – the market research department-recommended to check volume projections with penetration ranging from 5 to 25%. -$18 million would be dedicated to promotion and advertising, based on what 37% of overall awareness was used in the forecast. ) The results (see exhibits A, B, C, D ) show that: at 24% user penetration the option A (pizza kit plus toppings) would allow a margin of $12, 570 millions while the option B (pizza only) let a total factory sales amount of $35, 137 well below the $45, 000 millions basic business requirements. -the exhibit 21 shows for the “ top two box” a noticeable difference between the Contadina users and non users, it gets obvious then that the amount of the percentage of brand users will heavily affect the results. For that reason we set different scenarios assuming various user penetrations: 5% 10% 15% and 20%, the option A results start insuring the NRFC threshold at a minimum user penetration of 7%.

So these numbers recommend the introduction of the refrigerated pizza with the toppings option. Let’s have a look on the concept test for the pizza comparing to that for the Contadina pasta and sauces: \* For the pasta we can see (exhibit 6) that 26% of total surveyed persons perceive it as a fresh product, only 8% think its price is too high, and 61% found nothing dislikable in it. \* About the pizza (exhibit 19) 26% found it too expensive comparing to the take out or delivery one, even among those who were favorable to the product, only 4% perceived it as natural with no preservatives, and 12% disliked the general taste. Comparing the refrigerated pizza to the other ones available on the market we can see on the exhibit 20 that the it is perceived as better tasting than the frozen pizza (9 on a ten point scale) but is rated 7. 3 on the same scale for the “ tasting as good as take out or home delivered pizza”, which means that it should have excellent quality to be less threatened by these ones and that it will be more valuable and gets better perception than the frozen pizza.

The pizza opportunity is the logical continuity of the pasta one, but in fact the context is pretty different: for both we can talk about ethnic food development, but as the time there are not too many substitute products to the pasta, the number of Italian restaurants , pizza franchisors retail outlets, was so numerous, with the maximum freshness that makes the operation surrounded by some risks to penetrate this market, meanwhile for the pasta demand against the actual market offering made the refrigerated category grow even with the DiGiorno entry.

During the development process for the pizza, from the idea generation to the commercialization, the BASES II involved a concept test combined with product test, the choice of the respondents who were given the product to test can lead to results not reflecting their real opinion about it, since they will feel treated in a special way and then can be much more favorable to the product, altering their judgment. Instead, a blind test might give better feedback. The BASES seems to be a tool to assess the market potential, and evaluate the wareness level, but a better return about the new product could be achieved by a larger testing operation, which would be expensive, and might be used by competitors in their advantage. Among the Michael porter’s five forces concerning the pizza market NFRC is aiming to penetrate, the two threats who concern them the most are: the substitutes – the large number of restaurants and outlets selling fresh pizza- , and their main competitor DiGiorno, and it is clear that this situation could make NRFC expedite the launch operation in such a way that it could make judgment mistakes.

Recommendations: The market studies are favorable for the new pizza launch, but the opportunity is less interesting that the one for the pasta, the case for the pizza is surrounded by great risks that the management should seriously consider: -the opportunity is sensitive to parent brand, for that reason NRFC should take more time to fine tune the pasta product, and not hurry for the pizza in a manner that could considerably hurt the initial pasta and sauces success. proceed for a larger product testing, even if there is a risk that competitors might take profits of it, and try to target the Contadina non users in larger amounts for the test -improve the pizza taste according to feedback from the test, and cut off prices in such way that they match the customer’s expectations since they will compare it to the existing products from other suppliers. The new product should be then positioned in an intermediate range between the frozen pizza and the existing fresh pizza (restaurants, pizza outlets, and so on) -delaying the launch could make DiGiorno launch its own pizza and then be the first mover in the refrigerated pizza market: take this as an opportunity and try to learn from his mistakes: the market risks are real and for sure that competitor will meet difficulties, learn from that and try to improve the product introduction.