

# [Consumer behaviour- corn flakes case](https://assignbuster.com/consumer-behaviour-corn-flakes-case/)

How can cornflakes companies expand the category?

The Indian breakfast cereal market is a small market when compared to countries like the USA but it is growing rapidly. This segment was valued at $139 million in 2012 and has witnessed a doubling of market growth over the past six years. It is comprised of cold cereals like cornflakes and muesli which represent 60% of the market and hot cereals like oats which represent 40% of the market. The market leader in this segment is Kellogg, which is far ahead of its competitors. The room for growth of the cereal industry had reduced and thus the cereal industry had been stagnant for over a decade in its core countries like the US and the UK. Thus, in the beginning of the 90s Kellogg’s had to look beyond the countries in the US and Europe.

Deciding that India was a suitable target didn’t take too long for Kellogg’s. With a population of over 950 million, out of which 250 million were from the middle class, and let’s not forget that India was a completely untapped market and had a huge potential for growth. Kellogg’s decided to invest US $65 million in India in 1994 three years after the international trade barriers were lifted. They used this to launch Corn Flakes as its number one brand. It was estimated that even if Kellogg’s grabbed two percent of the market share available it would result to 18 million consumers and this would make it the largest market above the entire US.

Market share

Since the first attempt by Kellogg’s at localisation, the market for convenience goods has expanded. The breakfast segment by itself is estimated at Rs 600 crore, growing at 18-20%, with Kellogg’s the leader with a roughly 55% share. Others wanting a slice of this segment include PepsiCo, Marico, Bagrrys, Dr Oetker, Britannia and McCain.

Competitive landscape

Although Kellogg India has maintained its lead in breakfast cereals, the company has been losing value share every year for a decade at least. This is because Kellogg mainly offers flakes products, while in India, much of the action has been taking place in muesli and oats. Kellogg does have a presence in muesli and in oats, though it was Bagrry’s India which has been consistently leading the muesli sector. Within the oats category, Frito-Lay held the leading share of value sales in 2012 with its well-established Quaker brand.

Prospects

The expectation is that breakfast cereals will maintain high growth rate between 2012 and 2017. Oats and muesli will further gain a share of consumers’ spending. This is because of two reasons: Oats and muesli suit the Indian taste more than cornflakes do There is a rising awareness among the population that oats are healthy and good for the heart.

The trend that oats and muesli are more acceptable now in the Indian market is evident from the fact that almost half of the shelf space given to breakfast cereals in modern retail is taken up by oats and muesli, while the other half is flakes. This suggests that modern retail is pushing oats and muesli.

Though Kellogg had few direct large competitors, the major challenge faced by them was to promote not only their products but also the concept of eating cereal for breakfast. Their main task was to change the behaviour of consumers by changing their mind-sets. The initial sales figures of Kellogg after it launched its corn flakes in India seemed to indicate that cereal consumption was increasing and it proved to be an encouragement to the company. It was believed that people’s perception of eating cereal for breakfast had changed and they were now willing to replace their traditional Indian breakfast items for cereal. However, it was soon revealed that most people had bought Corn Flakes as a one-off, novelty purchase and were not likely to repeat their purchase.

They got swept away by the initial hype surrounding Kellogg corn flakes and hence wanted to try it out. Kellogg’s was basically launching a Western product which was attempting to appeal to Indian tastes. Globalization is taking place rapidly but companies still need to respect and understand regional customs, identities and tastes. This was one of the areas where Kellogg fell short. The products offered by Kellogg were too expensive as compared to its other local competitors, which cost around one third of what Kellogg cost. Kellogg was positioned as a premium product and hence was not affordable for the masses. Kellogg has always positioned itself as an alternative to the usual or regular breakfast consumed by customers.

They continued with this same positioning in India as well. While this message worked globally, it did not succeed in India. The food eaten by people in India for breakfast consists of items like dosas, puris and parathas, all of which are very heavy. These dishes are very filling and make people feel that they have had a complete breakfast. However, a breakfast consisting of only Kellogg’s Corn Flakes did not give consumers that feeling of fullness and satisfaction. They did not feel that they had had a full breakfast, and still felt hungry. Indian consumers are used to having a lot of variety for breakfast. There are several varieties of almost every breakfast dish ranging from dosas to idlis to chutneys. Once an item has been eaten on a particular day it is usually consumed only after several days. Hence it is a part of Indian culture to eat a variety of dishes over several days and not repeat them often.

Hence when corn flakes was introduced and it was positioned as an everyday meal, it was too much of a cultural change for people to accept. Indians are used to having hot and spicy food for breakfast. They are not used to eating cold or sweet items and hence this again was too much of a change from what they were used to. Kellogg was not able to successfully convince people to switch to cereal in favour of their usual breakfast items. In its advertising campaign, Kellogg implied that the typical Indian breakfasts were not nutritious or very good for health. This hurt and offended the sentiments of Indian mothers and they felt that the company was criticizing their efforts.

This turned them against Kellogg and they started getting defensive saying that such breakfasts had been served by Indian mothers for decades and centuries and their families had been fine. Hence once the ego of home makers was hurt, they developed a mental block towards the concept of having corn flakes for breakfast. Kellogg corn flakes have to be eaten with cold milk. However Indians have been conditioned from childhood to drink hot milk every day. Hence the ordinary Indian family could not get used to eating corn flakes with cold milk and so they started pouring hot milk instead. Once the hot milk was added, the corn flakes became warm and soggy and no longer crisp and tasty. Since Kellogg’s USP was crispy tasty cereal, it did not manage to appeal to the Indian consumers. Kellogg positioned its products on the basis of nutrition and health to attract the attention of mothers.

However their focus should have been on the children since they are the ones who ask for the product and convince their parents to buy it. Hence rather than positioning themselves as healthy and nutritious, they should have marketed their products in such a way that they convey the message of enjoyment and fun to customers, especially children. Hence these are some of the reasons why Kellogg corn flakes was unable to succeed in India and faced so many challenges.

When Kellogg first entered the Indian market in 1994 they followed their international marketing strategy and positioned themselves on the health platform. Kellogg’s initial offerings in India included cornflakes, wheat flakes and Basmati rice flakes. They highlighted the nutritional values of the brand. However what was conspicuous was that in both print and TV advertising, the famous `cock’ identity of the brand, which symbolizes the morning, was absent. However after the massive failure of its positioning and marketing efforts in India, it revamped its entire positioning strategy to appeal more to Indian customers. Hence they took several steps such as

As a comeback strategy, they decided to launch two of its most popular brands in other countries, in India. As part of this strategy they introduced Chocos in September 1996 and Frosties in April 1997. The Chocos brand was positioned as “ The irresistible taste of Chocolate”. This move was extremely successful and helped Kellogg get over their initial failure. This move led to increase in popularity of the brand and also led to a significant increase in sales. Positioning of the brand as fun filled and exciting rather than just on the basis of nutrition. This appealed more to children and led to increased popularity of the brand. They launched a massive consumer promotions drive of around Rs. 25 crore. Reduction of prices to make it more affordable to the masses.

A lot of people did not buy Kellogg because of its high prices. Hence they introduced retail packs of various sizes to make it more affordable for different consumer groups. They made sure that all their products were not positioned in the premium category. They repositioned several of their products and the entire brand as tasty and nutritious food. Rather than focussing only on the health aspect, they also focussed on conveying the message to customers that Kellogg’s was tasty as well. Indianising the product by introducing new flavours to appeal to the Indian palette with the launch of a new cereal series called Mazza in August 1998. It was introduced in 60gm pouches and priced at Rs 9. 50. The glossy cardboard packaging was replaced by pouches, which helped in significantly reducing the price. It did not position Mazza in the premium category.

The three local flavours that were available were ‘ Mango Elaichi,’ ‘ Coconut Kesar’ and ‘ Rose.’ They also suggested various accompaniments like curds, bananas and pistachios. Though these flavours did not appeal to consumers and failed to strike a chord the decision to decrease prices seemed to be the right move and worked well for the company. They also had Indian themed advertisements with a Katha Kali dancer as well as a Yoga instructor attributing their energy and stamina to Kellogg’s. The advertisements end with the line “ Jaago jaise bhi, lo Kellogg’s hi”. Kellogg decided to expand into other categories and launched Chocos Breakfast Cereal Biscuits. This proved to be extremely successful and was a big hit especially among children.

The media expenditure by Kellogg’s on the Chocos brand was equally distributed between Chocos flakes and Chocos Biscuits. Kellogg also conducted several other activities and initiatives to promote their brand. Though they had changed their positioning from healthy and nutritious to fun and exciting, they still promoted nutrition in a big way. In 1997 they launched ‘ The Kellogg Breakfast Week,’ which was a community-oriented initiative to create awareness about the importance of breakfast. The program focused on preventing anaemia and they conducted several nutrition workshops for both Individuals and families. This initiative was launched in Chennai, Mumbai and Delhi. Following the success of these initiatives, Kellogg’s launched the ‘ Iron Shakti’ variant in 2000. Their main forms of media communication were through the press, on posters, radio, cinema, direct mail and on the Internet.

However, the main channel for its advertising is on television with a number of advertisements targeted towards children and adults. They had promotion activities like ‘ Kellogg Health Week’ and distributed free samples of one-serving sachets in schools and to housewives. The company also gave free water bottles, lunch boxes and pencil-boxes with every pack. Plastic dispensers offering the product at discounted Kellogg positioned its different variants for different groups of people. For instance, Special K is targeted at women, Chocos is aimed at children while corn Flakes are aimed at the whole family. Thus Kellogg learnt several important lessons from its initial marketing and positioning failure in the market. But despite all these efforts, it hasn’t been able to generate incremental sales and increase its market share.

Line/Category Extension: Kellogg is now facing increased competition with multinational and local competitors PepsiCo, Marico, GlaxoSmithKline and Dr Oetker entering the oats and muesli segments. Besides expanding their distribution extensively, shopper engagement programs have helped them to drive shopper off take. Also, Kellogg has kicked off a ‘ konsumer konnect’ programme whereby the whole organisation steps out for one day in a year to meet with consumers. Kellogg has been aggressively driving the distribution of its single serve packs priced at Rs 10, in tier I and II towns to attract new consumers.

The premium brand went to the bottom of the pyramid by launching corn flakes at a price point of just Rs 10 to increase penetration. The company calls this Kpak format. The idea was to increase the penetration of the Kellogg’s brands through affordability, as breakfast cereals still form a very small market in India. Low price points helped them to reach the Tier II and III towns.

Kelloggs’ Corn Flakes at Rs 10 has what the company calls ‘ Iron Shakti’. The product positioning was changed as well: From a breakfast cereal, it was now also a ‘ Shaam ka Nashta’ or evening snack. The new positioning was aimed at promoting out-of-home consumption.

Although the small-pack strategy will help Kellogg’s push its sales in tier II and III towns, the company is not looking to hit rural markets yet as it feels that there is still a lot of room in urban India, bearing in mind the low penetration. Kellogg’s has a market share of more than 70 per cent value share in the ready-to-eat cereal category. However, competition for Kellogg’s is heating up with PepsiCo increasing its focus on Quaker and also planning on bringing more products from its global breakfast portfolio. Competition is also strong from the private labels of some retailers like the Future Group, which have achieved huge success out of its Tasty Treat cornflakes.

While Tasty Treat cornflakes are priced at the same rate as Kellogg’s, it is not available at the Rs 10 price point which gives Kellogg’s an advantage. In 2012, Kelloggs India took a second shot at localising its India portfolio, more than a decade after the launch of coconut and elaichi variants of its cornflakes had met with tepid response. The maker of cornflakes, Chocos, Special K and Heart-to-Heart oats rolled out variants like pudina, tomato and garam masala as a part of its oats range and is likely to follow this with localised variants of its other products as well Brand Extension:

After eight years in India, Kellogg’s seems to have woken up to the fact that it needs a different bill of fare. So there’ll be less of the cornflakes, more snap, crackle and pop coming from munchies.

For Kellogg India, it represents the beginning of a two-pronged strategy. First, it’s expanding its portfolio beyond cereals to the large, fast-growing snacks category. Second, it will use the wider and deeper distribution it’s built up for these low-priced products to increase the reach of its ‘ core’ business, which continues to be breakfast cereal. The cornflakes business accounts for two-thirds of Kellogg India’s turnover – the rest is the biscuits brand Chocos. And it’s likely to fall to 50 per cent or less, and that too in a year or so. Venkateish says that he expects snack foods to grow fast, to a quarter of the turnover in a year or two. And, together with biscuits, the non-cornflakes business could be close to half total revenues in a year’s time.

That’s more along the lines of Kellogg’s international portfolio, in which non-cereals went from just 29 per cent of turnover in 2000 to 45 per cent in 2001, post the global acquisition of Keebler. Another significant move by Kellogg’s is that the cereal company took over Pringles potato chips from P & G Co. in a deal worth around $2. 7 billion. This has now given Kellogg’s huge diversification and has instantly made it a big player in overseas snacking. Now the acquisition of the Pringles brand will change its sales mix to 40% cereal, 40% snacks and 20% frozen foods and products sold in food service and vending channels. Kellogg has seen slow overall growth but now Pringles can help Kellogg’s build on its snacks business and expand into a huge market since the snacks category is growing faster than cereals.

While Pringles will give Kellogg’s a larger canvas to operate in India but it won’t be easy. The market has a value of Rs 2, 000-crore but is dominated again by PepsiCo with Lays and it’s Kurkure brands along with ITC with Bingo while Haldiram’s and Parle have its Products firmly in the market. Pringles is going to be a new channel for additional revenues to Kellogg’s which is already valued at an estimated annual turnover of Rs 350-400 crore at the moment in India. It is to be seen whether Kellogg’s would opt to follow Cadbury-Kraft and setup its own local production factory of Pringles like they did with Oreos.