

Internal and external analysis of walkers crisps



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The first section of paper will introduce the background information of PepsiCo Inc. and then followed the company mission and vision. Then PepsiCo UK & Ireland division is focused and further narrowed down to Walkers Crisp, the snack food product line of the division.

The next section is the market situation analyses which identify the market size and growth in UK snack food industry followed by the external analysis conducted in the form of PESTLE. Subsequently, the internal analysis of Walkers Crisps and its competitor which consist of McCoy's Crisps and Pringles is conducted to highlight the competitive advantage of Walkers Crisps.

Last section covers the market segmentation; targeting and positioning of Walkers Crisps in UK with the recommendation on Walkers' Crisps marketing strategy as well as its implications on the division illustrated in forecast budget.

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Company Background

PepsiCo, Inc. is the world leader in convenient snacks, foods and beverages. The corporation is founded in 1995 by Donald M. Kendall, President and Chief Executive Officer of Pepsi-Cola and Herman W. Lay, Chairman and Chief Executive Officer of Frito-Lay, through the merger of the two companies (PepsiCo Inc., 2010). Over the years, PepsiCo, Inc. continues to make effort to increase company portfolio by expanding market in different countries which resulted nearly 200 countries are selling products under the corporation. PepsiCo is now a listed company on the Dow Jones North America Sustainability Index and Dow Jones World Sustainability Index (PepsiCo Inc, 2010).

1. 1 Management Overview

Figure Business Units of PepsiCo

As illustrated in Figure 1, the four main divisions of PepsiCo are PAF, PAB, PepsiCo Europe and PepsiCo Asia, Middle East & Africa (AMEA). PepsiCo UK and Ireland (PUK) is classified as PepsiCo Europe division. Under the leadership of Richard Evans, President of PepsiCo UK & Ireland, Walkers achieved its highest-ever market share and the brand was re-established as a British icon (PepsiCo UK & Ireland).

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“Walkers” has been core brand of PUK and mainly manufactured in United Kingdom and Republic of Ireland. Walkers is also the UK’s favourite crisps brand which owned by Frito-Lay which its current logo a derivative of the North American Lay’s logo. Currently, Walkers Crisps hold 47% share of the UK crisps market (Net Resources International, 2010).

1. 2 Financial Situation

In overall, PepsiCo grew 5 % in net revenue on a constant currency basis as compared to 2008 which was upset by the unfavourable economy condition. PepsiCo American Foods dominant 48% group net revenue. PepsiCo American Beverages and PepsiCo Europe fell 7. 5% and 2. 4% respectively. However, PepsiCo Asia, Middle East & Africa (AMEA) grew 9% which increase the total net revenue of the group (PepsiCo, 2009). According to the annual report, PepsiCo Europe snack food volume in last year declined 1% as compared to 2008 with 6% growth. Walkers in the United Kingdom declined at a low-single-digit rate which is caused by macroeconomic challenges.

Source: Annual Report 2009

2. 0 Mission Statement

2. 1 Mission

The mission of PepsiCo is to be the world’s premier consumers’ product company focused on convenient foods and beverages. “ We seek to produce financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive for honesty, fairness and integrity” (PepsiCo Inc., 2010).

2. 2 Vision

PepsiCo's vision is put into action through programs and a focus on environmental stewardship, activities to benefit society, and a commitment to build shareholder value by making PepsiCo a truly sustainable company (PepsiCo Inc., 2010).

2. 3 Value

PepsiCo stressed on the commitment of delivering sustained growth through empowered people acting responsibly and building trust (PepsiCo Inc, 2010).

2. 4 Goals

Non financial Goals

1. To reduce water consumption in global by 20 percent per unit of production by 2015.
2. To grow savoury snack and liquid refreshment beverage market share in the top 20 markets.
3. To develop a group of leaders who better understand how to work more cohesively at the global level in multidiscipline teams.

Financial Goals

1. To improve brand equity scores for PepsiCo's 19 billion-dollar brands in top 10 markets.
2. To grow savoury snack and liquid refreshment beverage market share in the top 20 markets.

3. To grow the company's nutrition businesses from \$10 billion to \$30 billion in the next decade.

3. 0 Market Situation

3. 1 Market Size and Growth

According to Key Note, the UK snack foods market in terms of retail sales has a strong of 8. 4% was seen between 2008 and 2009 as manufacturers passed on steep rises in commodity costs for items such as potatoes, sunflower oil and nuts. The total value of the market has increased by 12% between 2005 and 2009 to reach £2. 39bn. Potato snack gained 85% of UK snack foods market followed by other savoury snacks and snack nuts (MyCompanyPR, 2010).

3. 2 Market Trend

High demand in safety and healthy foods

Consumers demand in safe and healthy snack food is an emerging trend. According to Report, there been a high proportion of consumers interested in natural and healthful food and drinks increases, so will sales of products with naturally nutritionally rich and quality calorie content. Manufacturers of snack foods reducing salt and fat content in their foods through the introduction of ' light' and low-fat variants to respond to health issues. Emphasis has been placed on the use of more ' natural' ingredients, as well as on baked, rather than fried goods (MyCompanyPR, 2010). The trend is more distinct when UK government has imposed restrictive food and drink nutritional labelling regulations as to control the obesity population in the country.

Global media influence consumers' choice

Consumers buying behaviour change in a way of becoming active information seeker on the food nutritional and calorie content before purchase decision is made. The availability of Internet allows consumers have greater access to products information around the world. Thus, more and more snack manufacturers share their product nutritional label in their official websites for consumers' references.

Consumers embraced ethical product

On the other hand, more people are inspired to buy food that has minimal impact on the environment. This shows that consumers' product evaluation work more than just the tastiness or quality but take consideration of the food product's packaging and manufacturing process. Therefore major marketers and retailers are increasingly tapping into this trend by offering more ethical products, upping their corporate responsibility efforts through energy-efficient "green" facilities and sustainable business practices, and increasing their associated cause-related marketing efforts (Packaged Facts, 2010).

According to Mintel's Global New Products Database (GNPD), in between 2005 and 2010 to date, there have been 17, 208 food and drink products launched in Europe that make some claim towards being ethical. Between 2005 and 2009, Mintel identified a 963 per cent increase in product launches in the category, from 445 products in 2005 to 4, 732 last year (Decision News Media SAS, 2010). Mintel comments that the key shift in the focus of 'ethical' products: from animal-friendly to environment-friendly products is a sustainable factor for many snack manufacturer in rebuilding brands.

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3. 3 External Environment Analysis

3. 31 Political Environment

UK practices the integration of three government departments on food labelling policy which are Food Standards Agency (FSA), Department for Environment, Food and Rural Affairs (Defra) and Department of Health. FSA has the responsibility for food safety aspect in nutritional labelling in Scotland, Wales and Northern Ireland. In England, Department of Health responsible for nutritional policy and Defra become responsible for country of origin labelling and various other types of food labelling not related to food safety, and food composition policies in England.

3. 32 Economic Environment

The economy of United Kingdom is in the recovery stage after having a severe recession in 2009. The GDP growth of UK in 2010 quarter two remain unrevised from the increase of 1. 2% published last month (Office for National Statistics, 2010). Consumer disposable income is medium low as the household consumption expenditure rose slightly rose by 0. 7% in latest quarter. A rise in world commodity prices for grocery product have indirectly increase food price. PepsiCo UK Walkers is in the disadvantage position due to an increase in operation cost and engage in price war to attract more market share.

3. 33 Social Environment

Obesity is the major health problem of the UK nations and healthy eating is one of the trends in food and drink sectors in UK. Consumers actively scrutinize the ingredients and nutritional labelling as a way to choose the right snack foods. PUK Walkers Brands respond to the change of consumer <https://assignbuster.com/internal-and-external-analysis-of-walkers-crisps/>

preference toward healthy snack by using Sun Seed oils to cook their crisps in order to reduce saturated fat content of the crisps. Walkers also provide a front-of-pack Guideline Daily Amount (GDA) label to inform consumers about the amount of energy and key nutrients provided in a portion of the product, and the contribution they make to the GDA for that nutrient (PepsiCo UK & Ireland, 2010).

3. 34 Technological Environment

According to ITU, 82.5% of the population in UK are Internet user. Most popular sites visit overall among UK Web user are Google, YouTube and social network visits have climbed from about 10% of all UK site visits to 11.88% of the total (eMarketer Inc., 2009). PUK Walkers Crisps has adapted to the surfing trends and connect consumers through social network. Last year, Walkers Crisps launched a “ Do us a Flavour, Pick us a winner” campaign which uses electronic vote via mobile, Facebook or email was successful to ‘ capture the heart of the nation’ inviting the public to create the next great flavour of Walkers Crisps (Enzo Annunziata, 2009).

Year

Users

Population

% Pop.

Usage Source

2000

15, 400, 000

58, 789, 194

26. 2 %

ITU

2005

35, 807, 929

59, 889, 407

59. 8 %

Nielsen Net//Ratings

2007

38, 512, 837

60, 363, 602

63. 8 %

Nielsen//NR

2009

48, 755, 000

61, 113, 205

79. 8 %

Nielsen Online

2010

51, 442, 100

62, 348, 477

82. 5 %

ITU

Source: [http://www. internetworldstats. com/eu/uk. htm](http://www.internetworldstats.com/eu/uk.htm)

Besides snack manufacturers start to embrace green technology on their production. PUK adapted to the change by upgrading Walkers brands with eco- friendly packaging by using starch derived from potato peelings to make chips bag, thus helping save on costs by recycling potato by-products (TFTS – Technology, 2010).

3. 35 Legal & Regulatory Environment

UK government has been imposing restrictive regulatory pressure on food safety. The Food Safety Act 1990 is one of the main food laws in UK by preventing food business from rendering food injurious to healthy (Section 7) and selling to the purchaser's prejudice any food which is not of the nature or substance or quality demanded by the purchaser (Section 14). Food companies that offence the Section 7 or 14 will be penalized with fine up to £5, 000 per offence or a prison sentence of up to six months (Food Standard Agency, 2010). The Food Hygiene (England) Regulations 2006 is the food hygiene rules for all food businesses, applying effective and proportionate controls throughout the food chain, from primary production to sale or supply to the food consumer (Food Standard Agency, 2010).

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3. 36 Natural Environment

According to Report of Department of Food and Rural Affairs (DEFRA), UK environment is improving as the serious incidents affecting water, air and land are dropping from year 2002 to 2008. However, climate change like drought has a huge impact in food production. PepsiCo UK & Ireland has taken initiative on reducing the carbon footprint in their manufacturing, distribution and packaging processes, and those of their suppliers. They switching to 100% British potatoes to lower food miles, reusing waste oil in biodiesel in their trucks as well as practice light-weighting of packaging. As a result they achieved a 7% reduction of Walkers carbon footprint between 2007 and 2009 (CIB, 2010).

Source: <http://www.defra.gov.uk/evidence/statistics/environment/inlwater/kf/iwkf11.htm>

3. 4 SWOT Analysis of PepsiCo UK (Walkers Brand)

Strength

UK market leader in crisps

Experienced management teams and board of directors.

Strong manufacturing and distribution system

Provide a variety of crisps flavours using familiar and natural ingredients

Strong financial support from PepsiCo Inc.

Launch the first Carbon Reduction Label

Weaknesses

Walkers brands sales declined

Inaccuracy in product nutritional labelling

Commodity price is inconsistent.

Opportunity

Increasing consumption of snack

Eating healthy snack is a trend

High demand in environmental friendly processed food as in packaging

Threat

Snack viewed as unhealthy product

Intense Competition

Water stress and crop failure in region

Volatile in foreign exchange rate

Strength

PepsiCo UK's (PUK) favour internally are its strengths of an experienced managements team and board of directors which give a clear direction of the selling strategy of Walkers Crisps. Besides, PUK and Walkers actively engage with carbon emissions reduction from its supply chain to packaging has scored the company a good reputation in the effort of preserving environments. Walkers brand uses healthy oil to fry or baked the crisps

which suit consumers' demand of healthy snack food. Walkers brand also gain competitive advantage of being the first product that launched Carbon Reduction label which other competitors could have takes time to imitate in future.

Weakness

The weakness of PUK is the sales volume of Walkers crisps is decreasing attribute to the consumers' negative perception of snack food. Walkers brand crisps have been engage with a number of problem and complaint about inaccuracy in nutritional label. In particularly, Walkers claimed their flavour is " suitable for Coeliacs" but not entirely gluten free (contains barley malt). Once consumers find the product labelling is misleading, they would not repurchase the item as it indicated the product is unsafe to consume. Nevertheless, the increase in commodity prices due to the disruption of unfavourable climate imposes high production cost to the company.

Opportunity and Threat

Favourable external factors include the rising demands of snack, food processing technological breakthrough in packaging which addressing the consumers' demand of environmental friendly product which start practising by competitors. Main threat of PUK is disruption of production due to adverse climate such as water stress will increase the crop failure. PUK Walkers crisps face intense competition from both direct and indirect competitors which would adversely affect its current market share in UK snack food industry. United Biscuit Ltd and Procter & Gamble Company are the direct competitors

of PUK whereas the indirect product competitors are Kraft Food, Nestle and Kellogg.

3. 5 Competitors' Brand Situation (SWOT Analysis)

The main competitors of Walkers Crisps are McCoy's Crisps and Pringles. The table below shows the SWOT analysis of these companies.

Competitors Brands

McCoy's Crisps

Pringles

Manufacturer

United Biscuit Ltd[1]

The Procter & Gamble Company

Country of Origin

United Kingdom

United States

Market Shares

29%

21%

Strength

Dominance the young male market e. g. Slogan: ' the original and best crisp designed specifically for men and their distinctive tastes'.[2]

Special flavours as compared to other e. g. curry flavours

Consumers can control the proportion of salt and additives in their snack

Strong financial support from the group

Wide manufacturing facilities

Approach different group of consumers from children to adults Slogan: “

Once You Pop, The Fun Doesn't Stop!”

Unique canister packaging[3]and sealable lid

Differentiation on crisps shape: a hyperbolic parabolic saddle shape

Strong financial support form group

Weakness

Salty and Fattening

Fail to approach female and children market

Organisation less focus on the brand

Inconsistency in campaign effort especially in social network.

Higher price as compared to other normal potato product

Opportunity

Increasing consumption of snack

High demand in environmental friendly processed food as in packaging[4]

Demands for exotic flavours snack is still high

Able to approach different group of consumers

Produce new flavours

Threat

Market share widen by other non-potato snack product

Market share widen by other non-potato snack

Competitive snack market climate

Addition of product

Engage in negative food issues: HVP Salmonella recalls[5]

*the calculation of market share has included potato crisps, snack, and nuts.

4.0 Marketing Segmentation, Targeting and Positioning

Segment base

Children

Youth

Adults

Demographic

Age

Income

Occupation

Family life cycle

Below 12

Parent's allowance

Student

Kids

13-24

Below 2000

Students, Part-timers

Single, couples

25 - 44

Above 2000

Self-employed, Full-timers, Professional

Single, couples, married

Geographic

Country

Regions

United Kingdom

Scotland, North Ireland, Midlands

Psychographic

Social class

Lifestyle

Middle, High

Leisure

Middle, High

Leisure, Fast-moving

Low, Middle, High

Fast-moving, convenient, less constraint

Behavioural

Usage rate

User status

Medium

Regular

Heavy

Regular

Medium

Regular

Crisps and savoury snack consumption by age group and gender

Gender

Age Group

2-10

11-18

19-34

35-49

50-64

Males

Mean

19

22

18

19

16

Median

18

18

13

13

13

% consumers

79

87

56

37

22

Females

Mean

20

23

17

13

13

Median

18

19

12

9

11

% consumers

86

84

53

45

26

Modified source: Low income diet and nutrition survey by food standard agency

Percentage of crisps and savoury snack consumption according to country / region

Gender

Country / region

England

Scotland

Wales

North

Central /Midlands

South

All

England

Men (%)

30

45

28

33

41

32

Females (%)

32

42

36

36

40

29

Modified source: Low income diet and nutrition survey by food standard agency

Targeted groups

The primary targeted is the youth which is from 13 year old to 24 year old. Low income diet and nutrition survey by Food Standard Agency reveal that 79% male and 86% female of this group consumed crisps and savoury snack. Older children and teens can be manipulated by the strong emotive messages in advertisements.

The secondary targeted group is adult between the ages of 25 and 44. This group are medium snack consumers which has less budget constraints as compared to youth group. The frequent user of snack is working adult living in a fast moving lifestyle. Convenient snack become the instant meals for working adult who has less time on cooking their own meals.

<https://assignbuster.com/internal-and-external-analysis-of-walkers-crisps/>

MarVariety of flavours

Fatty

Homogenous flavours

Healthy

Walker Crisps

Pringles Chips

McCoy's Crisps

Kettle Chips

Doritos

ket Positioning of Walkers Crisps

Figure Perceptual map of Walker Crisps

Walkers Crisps is benefited in the sense that positioned itself to be a healthy crisps which provides variety of flavours. Figure 2 shows that Walkers Crisps closest competitor is in house brand Doritos, and other competitors' brands like Pringles Chips and Kettle Chips are far below its because consumers perceive them as fattening and homogenous in term of flavours. In term of crisps flavour, McCoy's Crisps is the closest competitor of Walkers attributed to its uniqueness of crisps flavours which keep most innovative consumers buying on it.

5.0 Marketing Objectives (SMART)

To increase the market share of Walkers Crisps in UK market.

To increase the sales volume of Walker Baked by 30% from 2010 to 2012.

Walkers to remove all artificial flavour enhancers, colours and preservatives, by 2012 (PUK Health Report).

50% of savoury snacks to be baked, or include positive nutrition*, by 2015.

Increase availability of Walkers Baked by 25% by 2012 for consumers' on-the-go.

Trial marketing campaigns to transition consumers who have high per-capita consumption of savoury snacks to healthier alternatives, from 2010 (PUK Health Report).

6.0 Marketing Strategy

6.1 Product Strategy

As discussed earlier in market situation analysis, consumers' healthy eating demands are the key focus of PepsiCo UK in snack foods industry. PUK is recommended to remain focus its competitive advantage on producing healthful snack with healthy oil with eco-friendly packaging. Out of the five product extension under Walkers brands as shown in Table 1, PUK should undertake brand building of 'Walkers Baked' because it's contain less than 70% fat content which believe to meet consumers' demand of healthy snack food.

Table Walkers Brands Crisps

Product

Product Description

Flavours

Walkers Crisps

Source: <http://walkers.co.uk/?redirect=null#/our-range>

Potato crisps that cooked in Sun seed Oil which contained lower saturated fat.

Ready salted, Cheese & Onion, Prawn Cocktail, Salt & Vinegar, Roast Chicken, Smoky Bacon, BBQ Rib, Steak & Onion, Marmite, Tomato Ketchup, Pickled Onion, Worcester Sauce

Walkers Light

Source: <http://walkers.co.uk/?redirect=null#/our-range/walkers-lights>

Potato crisps that is deliciously light, 33% less fat than ordinary crisps and under 115 calories.

Cheese & Onion, Sea Salt & Cracked Black Pepper, Simply Salted, Sour Cream & Chive

Walkers Max

Source: <http://walkers.co.uk/?redirect=null#/our-range/walkers-max>

Deep ridge potato crisp, which gives more crunch and fuller flavour.

Chargrilled Steak, Cheese & Onion, Paprika, Cheeseburger

Walkers Baked

Source: <http://www.walkers-baked.co.uk/>

Crunchy potato crisp that oven baked twice and contained 70% less fat than other Walkers crisp.

Mango Chilli, Cheese & Onion, Bacon & Cheddar, Sour Cream & Chive, Ready Salted, Salt & Vinegar

Walkers Extra Crunchy

Source: <http://walkers.co.uk/?redirect=null#/our-range/walkers-extra-crunchy>

Potato crisp that sliced thicker, cooked little longer and crunchier than regular Walkers.

Simply Salted, Salt & Malt Vinegar, Cheddar & Sour Cream, Sweet Chilli Chicken, Flame Grilled Steak

<http://www.scholieren.com/werkstukken/24548>

6. 2 Promotion Strategy

Key promotion programs that PepsiCo UK is recommended is featuring in sponsorship of home event (treasure hunt), collaborative promotion with cinemas and social network advertising.

Sponsorship of “ Walkers’ Baked Treasure Hunts”

PepsiCo UK will be sponsoring a charity event named “ Walkers’ Baked Treasure Hunt” which participants are encouraged to have minimum purchase of two packages of Walkers Baked. The group will also donate 1%

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of the revenue in each purchases of Walkers Baked to the Carbon Trust Fund. The event is intended to promote the significant of human role on preserving the Earth by reducing the carbon emission. Besides, it could facilitate sales of Walkers Bakes and re-emphasize the environmental friendly brand image of Walkers.

Collaborative promotion with cinema

People tend to associated snack food with entertainments like watching movie. Therefore, PepsiCo UK should made strategic partnership with local cinemas like Cineplex, to enable the cinema to sells the Walkers brand crisps to the ongoing audiences. In addition, Cineplex can work closely with Walker Crisps through screening the brands commercial and collaborate with movies freebies giving away promotion.

Social Network Advertising

Walkers Baked Fan Page will be set up as an arena to connect fans about the product. By recruiting fan can increase the popularity of Walkers Baked and fans will be constantly updated with the incoming events like ' Walkers Baked Treasure Hunt' and other seasonal promotions. Past events images will be uploaded to reconnect the existing fans.

6. 3 Price Strategy

Pricing of Walkers Baked vary according to place and size of the product. Pricing in petrol station and convenience store are fixed whereas the pricing of retail is varying depending on the special occasion (e. g. Easter Day) and competitors brand pricing. The price strategy of undertaken by Walker Baked

includes psychological pricing which priced at £1.99 instead of £2 and competitors based pricing.

6.4 Place Strategy

'Walker's Baked' crisps will be mass distributed in most of the shops in petrol kiosk such as Shell and BP. Walkers brands snack vending machine in entertainment parks such as bowling centre and cinema as a way to increase consumers exposure to the product. Besides, Walkers Baked crisps will be placed at the middle condola or shelve in hypermarket like Asda, Tesco and other convenient shops because consumers can pay more attention to products put at middle shelves as it is reach on hand easily.

7.0 Assumptions

There will be no large fluctuation are made in the market. The company mitigates the exchange rate fluctuation through buying and selling forward in principal currencies of activity and aligning currency of cost with the currency of sales.

The financial data of PepsiCo UK and Ireland is assumed to be included in operation review of PepsiCo Europe in PepsiCo Annual Report 2009.

Sales and operating profit PepsiCo UK & Ireland is assumed to be the net revenue and operating profit of PepsiCo Europe Division respectively.

Operating expenses in year 2009 is assumed to be 7% of the total sales.

8. 0 Forecast and Implication

Forecast Budget of PepsiCo Europe Division from 2009 - 2012

Year

2009

2010

2011

2012

\$m

\$m

\$m

\$m

Forecast Sales

6727

7000

7700

8470

Cost of Sales

5795

5950

6468

7030

Percent

86%

85%

84%

83%

Operating Profit

932

1050

1232

1440

Percent

14%

15%

16%

17%

Operating expenses

471

420

385

339

Percent

7%

6%

5%

4%

Profit

461

630

847

1101

Percent

7%

9%

11%

13%

With the stimulation of mar