

# Le petit chef essay



elevator pitch Le Petit Chef faces a usual challenge: how to keep on growing on a mature market when differentiation through innovation is more and more expensive and profit tends to drop because of increased competition.

Microwave oven has been a disruptive technology. For a mature technology, it is more a matter of optimizing the innovation triangle and implementing the right processes to align R&D, Operations and Marketing. Le Petit Chef needs to use synchronous innovation, to make sure their strategic positioning matches their processes and therefore their cost structure.

They also might want to push for a disruptive technology like introducing fuzzy logic to sustain their competitive advantage. What is the relevant context of this case? The microwave market is global. Three main regions (USA, Europe and Japan) are served by major players and some local, smaller suppliers which tend to target the “less price sensitive high-end market”. The European market is quite fragmented due primarily to heterogeneous food preference and cooking habits, allowing regional players like which Le Petit Chef to offer tailored value propositions. Innovation in microwave industry comes: •from core technology: better waves distribution, combi-oven, •from the development of accessories, •from the improvement of the user interface.

Le Petit Chef microwave ovens account for 85% of the company sales. Le Petit Chef products “commanded premium prices for their perceived innovation and high quality performance”. Thus, Innovation is paramount. Le Petit Chef enjoyed high margins until the position attracts both larger European players and Japanese competitors, eroding its competitive advantage.

What factors explain Le Petit Chef's poor performance? What actions do you recommend to remedy this situation? Le Petit Chef suffers from adverse external factors. The market becomes mature, and players naturally develop various strategies to capture the higher profit of the high end segment. Larger players are upgrading their product lines, while taking advantage of their larger scale and lower costs. On the other end, more and more features are becoming common in the low cost products.

Internally, Le Petit Chef seems to face a maturity crisis. It becomes too big to be as differentiated and as reactive as it used to be, and it is still too small to compete with the majors in term of fixed cost absorption. In other words, its differentiation through innovation (both technology and features) cost more than what it can pay through a larger production. As a result, unit cost constantly increase, and, as prices fall due to the increased competition, its profit drops. As mentioned in the case, Le Petit Chef's R&D spending is twice as high as their competitors. But it doesn't mean R&D spending reaches the critical mass. Until 1998, the market let Le Petit Chef charge a premium to pay for the R&D.

Thus, the basic choice is either increase volume to keep R&D cost per unit low, or decrease the total amount of fixed costs, including R&D. Le Petit Chef's executives first need to acknowledge this change in their market structure and adapt their processes to the new environment. The challenge is either:

- continue the elitist approach of the market, which means:
  - oincrease the R&D content of the products, and focus on higher profit, smaller segment of the market
  - evolve to a lower cost, more recognizable differentiation, and capitalize on Le Petit Chef brand equity to attract a larger

market with lower margin •do both: keep Le Petit Chef as such on the upper segment, and create another brand (Cuisine by Le Petit Chef, or equivalent) to attack the lower segment without endangering Le Petit Chef brand equity

What should Gagne do? Specifically, what projects should she fund and why? Gagne cannot ignore the marketing department input; neither can she forget the huge return of project b. As a result, it needs to be put in front.

On the other hand of the scope, project “ a” is the only one to be able to maintain Le Petit Chef’s leadership in term of technology and features. She should consider each project with regard to its positioning on the innovation triangle. Each project has an impact in term of marketing, R&D and operations. It would be useful to carefully look at the R&D department workload.

The graph shows that it is possible with 29 engineers to deliver all selected 8 project over the next 24 months. It’s not so much a matter of choosing projects than prioritizing projects them over the next two years. The prioritization guides should be:

- ROI/NPV: From this viewpoint, project “ b” should be first
- Development of sustainable innovation: in this case, “ a” should be preferred
- Resource limitation of the company, especially R&D department

The project “ a” will most likely give Le Petit Chef a first mover advantage and open a new field of future opportunity. It is in line with the company legacy of technological excellence. It will increase the image of microwave as a gourmet cuisine tool.

Choosing more profitable projects, like “ b”, would drastically change the company’s positioning toward low-end products. It’s the way to go to face

the competition of Asian heavy weights, but it will imply a complete re-engineering of the company's operations and culture. I would recommend to push project " a" to anchor Le Petit Chef to its high end segment, and develop in parallele a low-cost brand. Other projects would be addressed as permitted by the R&D workload. The project showing evidence of strategic contraction would be dropped: • " 3" would be pursued only if the relative short-lasting of the grill is an actual problem in term of reputation.

Nobody can expect a microwave oven to last forever. • " 4" doesn't seem relevant for developed western countries. • " 6" is not a priority since the same feature can be reached with accessories • " 7" is not consistent with Le Petit Chef main market: one-touch cooking is more important in the US . " c" is much less appealing than " b" for the same purpose How should she handle the executive meeting? She should first get out of the inter-department guerilla mode. Le Petit Chef team has first to rebuild its cohesion to face the upcoming challenges. Then, she needs to expose very thoroughly her findings as developed above.

She needs to build her presentation in integrating marketing and operations inputs. Basically, she needs to presents the different options and how they would alter the course of the organization. Developing fuzzy logic could be an opportunity to take advantage of a new phase of disruptive technology to sustain a competitive advantage. As a matter of fact, fuzzy logic has been incorporated by OEMs in many appliances, starting with dryers.

On the other end of the scope, the company could re-engineer there processes to re-orient its production toward low-cost product. Whatever path

is chosen, the marketing channel will have to be aligned. It doesn't make sense to distribute high end products through Darty, (" Les prix Darty" doesn't fit well with high profits for the OEM! )