Business strategies of heinz marketing essay

The subject of this report, H. J. Heinz &Co. has a huge presence in the global markets. Heinz is one of the world’s leading manufacturers of grocery products. Based in Pittsburgh, Pennsylvania, the company was founded by Henry J. Heinz in 1876. It quickly builds its reputation on its flagship product – ketchup – and its advertising slogan – “ 57 varieties”.

Heinz markets its food lines in some 200 countries and claims dominance of market share in 150 of its branded products. Its core activities include the production of condiments; frozen foods; tuna; soups; beans and pasta; infant foods, and pet food. The company generates sales volumes exceeding $US 10 billion and employs 32, 500 people worldwide.

THE NEED FOR STRUCTURAL CHANGE AT HEINZ

The background to the present report is not unfamiliar, as to have made Heinz a global player experiencing unique problems.

During the late 1990’s, HEINZ began to experience sluggish growth. This was indicated by declining market share and falling sales. Worse still, the value of Heinz shares dipped. Not surprisingly, shareholders sought a strategy to turn the company’s finances around. On 30 April 1998, William R. Johnson replaced the exuberant Anthony O’Reilly as Company Chairman. Johnson immediately set about devising such a strategy.

As part of this plan of action, a forensic study of the structure indicated that its malaise was caused by a combination of exogenous (external) and endogenous (internal) factors.

EXOGENOUS FACTORS INCLUDED:

Increasing international competition from global giants such as Kellogg’s Jenny Craig, Campbell’s Soups, Nabisco and Del Monte; and,

The appreciating US Dollar exchange rate

ENDOGENOUS FACTORS INCLUDED:

Setting higher prices; and

Decreased advertising

THE MILLENNIUM PROJECT

Under the former leadership of Dr O’Reilly, Heinz sought to improve its profitability by raising its contract prices and reducing its expenditure on advertising. This approach can be likened to the technique of skimming, whereby companies leverage a power brand name entering a new market and set a higher price for it. The ploy is calculated to skim off affluent consumers. But this strategy does not always work. And that is what stakeholders in Heinz soon realised. In the event, the new CEO, William Johnson rebutted this approach. His plan for change, the so-called Millennium Project, consisted of the following elements:

Reducing the international workforce by 2, 500 employees (later, by 3, 000-4, 000)

Consolidating the number of plants, closing 25 of 101 worldwide

Reducing the number of non-core activities, such as the Weight Watcher’s classroom business

Channelling savings into marketing, advertising and research

Changing the ethos of the company, in an attempt to purge it of a surfeit of ‘ yes’ men

Link salaries and incentives of management of performance

THE IMPLEMENTATION OF CHANGE AT HEINZ

The Millennium Project (later revised as Project Excel) incorporated a number of drastic proposals. Many of these involved plant closures in Europe, where staff might have been forgiven for regarding the company’s leadership as unsympathetic with the plight of European workers. Subsequently, Heinz has gained a reputation as a company which makes unilateral decisions. It is also a company which has an appetite for pay disputes, as the recent stand-off between management and shop-floor operatives at Wigan demonstrates. Notwithstanding, the implementation of its corporate change programs has encountered relatively little resistance, perhaps as a result of the text book manner in which change has been promulgated. In the event, Heinz has carefully built a platform for continuous change.

THE SUCCESS OF THE MILLENNIUM (AND EXCEL) PROJECTS

Market analysts have adjudged the outcome of the millennium and Excel projects as a success, when measured against the following indices;

Streamlined management structure

Rising share value

Continuing dominance of market share

Soaring sales volumes

More recently, Heinz has confronted other issues. Rising fuel costs and the impact of the global recession have buffeted this business, along with practically every other enterprise operating globally.

The threat of competition from international rivals continues to stalk the company. Such companies wield considerable advertising power, conduct their own market research and are apt to exploit gaps in new markets. They also invest heavily in food technology; in some instances, directing their efforts at the ethnicity of an emerging market and tailoring their products to suit. To that extent, other global players constitute a threat.

FURTHER CORPORATE REFORM AT HEINZ

In the early part of 2010, Heinz trotted out a pilot program (Heinz Global Performance System), whose aim is to promulgate further strategic reform across the supply, logistics and production pipeline. At the time, the company ramped up its sales targets, an objective not readily achievable in the context of a stagnant global economy. HGPS is at present restricted to a trial phase at 25 production facilities throughout North America and Europe. At the heart of the HGPS program is a template of standardised improvement across all facets of the organization.

THE SMALL PRINT OF THE HGPS PROGRAM

HGPS is designed to streamline the company's entire value-added process, from research and development to marketing. It is envisaged that this can be achieved through:

Further commitment to research and development

Increased attention to forward supply planning

Diversifying the supplier network

Improving information technology applied to the supply cycle

On the production side, the company intends to:

Maintain quality assurance

Improve output

Create further labour-saving efficiencies through state-of-the-art production technology; and

Further standardize product design and packaging

Maintain its commitment to core activities

Maintain its commitment to marketing

THE HEINZ MISSION STATEMENT

The long-term objectives set by the H. J. Heinz and Co are recurrent. Broadly speaking, they include:

Consolidation of market share in established spheres of interest

Expansion of the company's presence in the emergent markets of North Africa and Asia; and,

Development of new power brands, especially those targeted at the emergent markets

THE HEINZ SWOT MATRIX

Strengths:

Marketing Expertise

Well established power brands

Products Differentiation

Supply cycle cost savings

State-of-the-art production technology

Substantial research commitment

Ability to change tack quickly

Strongly Incentivised Management Structure

Weaknesses:

Industrial Relations Issues

Rapid change threatens motivation and morale levels among staff

The need to maintain an overarching global management structure

Opportunities:

Consolidation of market share in established markets

Expansion of market share in emergent regions of North Africa and Asia

Development of new power brands, especially those targeted at the emergent markets

Acquisition of established domestic brands in emergent markets

Threats:

Currency volatility

Escalating global energy cost

Increasing competition from major global players

Rise of generic brands

CHALLENGES CONFRONTING HEINZ AS INDICATED BY SWOT ANALYSIS

Having addressed the critical internal factors eroding Heinz’s competitive performance, the company recognizes that it is confronted by a cluster of external threats to its viability. To a large extent, these external threats are omnipresent. SWOT analysis suggests that they include:

Currency volatility

Escalating energy costs

Increasing competition from both domestic and global players

In the event, Heinz must respond to these challenges by:

Concentrating production, procurement and distribution within the key economic zones, so as to reduce the impact of exchange rate volatility

Investing in alternative energy options

Continuing to pursue cost-savings programs

Tailoring the objectives of research and development to the emergent market

2. 1 APPLICATION OF PEST ANALYSIS TO THE STRATEGIC GOALS OF HEINZ

Given that Heinz is targeting the emergent markets of North Africa and Asia, where it has already experienced exponential growth, the company should take the following geo-political concerns into account:

In recent months, the North African region has become something of a political cauldron. Political instability extends from Tunisia to Libya and beyond. In Egypt, the outcome of a popular uprising which resulted in the overthrow of the Mubarak regime has yet to be decided. Nevertheless, Egypt holds out the greatest promise as a consumer market. It has an increasingly well educated, English speaking work force. Though Sharia law is the font from which Egyptian law is mostly drawn, very few issues, apart from lifestyle ones are affected by the strictures of Islam in Egypt. Environmental and employment legislation are less rigorous throughout the Middle East.

While political stability is not an issue in China, political restrictions on the use of communications technology may hamper the production and supply cycle from time to time. A plethora of highly trained, English speaking workers in China augurs well for an expansion of production facilities there. Throughout the wider South-East Asian region, per capita income is rising, especially in such tiger economies as Thailand and Vietnam. In the former, political instability looms as an issue. On the other hand, the Philippines remain a firm anchor in the region. This populous island nation is experiencing something of an economic resurgence in the fields of information and communications technology. Consumer growth is expected to rise dramatically.

Competition from other global players does not present a serious or immediate threat to Heinz’s aspirations in the emergent markets.

2. 1 THE MAJOR EXTERNAL THREAT: THE RISE OF THE GENERIC BRANDS

The threat posed by the proliferation of generic brands is calculated to weaken Heinz’s overall trading position. It is no less of a threat to its rivals, too. The generic brands are substitute products, which find their way onto the shelves of the large multiples and bear the imprimatur of these companies. Here in the United Kingdom, that threat is palpable, as leviathans such as Tesco and Sainsbury’s, through astute product placement, are able to promote their own symbol brands to the detriment of their suppliers. These companies operate from behind the protective walls of an oligopoly. Their presence distorts the market as their purchasing power bourgeons. Worse still, oligopolists tend to both anticipate and mimic one another’s behaviour.

There can be little doubt that most consumers will avail of generic brands, at some time or other. Nevertheless, certain generic brands experience difficulty developing product loyalty, especially when those products vie for tastes and preferences. For all that, generic products are designed to behave like all other substitute products. They exhibit cross elasticity of demand. In other words, as Tesco sharpens the shelf price of its own brand ketchup, it is reasonable to assume that the demand for Heinz (Secret Ingredient) Ketchup will fall within. If Sainsbury’s mimics this behaviour (which is to be expected), then sales of Heinz tomato ketchup will slide in its stores, too.

THE REPORTS RECOMMENDATIONS

(i) THE BACKGROUND TO THE REPORT:

H. J. Heinz & Co is one the world’s leading manufacturers of grocery products. The company operates on a global scale and harbours global ambitions. Its long run objectives include:

Consolidation of market share in established markets

An expanded presence in the emergent markets

For all that, Heinz is also a company confronted by global issues.

Increasing international competition from other grocery giants such as Kellogg’s, Jenny Craig and Campbell’s Soups, has highlighted the need for deep structural change. This priority asserted itself from the late 1990’s, as Heinz began to lose market share and its sales turnover tumbled. In the event, emboldened by a new leadership, the company set about implementing corporate change. At present, Heinz continues to build on the successful outcome of the Millennium, Excel and HGPS plans for corporate reform. That reform has ensured the viability of the company. Restructuring has involved radical decision-making, bearing down heavily on excess capacity, labour costs and overheads. Heinz remains committed to the tenets programs.

This program concurs with this approach.

(ii) THE OUTLOOK FOR H. J. HEINZ & CO

The present report relies upon the conventional marketing tools of SWOT and PEST analysis to determine the company’s outlook.

These analyses reveal that Heinz largely trades on its reputation and the momentum of its huge power brands. Notwithstanding, Heinz continues to be stalked by its international competitors; they wield considerable advertising clout and are apt to exploit gaps in new markets. But Heinz is more than a match for its rivals, as it has benefitted from its leaner corporate structure. A company’s ability to respond to change is an indicator of its propensity to meet challenges, especially those which arise from global competition. Accordingly, it would appear that Heinz is well positioned to meet these challenges, as it is a company whose leadership is geared to change.

However, using Porter's Five Forces model, a far more sinister threat to the company's viability is revealed. It, too, is a threat which originates externally. It is the threat posed by the rise of the generic brands – those substitute products cleverly marketed by powerful groups of oligopolists practically everywhere. To combat this threat, Heinz must continue to invest heavily in advertising which communicates the message that its products are readily differentiated from those of its competitors.

Given that Heinz intends to enlarge its presence in the emergent markets of North Africa and Asia, it would be advisable for the company to suspend further investment in these regions, until political stability is restored.

In the interim, Heinz must capitalize on its ability to compete at a relatively low cost. It also benefits from huge economies of scale. The savings generated from the reform programs, should be channelled into further investment in food technology. Much of this research should be targeted toward the increasingly sophisticated consumerism of the emergent markets.

On balance, Heinz is poised to achieve its global objectives.

2. 3 FOOTNOTES

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