

# Oscar myer-strategic marketing planning



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First there was the alarming market research report prepared by Incineration Corp., a consulting firm the division had relied on for planning advice over many years. Then, in the middle of his desk, lay a series of memos from four of his most trusted managers, all responding to the Incineration report with their ideas on what action was “ clearly best for the company. ” The problem was that at first glance no two recommendations seemed even remotely alike in regard to what was “ so clearly best. ” Oh well,” McGraw thought out loud, “ this is why they pay me the big bucks. ” And with that he hauled out the note from Mike Incineration that had started the controversy. October 14

Dear Marcus, It was good talking with you last week, and I hope you enjoyed the Green Bay thrashing of the Cowboys. What a great game! In regard to the enclosed Oscar Mayer Annual Report, please note our belief that the marketplace for processed meats is undergoing some fundamental changes that will threaten your profit growth over the next 3-5 years.

The most critical threat we see is that the Division’s current product portfolio is slowly shifting out of alignment with consumer trends. Specifically, your traditional red meat products like bologna, hot dogs and bacon, all branded Oscar Mayer, are under attack for being too high in fat content. You can see the results in your softening sales trends. In the short-run you’ve been able to offset these losses through your recent acquisition of Louis Rich, Inc. , and their turkey-based line of products that are both lower in fat and also lower priced.

Your ability to use your business and distribution system strengths to make Louis Rich the leader of the white meat segment has really paid off-? and Dan Kitchen, MBA '96 and Robert Drank, Lecturer at the University of

Wisconsin-Madison, in collaboration with Professor John A. Quelch prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Copyright 1997 by the President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685 or write Harvard Business School Publishing, Boston, MA 02163.

No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School. 97-051 has kept the “total Division scorecard” looking favorable. But the investment costs to build this “second brand” have been high, and we fear that some of the steam may be running out on Louis Rich, as evidenced by the slowing growth rate, and the entry of competitive copy-cat brands of turkey and chicken lunch meat and hot dogs.

If Oscar Mayer branded red meat products remain sluggish and the Louis Rich white meat lines begin to slow, your goal of +3-4% annual lb. Volume growth could be in jeopardy. Finally, I have to again mention the other consumer trend that may threaten both our current Oscar Mayer and Louis Rich products. This involves the increasingly factored pace of our lives, especially for moms in the workforce. They represent a large part of your target audience and they are constantly looking for new products that are faster and easier to use.

I know that your latest attempt, Oscar Mayer Stuff ‘n Burgers, wasn’t the answer, but I recommend that you keep searching for any and all ways to “

boost convenience. ” By now I’m sure you’re muttering “ There goes Incineration again with the sky is falling routine. ” But I guess that’s a part of my Job as an outside observer. To shout before he sky actually falls. Which brings me to what you might consider doing about all of this. Here’s a possible direction: “ The Division should continue to focus on broadening and contemporaries its product lines against emerging health and convenience trends, while carefully allocating its investment monies (e. . Advertising and promotion budgets) to deliver both short-run and longer-run profits. ” As I see it from a distance, your present laundry list of possible “ investment bets” includes the following: 2. 3. Adding new benefits to the current MM/LORE products. Strengthening/diversifying your lines via another acquisition. Internally developing new products that tap the new needs. But, as always, the devil is in the details . And the details will need to come from your Business Managers and their teams. Knowing them as I do, I’m sure you’ll be getting plenty of advice!

Let me know if I can help. Best regards, Mike McGraw nodded at the closing lines and replaced the report in his desk. Mike Incineration was right again. The Division was probably in decent shape for another year, but then what? One thing was for sure: McGraw had no intention of surrendering Oscar Mayor’s track record as the fastest growing profit-maker across al of the Kraft divisions. In fact, prior to the Incineration Report, he was planning to make two very bold promises about annual growth over the next three years: +4% per year on volume and +15% on operating income. I’m going to stick with that call unless all of the 2 ‘ details’ really prove that it can’t be done,” McGraw thought to himself, as he pulled the complete Incineration

Report (see Exhibit 1) out of his file, and began to read. Upon finishing Matron's report, McGraw got out of his chair and walked across the room to the bulls-eye putter resting against the far wall. As he stroked the first golf ball award the imaginary cup in his mind, he thought about all of the times he had been here before. " When was the last year that the sky wasn't falling? " he wondered. Of course it's getting harder and of course some of the wheels are coming off. And of course we'll find a way to get it right. Bring on the Cowboys. " With the first of the four internal memos in hand, he began a serious read as he paced the room. To: From: Subject: Marcus McGraw Rob Goodman-Louis Rich Category MGM. Incineration Report I read the report and agree that we need to reconsider our investment strategy-? tit an emphasis on backing the winner in our stable, Louis Rich. Better-for-you white meat products are on-trend, and we were smart enough to see it before the others.

The recent slow-down in the rate of growth simply says that competitors are catching on. Which means that we need to pump more money in to stay in the lead. I really believe that white meat lines can capture 50% of the market over time, and my folks have put together an aggressive plan centered on two initiatives: 1. Boosting our brand awareness and trial by heaving up our advertising behind the new " Switch to Rich" campaign. We're still in the early growth stage of the life cycle with LORE and this copy really demonstrates the advantages of white meat over red.

It's tested well and should add share, if we run enough weight behind it to really break through the clutter. 2. Introducing the string of new products that R&D has developed, including LORE Turkey Bacon and the great Roast

Turkey and Grab dinner line you saw last week. To get this done, I figure we'll need to up our Advertising & Promotion budget by about \$22 million. In the short-run, this will reduce our profits slightly, but provide another big Jump in volume and set us up for long-term growth. Given the clear upside potential for white meat lines, this “ L-T growth over next year profits” strategy seems right.

Estimated Profit & Loss: Louis Rich Current Year Next Year Pound volumes % change versus last year Advertising and promotion Operating income 272 10. 9% \$133 \$29 305 12. 0% \$1 55 \$27 figures in millions. Let's discuss further when you're ready. 3 “ That's exactly what I would argue if I were in Rob's shoes,” thought McGraw. “ He's riding a fast horse and knows that those don't come around all that often. But I wonder what his new advertising will do to our Oscar Mayer lines. And what's a icon made from turkey going to taste like? Let's see what Jane has to say. Jane Merely-Director of Finance & Planning Incineration-Acquisitions This report prompted me to dig into the possibility of going after some small companies that offer both healthier and more convenient products. Three caught my attention: 1 . Chicken Rite Inc. Located in Savannah, with sales of roughly \$15 MM across 4-5 states, their star is a line of low cal chicken salad in single serve tubs. 2. Turkey Time Ltd. They're on the West coast , doing \$10-MM, with a line that's similar to Louis Rich, except for some ready-made frozen sandwiches. They also have a new plant with excess capacity. 3. Crabbier, Inc. Their WHQL is in Maine and they make a string of simulated shellfish products (e. G. Crabs, lobster) out of low cost raw materials such as halibut. Sales estimated at \$MM. Turkey Time is closest to our know-how, and the plant

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might support further LORE expansion. The other two might let us tip-toe into some new protein sources and convenience products at relatively low risk. A complete guess at price tags might be \$15-MM apiece. If we borrowed this at 12%, annual debt service would run about \$MM.

The impact on operating income loud obviously depend on how they perform. Let me know if you want a deeper search. And on the rest of Incineration, we'll need to acknowledge our weak Oscar Mayer trends and new products history when we do the presentation. The good news is that we've been delivering the numbers, which is ultimately the bottom line, isn't it? McGraw pondered the thought of another acquisition on the heels of the Louis Rich deal. As always, Jane ' s instincts were to never sit still in the presence of good results.

In fact she always argued that good results gave you the “ right” to take risk, and reach UT for new investments. The key question, of course, was how to balance all of this stuff. McGraw looked at the remaining two memos on his desk, and grabbed the one from Jim Longest, who was the newest member of his direct management team, brought in to improve the new product hit rate. Jim Longest My Thoughts on the Incineration Report I felt that Incineration got it exactly right when he said that the Division's long-term health lies in “ broadening and contemporaries our product lines against emerging consumer needs. Yes, we have to stay profitable in the interim, but 85% of our 4 rent volume lies in lines we've sold for almost 100 years! And the data shows that lunch meat, hot dogs and bacon are all very mature categories with no built-in growth. To get the 4% annual volume gain we want, I believe we need to invent a 4th major category within processed

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meats that can address changing consumer lifestyles and give us a “ growth engine” that will carry us for a decade. And now is the time to do this, while results are strong and we are able to both make our short-run goals and invest in the future.

I have two ideas to offer here which have come out of work by our new jurisdictional “ Invention Teams. The first cleared our concept test hurdle and is entering the “ value engineering and economic evaluation stage. ” The other is just taking shape as an early concept. 1 . “ Sappiest. ” This is a line of miniaturized family favorites (pizza slice, burger on a bun, tacos, etc. ) that go from freezer to microwave to your mouth in 60 seconds. They come two per 4 oz. Pack at a retail price of \$1. 9, and take advantage of two hot consumer trends: \* The move from sit-down meals to on-the-go hand-held portable grazing meals; and The explosive growth of the microwave oven, with the associated search for products that fit. We see this as “ fast foods at home,” with no prep convenience and sure-fire tastes that both kids and adults will enjoy. The fit here with our Oscar Mayer Brand equity also seems high. R&D remains hopeful about formulating these lines, although the cost structure is up in the air and we will probably need to add 2-4 food tech people.

But the Stuff ‘ n Burgers experience taught us many valuable lessons about the “ frozen food channel” which should help this time out. If we give this priority, we should be able to complete our development work in the next 6-8 months and be ready to sell-in early next year-? issuing we clear the remaining consumer and financial checkpoints. 2. “ Lunches. ” This is the idea that came from listening to working moms describe what they think and



feel about making carried lunches for themselves and for their kids five days a week: “ painful to pack, boring to eat, and zero appreciation for the effort. If our “ important problem-superior solution model” for new product success is right, we’ve got the first half of the puzzle in hand. The solution-side we have in mind involves a plastic tray that we would fill up with some new carried lunch recipes. Almost like a “ TV Dinner” tray, but in a more compact size that could fit in a brown bag. The recipes we’re considering would involve our sliced lunch meats, together with some cheese, crackers (since bread shelf life is too short), 5 condiments, and possibly a little chocolate treat. We’d try to make this filling enough to be a credible lunch, with pricing probably in the \$1. 5-1. 50 range. While our thinking is still early, this pre-packaged RET lunch concept seems like a logical next step toward being more convenient and contemporary for a company like ours that wants to “ own carried lunches. ” I believe that both of the above ideas fit Incitement’s vision, and both feel like they have “ sufficient scale” to become a 4th major category for us. In regard to the appropriate level of investment, the following would allow us to complete development on one or both of these initiatives next year, and then take them national the following year.

Estimated Profit & Loss: New Products 2 Years Hence Investment 12 (snob)

\$16 \$12 50 \$20 figures in millions. Current year volume is Stuffs Burgers.

Sorry about the length of this note, but I wanted to get my full shot in before Rob and Eric pocket every cent of my budget! McGraw tossed the memo back on his desk, and thought about all of the new products he’d lived through over two decades. What was the batting average? One in ten? And every time another one went down, there was absolute hell to pay.

A thousand questions on Stuff ' n Burgers. All sorts of “ free help” from the consultants. Guys left and right promising a new magic solution to get it right next time. “ If only the basic categories had more intrinsic growth we wouldn't need another flight into the unknown,” he mused. But Longest did have some good points to go along with another two years of rejected losses. And both ideas passed Incitement's wish for improved convenience. The trick will be to manage the risk along the way so that I don't get another big dose of red ink. Well, Eve put it off long enough,” McGraw thought, as he looked at the last remaining memo. He knew it would be a heat-seeking missile from his long-time friend Eric Stranger. Eric Stranger-? UP of MM Brand Incineration/Back To Basics Marcus, this is probably a memo I'll wish I hadn't written and you'll wish you hadn't received. .. First off, he's right to ring the alarm bell! The foundation of our On Incineration . Alluding-? the Oscar Mayer Brand, which accounts for \$1 1 MOM or 82% of our total profit-? is eroding rapidly, and if we don't act soon it may be too late to fix it.

This is, of course, a topic that you and I have debated over the last three years, and you know the headlines as well as I do: 6 In order to underwrite the growth of the new Louis Rich trademark and experiment with more new products, we have in effect been milking the Oscar Mayer lines. Our price increases on several of our most critical items have outpaced those of the key competitors, in order to always deliver more bottom line profits.

Simultaneously we have shaved our A&P budgets for the same purpose.

The result has been a slippage in and trust among our consumer franchise that has now manifested itself in two year's worth of declining sales and share. I know that I signed on for this strategy for the greater good of the

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Division. And I know that it's paid off in big growth, at least for the Louis Rich business. But as we old Southern boys say, " the chickens are now coming home to roost in our P. " Hence my theme: " it's time to get back to basics on the Oscar Mayer business. " And here are the six actions that I think are urgent: .

Take a 10 cent per package price cut on the top three MM branded items in each category to begin to get back in line with the competition. 2. Increase the A&P budget by \$MM to restore fair share support for the brand. 3. Reinstitution the Hemoglobin promotional program to play off the general nostalgia craze that is sweeping the nation. 4. Get enough R&D resources going to formulate a low fat and salt line of MM products. 5. Update the analyses on capacity utilization in our MM plants and rationalize what's required to cover additional price reductions. 6.