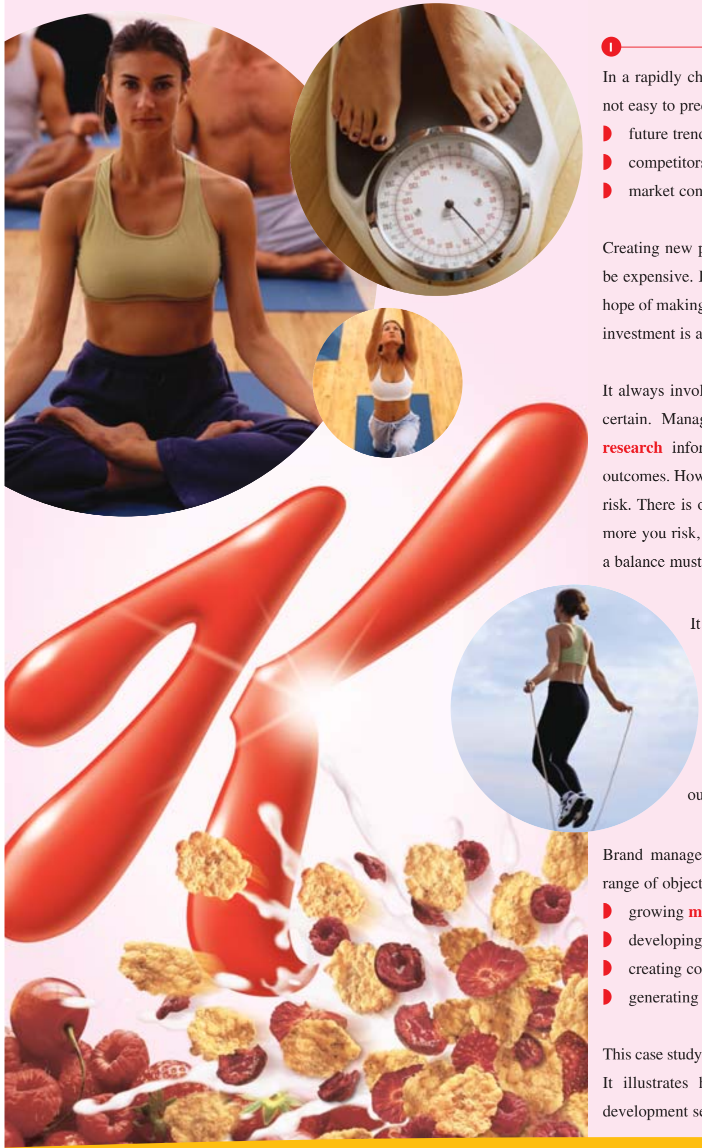
Using new product development to grow a brand



Introduction

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In a rapidly changing and competitive business environment, it is not easy to predict:

- future trends in consumer tastes and preferences
- competitors' actions
- market conditions.

Creating new products or making changes to existing **brands** can be expensive. It involves making investment decisions now, in the hope of making a return later. Weighing up future returns against an investment is a crucial part of a manager's job.

It always involves an element of risk, because the future is never certain. Managers' previous experience, together with **market research** information helps them to predict future events and outcomes. However, all business activities involve some element of risk. There is often said to be a link between risk and return. The more you risk, the higher the likely returns (or profits). However, a balance must be struck.

It follows from this that decisions about a brand, (e.g. whether to develop it, maintain it, allow it to decline, or even kill it off) involve much discussion. In deciding to develop a brand, managers have to decide how much investment to make and to forecast the likelihood of a successful outcome.

Brand managers aim to develop a long-term strategy to meet a range of objectives such as:

- growing **market share**
- developing a unique **market position**
- creating consumer or **brand loyalty**
- generating a targeted level of profit.

This case study describes a major investment in Kellogg's Special K. It illustrates how the company's investment in new product development served to strengthen a global brand.

Kellogg's and the marketing mix

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With annual sales of more than £4.5 billion, Kellogg's is the world's leading producer of cereal products and convenience foods, such as cookies, crackers and frozen waffles. Its brands include Corn Flakes, Nutri-Grain and Rice Krispies.

Kellogg's is a global organisation. Its products are manufactured in 19 countries worldwide and sold in more than 180 countries. In an uncertain world where the organisation's strategy is to focus on products and brands that are either the market leader or in a strong second position the company believes that this focus upon core and successful products enables it to provide consistent and reliable returns and rewards for its **stakeholders**.

The need for change

When a company like Kellogg's is investigating a change in its marketing it can consider four elements. These are known as the marketing mix or 4Ps:

- **Product**
  This element relates to how the company offers meets the changing needs and wants of customers. The growth in healthier lifestyles creates opportunities for Kellogg's to increase the number of products for this segment.
- **Price**
  The amount a company charges for its product is important in determining sales. Superbrands like Kellogg's can charge a premium because of the strength of the brand and product quality.
- **Place**
  Where customers can purchase the product is also an important factor in determining sales. If a brand like Special K is not stocked in supermarkets where most purchases are made, sales will be lost.
- **Promotion**
  Communicating the availability of a product is essential for sales to be made. Kellogg's uses above the line promotion like TV advertising as well as below the line promotion like on-pack promotions and sampling.

In considering Special K, the company concentrated on changing the product through new variants. Although Special K was already a well-established brand, its full potential had never been reached. It was viewed as a stand-alone product, and Kellogg's had not created any **variants** or **brand extensions** to develop the core product.

Managers can decide when to make key changes to a core product by analysing its position within the product life-cycle. Life-cycle analysis accepts that products have a finite life, and analysts chart a product's performance through several phases, from its launch through various phases of growth until it reaches maturity and eventually decline.

A product's life cycle may last only a few months (e.g. with a fad, or craze) or, as with Special K, for many years. Although it was a successful product, Kellogg's recognised the opportunity to stretch the brand by investments that would:

- revitalise it
- extend and further develop its growth phase
- help to delay the onset of the maturity phase.

Kellogg's was convinced that such investment would help to maintain the brand's strength in a rapidly changing market place.

The product life-cycle

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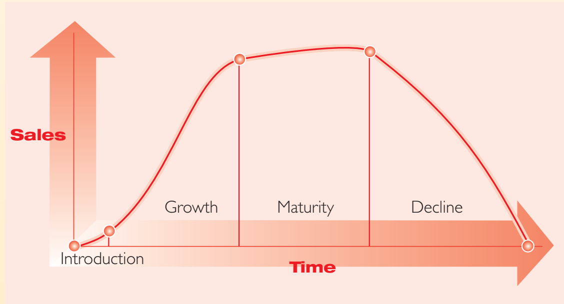


The traditional product life-cycle shows how a product goes through 4 stages during its life in the market place. At each stage in the product life-cycle, there is a close relationship between sales and profit so when a product goes into decline, profits decrease.

When a product is introduced to the market, growth is slow due to limited awareness. As the product is establishing itself, sales will start to increase during the period of growth. As the product reaches maturity, the company needs to inject new life into the product, either by creating brand extensions or variants otherwise the product will reach maturity and start to decline.

Before taking any investment decisions, Kellogg's undertook market research. It wanted to answer these questions:

- What changes taking place in society are likely to affect the product?
- How might new technologies affect our business?
- What are likely to be the future market trends?
- Where are the opportunities within the market place?
- What new categories would appeal to the target market?
- How far do consumers think the brand could stretch into the market for different product categories?

Kellogg's had to understand how the product could be extended into a series of variants which would keep the core product strong, but grow the brand as a whole.

Manufacturing capability is another key issue. If launches of new products are successful in global markets, Kellogg's must have the manufacturing capacity to meet consumer demand as well as the **supply chain** necessary to reach those consumers.

Special K - cereal

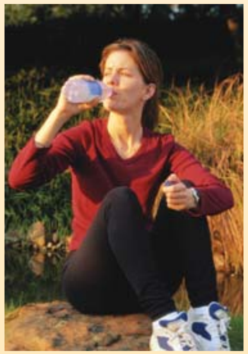
Initial developments came from Kellogg's in France, who introduced red berries into the cereal. This new product performed well. Market research in the UK, including consumer tests, also identified a real opportunity within the UK market. In October 1999, Kellogg's launched Special K Red Berries in the UK. From the outset it performed well, with very little damage to the core brand: most sales were additional and above expectations; consumers did not swap the 'old' product for the new variant.

Evaluating the launch revealed further scope for product development. It was, however, important to ensure that any new products tasted different from the original Special K and the Special K Red Berries, so as not to harm their sales. Extensive product development research was carried out by food technologists. Kellogg's then tested the product with **quantitative research**. Kellogg's launched Special K Peach & Apricot in February 2003.

Special K – bars

Kellogg's already knew that women who are keen to watch their weight and shape seek a range of solutions throughout the day - not just at breakfast. With the help of both users and non-users of existing Special K products, market researchers undertook further quantitative tests of product ideas across a range of food categories.

The research identified that cereal bars offered the strongest opportunity to develop Special K as a healthy snack. The brief was then developed and the Special K bar was launched in July 2001, with significant television coverage. Consumers were also able to sample the bar through specific promotional activity. The Peach & Apricot variant was added to the portfolio in February 2003.



Growing the brand

Kellogg's soon came to realise that the variants were responsible for a huge growth in the Special K brand, without a drop in sales of the core cereal product. New product development had transformed the brand within the UK. This in turn gave a great opportunity to roll-out other developments in other markets, including the USA, Australia and Canada. Product research showed that the UK products could be adapted to meet the individual tastes of consumers within those markets.

The Kellogg's strategy was truly global; it developed an idea in Europe which it then adapted and applied worldwide. Within the space of 2 years the extensions to the brand had achieved global coverage, and were providing not only significant developments in sales value and volume of Special K products, but also a huge boost to the brand's equity.

Supporting such expansion was not always easy for Kellogg's UK. Initially it produced all the Special K variants sold within Europe. The UK company had to increase its manufacturing capacity and also refine supply chain management processes to ensure that the product would be available at the point of purchase. It had opened a portable foods plant at Wrexham, to produce bars. Other capacity was created by commissioning the production of Special K cereal in Spain.

Creating a stronger position

When contemplating long-term investment decisions, brand managers face two key questions.

1. In what projects should the company invest?
2. What level of investment should be approved?

For the Kellogg company, market research suggested that using funds to develop variants on Special K looked like a comparatively low risk project that offered the prospect of a good rate of return. This was largely because it involved developing and extending a brand that already enjoyed huge consumer support in ways that could be adapted to the market place worldwide. The judgement has proved to be correct, to the benefit of the company and its many stakeholders.

Glossary

Brand: A name, symbol or design used to identify a specific product and to differentiate it from its competitors.

Brand equity: The value of a brand, based upon consumer confidence and loyalty, awareness of the name and a range of perceived benefits and qualities.

Brand loyalty: High level of equity, credibility and trust by consumers that leads to repeat purchases and confidence in the range of products represented by the brand.

Market position: Developing a brand relative to other products and brands in a way that provides a distinct perception in the minds of consumers.

Market research: A range of research functions that link marketers to consumers by supplying essential information to solve marketing problems and help with marketing decisions.

Market share: The percentage of sales within a market that is held by one brand or company.

Quantitative Research: Research that seeks structured responses that can be summarised numerically, for example as averages, percentages or other types of statistics to help an organisation understand how customers perceive its products/services.

Stakeholders: Individuals and groups such as shareholders, managers, employees and suppliers who have a stake in the running of an organisation as well as in the consequences of its activities.

Supply chain: The organisational framework that enables a flow of products from raw materials through suppliers and a variety of channels through to final users.

Variant/brand extension: The use of a successful brand name to develop a range of new products in different product categories.

For more information about Kellogg's please browse:

www.kelloggs.co.uk