

Kellogg's[®] Case study

Introduction

The Kellogg Company is the world's leading producer of cereals. For more than 100 years, Kellogg's has been a leader in health and nutrition through providing consumers with a wide variety of food products. Kellogg's market leading position and reputation is built on its commitment to ethical business practices and its values-based culture. Business values identify the beliefs that the company holds to be the most important. These values then guide decision making and shape the way the organization behaves. For Kellogg's, these are referred to as K-Values; Kellogg's K-Values guide the way the company interacts with all of its stakeholders. Stakeholders are individuals, groups and organizations that have an interest in the decisions a company makes and the products that it produces. They also, depending on their power, affect how businesses perform. Kellogg's products are manufactured in 18 countries and are sold in more than 180 countries. This means Kellogg's has to manage its relationships with a variety of stakeholders around the world. The diagram identifies Kellogg's key stakeholder groups.



Kellogg's long-term business plans, known as strategies, focus on engaging with its stakeholders to ensure their needs are being met. For Kellogg's, this means ensuring the highest ethical standards and sustainable business practices. Kellogg's has a Global Code of Ethics governing how it deals with stakeholders across the world. A sustainable business is one which focuses on minimizing any negative impact to the environment to ensure future generations can prosper.

Kellogg's vision and core purpose outline what the company wants to achieve. They guide the organization's decision making processes to help meet the expectations of its stakeholders.

Kellogg's vision, which was refreshed in 2012, sets out the company's main aim: 'To enrich and delight the world through foods and brands that matter.' This is supported by Kellogg's purpose of 'Nourishing families so that they can flourish and thrive.' Every Kellogg's employee, no matter where in the world, is working towards achieving these every single day.

History

1898 — In a fortunately failed attempt at making granola, the company's founder, W.K. Kellogg, and his brother, Dr. John Harvey Kellogg, changed breakfast forever when they accidentally flaked wheat berry. W.K. kept experimenting until he flaked corn, and created the delicious recipe for Kellogg's Corn Flakes.

1906 — W.K. Kellogg opened the "Battle Creek Toasted Corn Flake Company" and carefully hired his first 44 employees. Together they created the initial batch of Kellogg's Corn Flakes and brought to life W.K.'s vision for great-tasting, better-for-you breakfast foods.

1914 — Kellogg's Corn Flakes was introduced to a new country: Canada. (Later the Kellogg Company will spread the goodness of grain around the world by opening factories in Australia, England, Mexico, Japan, India and more. Today Kellogg brightens breakfast in over 180 countries around the world).

1915 — Kellogg introduced Bran Flakes, the first high-fiber cereal, promptly followed by the introduction of Kellogg's All-Bran one year later.

1923 — The Kellogg Company made another bold move and become the first in the food industry to hire a dietitian. Mary Barber started the Kellogg's Home Economics Department and began defining the roles different foods played in proper diets.

1930 — As the United States sunk into the Depression, W.K. Kellogg declared, "I'll invest in people." He split shifts and hired new employees to work them. He also founded the W.K. Kellogg Foundation, whose mission — to help children realize their potential — complements that of the Kellogg Company to this day. To further its commitment to people, Kellogg became one of the first companies to proudly display its cereals' recipes and nutritional info on their boxes — so their consumers knew exactly what they were eating.

1942-1945 — Kellogg's employees proudly produced K-rations for the U.S. armed forces overseas during World War II, and the engineering teams helped manufacture supplies in Kellogg machine shops. They continued to help America get nutrition by bringing new, whole-grain cereal to life when they introduced Kellogg's Raisin Bran.

1969 — The Kellogg Company was honored to provide breakfast for the legendary Neil Armstrong, Buzz Aldrin and Michael Collins during their groundbreaking Apollo 11 trip to the moon.

1997 — Kellogg Company opened the W.K. Kellogg Institute for Food and Nutrition Research — where food scientists, nutritionists and engineers transform wholesome grains and other ingredients into great-tasting and good-for-your-family foods.

2006 — The Kellogg Company celebrated the 100-year commitment to nutrition, health and quality. It also celebrated its future — by creating new Kellogg's Special K Bars and other innovative ways of giving your family the delicious nutrition you need to make the most of every day.

2009-2010 — After discovering that many people in the U.S. don't get enough fiber, Kellogg increased the fiber in many of most popular cereals — including Kellogg's Froot Loops. Now, in the U.S., Kellogg Company offers more ready-to-eat cereals that provide at least one good source of fiber (3 grams) and one-half serving of whole grains (8 grams) than any other U.S. food company.

The market

The value of the UK cereals market is around £1.1 billion per year. Kellogg has a 42% market share of the value of the UK's breakfast cereal market. The company has developed a range of products for the segments within this market, targeted at all age groups over three years old.

This includes 39 brands of cereals as well as different types of cereal bars. Consumers of cereal products perceive Kellogg to be a high quality manufacturer. As the market leader, Kellogg has a distinct premium position within the market. This means that it has the confidence of its consumers.

Interacting with stakeholders

Stakeholder engagement, building two-way relationships with its stakeholders, is a key aim for Kellogg's. Two-way relationships help build trust between Kellogg's and its stakeholders. Each stakeholder group has different needs. Engaging with each group individually helps Kellogg's ensure these needs are met. As with any business, its owners are a major stakeholder group. However, Kellogg's does not focus on pleasing shareholders at the expense of other stakeholders.

Kellogg's uses a variety of strategies to maintain positive relationships with its stakeholders. For example, Kellogg's commitment to its stakeholders and ethical practices is demonstrated through its Corporate Social Responsibility (CSR) initiatives. CSR focuses on improving the lives of communities in which the organization operates. Kellogg's has identified four pillars to its Corporate Responsibility strategy:

- *Marketplace ambition* - meeting the needs of customers. Selling them safe, high quality products whilst engaging in ethical and responsible marketing.
- *Environment ambition* - using scarce resources carefully whilst also reducing environmental impacts and supporting sustainable agriculture.
- *Community ambition* - contributing to the communities in which the company operates, concentrating on nutrition and physical fitness.
- *Workplace ambition* - supporting a talented and diverse workforce which values diversity and inclusion, abiding by best practice labor standards.

Kellogg's focuses its CSR activity on initiatives that benefit stakeholders across these pillars. For example, Kellogg's Breakfasts for Better Days campaign communicates important information about the benefits of starting the day with a healthy breakfast. It engages stakeholders across three

of these pillars – customers, suppliers that provide the ingredients so Kellogg's can guarantee the nutritional content of its products and also the communities in which it operates where the campaign's messages are communicated. A key part of the campaign is Kellogg's support for school breakfast clubs to ensure that every child in the UK gets a good start to the day.

An important part of managing the needs of stakeholders is understanding that different stakeholder groups can sometimes have conflicting interests. It is therefore essential for Kellogg's to consider how it can best balance different stakeholder aspirations.

Examples of conflicting stakeholder needs include:

- Government requirements for food content and consumer preferences. Kellogg's recently changed the formula of Honey Loops to reduce the sugar content but this had an impact on consumer's perceptions of the brand.
- Different interests of charity groups requesting Kellogg's support. Kellogg's current CR strategy focuses on breakfast clubs for children so conflict will occur when charities supporting other causes cannot be a focus for Kellogg's at this time.

Why carry out market research?

Many organizations are described as product orientated. This means they develop a product and then look for a market to sell to. Kellogg's is market orientated. This means that the whole organization focuses on the needs of its consumers. It is therefore essential that it identifies and anticipates changing consumer needs before the development of new products.

Market research adds value to businesses like Kellogg's by identifying consumers' needs. It helps Kellogg's to plan ahead, for example, looking at what products or extensions it should develop and for whom. It focuses the business on the needs of its consumers. An organization that does this can improve its competitive advantage.

In an established market, such as breakfast cereals, there is little room to increase the overall sales in the market. Kellogg's is therefore always looking for ways to strengthen its own portfolio.

Designing new products is a good way of doing this. However, this can take a long time and may involve considerable costs. In addition to the resources required during development, suppliers must produce an advertising campaign to raise awareness of the product among consumers and encourage retailers to stock the product. Launching a new product can be a risky business.

Of the hundreds of products launched every year in consumer goods markets, very few reach significant market share. In order to reduce risks, market research is, therefore, essential.

A product extension is a less risky way of increasing market share by providing consumer products with new features under an existing brand. New product extensions give more choice to consumers and help them to feel more favorably about the existing brands.

Types of research

For example, to develop a new Crunchy Nut brand extension, Kellogg's commissioned primary research. This is research gathered firsthand to answer questions that are specific to the project.

Although primary research is often time-consuming and expensive, it is considered as a reliable source of information because it is directly from the consumer and is specifically designed to meet

the objectives of a project. There are a number of different ways of collecting primary data. Sometimes agencies are employed to collect data using, for example, street interviews or a questionnaire.

This is a systematic list of questions that obtain feedback from the consumers. For the development of Crunchy Nut Bites, Kellogg's used various different methods of primary data collection.

Primary market data may involve qualitative research or quantitative research. Both types of data are valuable in understanding what consumers want or need. Qualitative data is concerned more about opinions, feelings and attitudes. Quantitative data is in numerical form and is usually gathered from a large sample of respondents.

Qualitative research establishes a conversation with consumers. It prompts consumer reaction to, for example, a new product idea and helps researchers understand what they think of it, how it makes them feel, why they find it interesting or not. Qualitative research may be obtained through focus groups, where a moderator captures feedback from a group of six or seven consumers to the ideas shown to them. Those ideas may take the format of drawings or having new food prototypes to taste.

Quantitative research may use questionnaires administered to large numbers of respondents. This allows statistical analysis, such as the calculation of a mean score or percentages. It aims to give a representative picture of what consumers think of a new product idea or a new (real) food. It may involve the use of scales, so numbers get associated with a particular meaning – for example, on an evaluation scale of 1 to 7, where 1 means 'very poor' and 7 means 'excellent'. Crucially those numbers need to be interpreted to enable the business to understand the consumer's overall response. In addition, Kellogg's used secondary research which is existing research that has already been collected by other organizations. Sources of secondary data include books, journals, the internet and government statistics. Market research agencies collect a range of data which they process and use to provide organizations like Kellogg's with research. The benefits of secondary research are that it is quicker and often less expensive than primary, although it may not always be completely related to the needs of a specific project.

Developing an aim for a business

Today, making the decision to eat a healthy balanced diet is very important for many consumers. More than ever before people want a lifestyle in which the food they eat and the activities they take part in contribute equally to keeping them healthy. Research undertaken for Kellogg, as well as comprehensive news coverage and growing public awareness, helped its decision-takers to understand the concerns of its consumers. In order to meet these concerns, managers realized it was essential that Kellogg was part of the debate about health and lifestyle. It needed to promote the message 'Get the Balance Right'.

Decision-takers also wanted to demonstrate Corporate Responsibility (CR). This means that they wanted to develop the business responsibly and in a way that was sensitive to all of Kellogg's consumers' needs, particularly with regard to health issues. This is more than the law relating to food issues requires. It shows how Kellogg informs and supports its consumers fully about lifestyle issues. Any action within a large organization needs to support a business direction. This direction is shown in the form of a broad statement of intent or aim, which everybody in the organization

can follow. An aim also helps those outside the organization to understand the beliefs and principles of that business. Kellogg's aim was to reinforce the importance of a balanced lifestyle so its consumers understand how a balanced diet and exercise can improve their lives.

Creating business objectives

Having set an aim, managers make plans which include the right actions. These ensure that the aim is met. For an aim to be successful, it must be supported by specific business objectives that can be measured. Each of the objectives set for Kellogg was designed to contribute to a specified aim. Kellogg's objectives were to:

- encourage and support physical activity among all sectors of the population
- use resources to sponsor activities and run physical activity focused community programs for its consumers and the public in general
- increase the association between Kellogg and physical activity
- use the cereal packs to communicate the 'balance' message to consumers
- introduce food labeling that would enable consumers to make decisions about the right balance of food.

Well constructed objectives are **SMART objectives**. They must be:

- **S**pecific
- **M**easurable
- **A**chievable or Agreed
- **R**ealistic
- **T**ime-related.

Each of the objectives set by Kellogg was clear, specific and measurable. This meant Kellogg would know whether each objective had been achieved. The objectives were considered to be achievable and were communicated to all staff. This made sure that all staff agreed to follow certain actions to achieve the stated aims. The objectives were set over a realistic time-period of three years. By setting these objectives Kellogg set a direction that would take the business to where it wanted to be three years into the future.

Strategy

Having created an aim and set objectives, Kellogg put in place a process of **planning** to develop a strategy and a series of actions. These were designed to meet the stated aim and range of business objectives. In the area of food labeling, Kellogg introduced the Kellogg's GDAs to its packaging, showing the recommended Guideline Daily Amounts. These GDAs allow consumers to understand what amount of the recommended daily levels of nutrients is in a serving of Kellogg's food. Working with a group of other major manufacturers, Kellogg introduced a new format in May 2006, with GDAs clearly identified on brand products and packages. These GDAs have been adopted by other manufacturers and retailers such as TESCO. For many years Kellogg has been working to encourage people to take part in more physical activity. The company started working with the Amateur Swimming Association (ASA) as far back as 1997, with whom it set some longer term objectives. More than twelve million people in the UK swim regularly. Swimming is inclusive as it is something that whole families can do together and it is also a life-long skill. The ASA tries to ensure that 'everyone has the opportunity to enjoy swimming as part of a healthy lifestyle'. As a lead body for swimming, the ASA has been a good organization for Kellogg to work with, as its objectives match closely those of the company. Kellogg became the main **sponsor** of swimming in

Britain. This ensured that Kellogg's sponsorship reached all swimming associations so that swimmers receive the best possible support. Kellogg sponsors the ASA Awards Scheme with more than 1.8 million awards presented to swimmers each year. This relationship with the ASA has helped Kellogg contribute in a recognizable way to how individuals achieve an active healthy balanced lifestyle. This reinforces its brand position.

Working with the ASA helped Kellogg set up links with a number of other bodies and partners. For example, Sustrans is the UK's leading sustainable transport organization. Sustrans looks at the different ways that individuals can meet their transport needs in a way that reduces environmental impact. It is the coordinator of the National Cycle Network.

This provides more than 10,000 miles of walking and cycle routes on traffic-free paths throughout the UK. To meet its business objective of encouraging and supporting physical activity Kellogg is developing a promotion for a free cyclometer which will be advertised on television in 2007.

Walking is one of the easiest ways for people to look after themselves and improve their health. To encourage people to walk more often, Kellogg has supplied a free pedometer through an offer on All-Bran so that individuals can measure their daily steps. During 2006 more than 675,000 pedometers were claimed by consumers. From a research sample of 970 consumers, around 70% said they used the pedometer to help them walk further. Kellogg's Corn Flakes Great Walk 2005 raised more than £1 million pounds for charity on its way from John O'Groats, through Ireland and on to Land's End. In 2004, 630,000 people took part in the Special K 10,000 Step Challenge.

Kellogg has also delivered a wide range of community programs over the last 20 years.

For example, the Kellogg's Active Living Fund encourages voluntary groups to run physical activity projects for their members. The fund helps organizations like the St John's Centre in Old Trafford which runs keep-fit classes, badminton and table tennis.

Since 1998 Kellogg has invested more than £500,000 to help national learning charity ContinYou to develop nationwide breakfast club initiatives. These include start-up grants for new clubs, the breakfast Club Plus website, the Kellogg's National Breakfast Club Awards and the Breakfast Movers essential guide. Breakfast clubs are important in schools because they improve attendance and punctuality. They help to ensure that children are fed and ready to learn when the bell goes. Kellogg promotes breakfast via these clubs, not Kellogg's breakfast cereals.

Together Kellogg and ContinYou have set up hundreds of breakfast clubs across the UK, serving well over 500,000 breakfasts each year.

Advertising the Kellogg's brands

When Kellogg's Corn Flakes were launched in the UK in the early 1920's the company faced a formidable task of persuading a skeptical nation, accustomed to porridge and bacon and eggs, to try a brand new breakfast food. What followed was one of the most remarkable marketing achievements of the 20th Century. Kellogg used a team of dedicated salesmen who employed armies of casual laborers and Boy Scouts to cover the country, to knock on doors and literally give away millions of sample packets of Corn Flakes and Rice Krispies. The free samples encouraged consumers to buy the products and within ten years Kellogg's had revolutionized the eating habits of a nation.

Today, advertising and packaging are also key aspects of the marketing mix. Kellogg's advertise using a whole range of media: in the press, on posters, radio and cinema, direct mail and, most recently, on the Internet. However, the main channel for its advertising is on television, where individual brands are given their own air time, aimed specifically at a target audience. Although breakfast cereals are consumed by the whole population, individual products may be aimed at specific groups. For example, Special K is aimed towards women, Start has a sporty image and Frosties and Coco Pops are primarily aimed at children. Corn Flakes, by contrast, are aimed at the whole family. This targeting will determine the content of the advert and the time of broadcast.

Packaging

The packaging of Kellogg's breakfast cereals is also a key element of the marketing mix. The packaging has to provide a representation of the brand identity and appeal to the target market. It also has to have space for nutritional information and any promotional offers. Kellogg's has to deal with the problem that the purchasers of cereal, usually adults and often female, are not always the consumers, often children. The packaging has to appeal to both groups. By combining some elements of corporate branding with the individual product's own identity, it can provide the assurances of quality and nutrition that come with the Kellogg's name and also appeal to the end user. In Spring 2000, Kellogg's took the major step of launching a bright, colorful new corporate image for all its cereal brands. This is not a course of action that should be taken lightly.

Once consumers have a popular brand image in mind, it may be risky to change it, but Kellogg's was concerned that, in a highly competitive market, it was becoming increasingly difficult to differentiate between supermarket own label and other manufacturers' brands.

Consumers were becoming confused when confronted with so many similar packs on the supermarket shelves.

Communicating with consumers

The completed new designs were further tested on consumers using sophisticated computerized eye tracking tests to see if the packs stood out on the supermarket shelves. More extensive market research was carried out to gauge the reactions of consumers. Finally, it was necessary to communicate with consumers about the new packaging and the new image was flagged on the old packs for two months before the launch. The top section of the back panels was used to display the new designs to enable the consumers to become familiar with them. The new designs were also featured in a direct mail campaign to Kellogg's consumers as the packs went into market.

Changing the appearance of a well-known range of products can be a risky strategy, particularly in the highly competitive environment of the supermarket, where purchase decisions are made very quickly and competitors often try to imitate the packaging of a market leader.

However, with extremely careful preparation and attention to detail and some state of the art design techniques, Kellogg's has been able to clearly differentiate its product range from the competition. Extensive market research helped to reduce the risk, and communication with consumers warning them of the new changes, eased the period of changeover.

The new designs have been successful in promoting all the familiar attributes associated with the Kellogg's name and have also enhanced and up-dated the personalities of the individual brands.

Instructions

Read the text carefully and select relevant information.

Elaborate the SWOT Analysis of Kellogg's, identifying the most important Strengths/Weaknesses (Internal Audit) and Opportunities/Threats (External Audit) of the Company, in order to understand the principal competitive advantage of the Brand.

Strengths	Weaknesses
Opportunities	Threats