THE TIMES 100

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Extending the product life cycle

Introduction

Businesses need to set themselves clear **aims** and **objectives** if they are going to succeed. The Kellogg Company is the world's leading producer of breakfast cereals and convenience foods, such as cereal bars, and aims to maintain that position. In 2006, Kellogg had total worldwide sales of almost $11 billion (£5.5 billion). In 2007, it was Britain's biggest selling grocery **brand**, with sales of more than £550 million. Product lines include ready-to-eat cereals (i.e. not hot cereals like porridge) and nutritious snacks, such as cereal bars. Kellogg's brands are household names around the world and include *Rice Krispies, Special K* and *Nutri-Grain*, whilst some of its brand characters, like Snap, Crackle and Pop, are amongst the most well-known in the world.

Kellogg has achieved this position, not only through great brands and great brand value, but through a strong commitment to **corporate social responsibility**. This means that all of Kellogg's business aims are set within a particular context or set of ideals. Central to this is Kellogg's passion for the business, the brands and the food, demonstrated through the promotion of healthy living.

The company divides its market into six key segments. *Kellogg's Corn Flakes* has been on breakfast tables for over 100 years and represents the 'Tasty Start' cereals that people eat to start their day. Other segments include 'Simply Wholesome' products that are good for you, such as Kashi Muesli, 'Shape Management' products, such as *Special K* and 'Inner Health' lines, such as *All-Bran*. Children will be most familiar with the 'Kid Preferred' brands, such as *Frosties*, whilst 'Mum Approved' brands like *Raisin Wheats* are recognised by parents as being good for their children.

Each brand has to hold its own in a competitive market. Brand managers monitor the success of brands in terms of **market share**, growth and performance against the competition. Key decisions have to be made about the future of any brand that is not succeeding. This case study is about *Nutri-Grain*. It shows how Kellogg recognised there was a problem with the brand and used business tools to reach a solution. The overall aim was to re-launch the brand and return it to growth in its market.

The product life cycle

Each product has its own life cycle. It will be 'born', it will 'develop', it will 'grow old' and, eventually, it will 'die'. Some products, like *Kellogg's Corn Flakes*, have retained their market position for a long time. Others may have their success undermined by falling market share or by competitors. The **product life cycle** shows how sales of a product change over time.

The five typical stages of the life cycle are shown on a graph. However, perhaps the most important stage of a product life cycle happens before this graph starts, namely the **Research and Development** (R&D) stage. Here the company designs a product to meet a need in the market. The costs of market research - to identify a gap in the market and of product development to ensure that the product meets the needs of that gap - are called 'sunk' or **start-up costs**. *Nutri-Grain* was originally designed to meet the needs of busy people who had missed breakfast. It aimed to provide a healthy cereal breakfast in a portable and convenient format.

1. *Launch* - Many products do well when they are first brought out and *Nutri-Grain* was no exception. From launch (the first stage on the diagram) in 1997 it was immediately successful, gaining almost 50% share of the growing cereal bar market in just two years.

CURRICULUM TOPICS
- Product life cycle
- Ansoff's matrix
- Marketing mix
- Extension strategy

marketing

GLOSSARY

Aims: the end purposes towards which a business focuses its activities.

Objectives: the end purposes that an organisation or individual seeks to achieve.

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

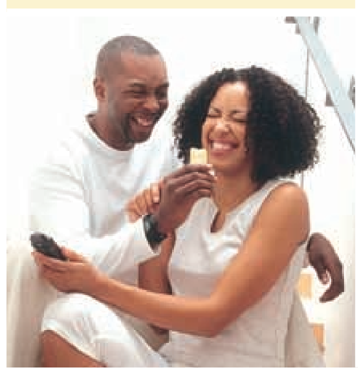
Corporate social responsibility: how a business shows it cares not just about products, but its people and communities, its place in society.

Market share: the percentage slice of a particular market occupied by a product.

Product life cycle: the way sales of a product change over time.

Research and development: processes that involve investigating new ideas for products and taking them forward to be test marketed.

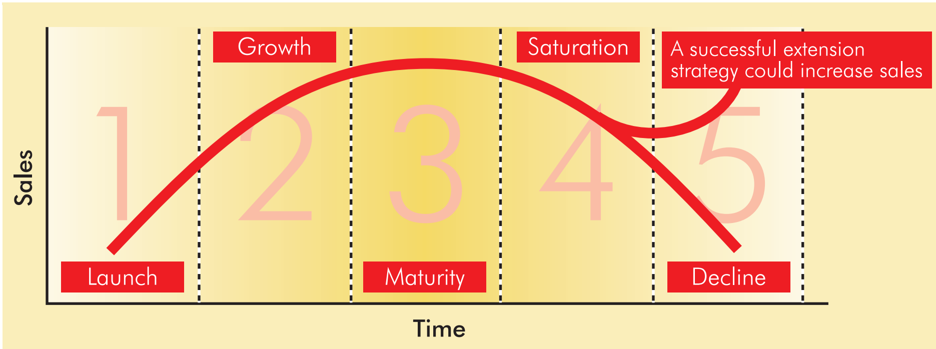
Start-up costs: those costs that have to be paid once to establish a business or brand - also called sunk costs.



GLOSSARY

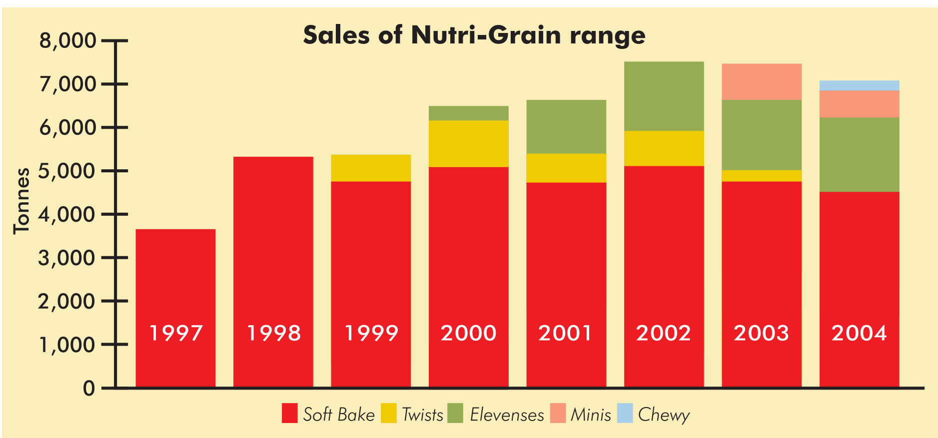
Market saturation: when there is no room for any more competitor products; the market is 'full'.

2. *Growth* - *Nutri-Grain's* sales steadily increased as the product was promoted and became well known. It maintained growth in sales until 2002 through expanding the original product with new developments of flavour and format. This is good for the business, as it does not have to spend money on new machines or equipment for production. The market position of *Nutri-Grain* also subtly changed from a 'missed breakfast' product to an 'all-day' healthy snack.



3. *Maturity* - Successful products attract other competitor businesses to start selling similar products. This indicates the third stage of the life cycle - maturity. This is the time of maximum profitability, when profits can be used to continue to build the brand. However, competitor brands from both Kellogg itself (e.g. *All Bran* bars) and other manufacturers (e.g. Alpen bars) offered the same benefits and this slowed down sales and chipped away at *Nutri-Grain's* market position. Kellogg continued to support the development of the brand but some products (such as *Minis* and *Twists*), struggled in a crowded market. Although Elevenses continued to succeed, this was not enough to offset the overall sales decline.

Not all products follow these stages precisely and time periods for each stage will vary widely. Growth, for example, may take place over a few months or, as in the case of *Nutri-Grain*, over several years.



4. *Saturation* - This is the fourth stage of the life cycle and the point when the market is 'full'. Most people have the product and there are other, better or cheaper competitor products. This is called **market saturation** and is when sales start to fall. By mid-2004 *Nutri-Grain* found its sales declining whilst the market continued to grow at a rate of 15%.

5. *Decline* - Clearly, at this point, Kellogg had to make a key business decision. Sales were falling, the product was in decline and losing its position. Should Kellogg let the product 'die', i.e. withdraw it from the market, or should it try to extend its life?

Strategic use of the product life cycle

When a company recognises that a product has gone into decline or is not performing as well as it should, it has to decide what to do. The decision needs to be made within the context of the overall aims of the business. Kellogg's aims included the development of great brands, great brand value and the promotion of healthy living. Strategically, Kellogg had a strong position in the market for both healthy foods and convenience foods. *Nutri-Grain* fitted well with its main aims and objectives and therefore was a product and a brand worth rescuing.

Kellogg decided to try to extend the life of the product rather than withdraw it from the market. This meant developing an **extension strategy** for the product. **Ansoff's matrix** is a tool that helps analyse which strategy is appropriate. It shows both market-orientated and product-orientated possibilities.

Ansoff's matrix

Products / Markets	Existing	New
New	**Product development** Using the base of existing products to grow others. For example, once a range has been established, new types of product can be developed within that range – such as introducing *Elevenses, Minis* & *Twists* to the *Nutri-Grain* range. **Medium risk**	**Product diversification** Seeking to create or develop new products, lines or product ranges, such as when *Nutri-Grain* was first launched. **High risk**
Existing	**Market penetration** Trying to take a greater share of an existing market with an existing product. This could involve product re-launch or increased brand awareness. **Low risk**	**Market development** Finding or creating new markets by targeting new parts of the market or by expansion into different markets. **Medium risk**

GLOSSARY

Extension strategy: a way of extending the life of a product, for example by changing it, re-branding it or re-pricing it.

Ansoff's matrix: a model developed by business writer Igor Ansoff for deciding the risk of possible courses of action.

Brand image: the lifestyle or other image associated with a brand.

Unique selling point: a specific benefit of a product or service that competitors do not or cannot offer.

Extending the Nutri-Grain cycle – identifying the problem

Kellogg had to decide whether the problem with *Nutri-Grain* was the market, the product or both. The market had grown by over 15% and competitors' market share had increased whilst *Nutri-Grain* sales in 2003 had declined. The market in terms of customer tastes had also changed – more people missed breakfast and therefore there was an increased need for such a snack product.

The choice of extension strategy indicated by the matrix was either product development or diversification. Diversification carries much higher costs and risks. Kellogg decided that it needed to focus on changing the product to meet the changing market needs.

Research showed that there were several issues to address:

1. The brand message was not strong enough in the face of competition. Consumers were not impressed enough by the product to choose it over competitors.
2. Some of the other Kellogg products (e.g. *Minis*) had taken the focus away from the core business.
3. The core products of *Nutri-Grain Soft Bake* and *Elevenses* between them represented over 80% of sales but received a small proportion of advertising and promotion budgets.
4. Those sales that were taking place were being driven by promotional pricing (i.e discounted pricing) rather than the underlying strength of the brand.

Implementing the extension strategy for Nutri-Grain

Having recognised the problems, Kellogg then developed solutions to re-brand and re-launch the product in 2005.

1. Fundamental to the re-launch was the renewal of the **brand image**. Kellogg looked at the core features that made the brand different and modelled the new brand image on these. *Nutri-Grain* is unique as it is the only product of this kind that is baked. This provided two benefits:
   - the healthy grains were soft rather than gritty
   - the eating experience is closer to the more indulgent foods that people could be eating (cakes and biscuits, for example).

   The **unique selling point**, hence the focus of the brand, needed to be the 'soft bake'.

2. Researchers also found that a key part of the market was a group termed 'realistic snackers'. These are people who want to snack on healthy foods, but still crave a great tasting snack. The re-launched *Nutri-Grain* product needed to help this key group fulfil both of these desires.
3. Kellogg decided to re-focus **investment** on the core products of *Soft Bake Bars* and *Elevenses* as these had maintained their growth (accounting for 61% of *Soft Bake Bar* sales). Three existing *Soft Bake Bar* products were improved, three new ranges introduced and poorly performing ranges (such as *Minis*) were withdrawn.
4. New packaging was introduced to unify the brand image.
5. An improved pricing structure for stores and supermarkets was developed.

Using this information, the re-launch focused on the four parts of the **marketing mix**:

- Product – improvements to the recipe and a wider range of flavours, repositioning the brand as 'healthy and tasty', not a substitute for a missed breakfast
- Promotion – a new and clearer brand image to cover all the products in the range along with advertising and **point-of-sale materials**
- Place – better offers and materials to stores that sold the product
- Price – new price levels were agreed that did not rely on promotional pricing. This improved revenue for both Kellogg and the stores.

As a result *Soft Bake Bar* year-on-year sales went from a decline to substantial growth, with *Elevenses* sales increasing by almost 50%. The *Nutri-Grain* brand achieved a retail sales growth rate of almost three times that of the market and most importantly, growth was maintained after the initial re-launch.

Conclusion

Successful businesses use all the tools at their disposal to stay at the top of their chosen market. Kellogg was able to use a number of business tools in order to successfully re-launch the *Nutri-Grain* brand. These tools included the product life cycle, Ansoff's matrix and the marketing mix. Such tools are useful when used properly.

Kellogg was able to see that although *Nutri-Grain* fitted its strategic profile – a healthy, convenient cereal product – it was underperforming in the market. This information was used, along with the aims and objectives of the business, to develop a strategy for continuing success. Finally, when Kellogg checked the growth of the re-launched product against its own objectives, it had met all its aims to:

- re-position the brand through the use of the marketing mix
- return the brand to growth
- improve the frequency of purchase
- introduce new customers to the brand.

Nutri-Grain remains a growing brand and product within the Kellogg product family.

Questions

1. Using current products familiar to you, draw and label a product life cycle diagram, showing which stage each product is at.
2. Suggest appropriate aims and objectives for a small, medium and large business.
3. Explain the difference between market orientated routes and product orientated routes in Ansoff's matrix.
4. Consider the decision taken by Kellogg to opt for product development. Suggest a way in which it could have diversified instead. Justify your answer.

Kellogg's

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GLOSSARY

Investment: putting funds to use in the hope of securing returns later.

Marketing mix: a series of variable factors such as the four Ps (product/price/place/promotion) used by an organisation to meet its customers' needs.

Point-of-sale materials: information that is used where the sale actually takes place, such as displays in stores and by tills.