Excellent Analysis, Structure + Narrative – thoughtful recommendations supported by evidence!

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Case Analysis – United Cereal: Lora Brill's Eurobrand Challenge

Overview

"United Cereal: Lora Brill's Eurobrand Challenge" is a Harvard Business School case written by Bartlett and Carlson (2011). The topic of the case is United Cereal (UC): a multinational manufacturer of foodstuffs with headquarters in the U.S. The UC subsidiary in France has requested to launch a new brand extension of an existing cereal product line. This request has prompted UC's European vice president, Lora Brill, to reconsider the existing strategy in Europe.

Issue Identification

The first issue facing UC is whether or not the brand extension should be launched. Jean-Luc Michel, UC's country manager (CM) for France, believes that "increased interest in natural, healthy foods," suggests that "there could be a market for an organic fruit-based cereal" in his country (Bartlett & Carlson, 2011, p. 5). Michel's interest in the opportunity is further emboldened by the fact that UC's largest competitor, Kellogg's, is the only competitor in the French market segment for "fruit-based cereal" (p. 5). However, the decision is complicated by a few factors. First, the results from the "full-scale test market" indicated that "the 'intention to repurchase' rate" with the initial formulation is "below UC's 60% minimum target" (p. 5). Second, the recommended brand extension is based on UC's Healthy Crunch, which is "already positioned in the health-conscious adult segment but experiencing no growth in recent years" (p. 5). Thus, some or all of the growth generated by the new cereal may cannibalize sales of the existing brand. Third, the stakes are high on the decision to launch. The costs to launch the brand extension in France ~~are estimated~~ to be "at least $20 million" (p. 6). However, UC's second largest competitor, Cereal Partners, is rumored to be "planning to launch Berry Burst Cheerios in France" (p. 7). Thus, ~~waiting~~ until a later date to launch will create difficulty for UC to attain market share.

Nestle + General Mills – what a Behemoth!

A second issue facing UC is whether the existing organizational structure in Europe should be maintained in the future. The strategy in Europe to date has been much different from U.S. operations. For instance, in the U.S. "each brand was managed as a profit center" managed by "brand managers" leading "cross-functional teams that included manufacturing, marketing, and other functions" (Bartlett & Carlson, 2011, p. 2). In contrast, in Europe, UC operates "national subsidiaries" that are headed by CMs "with wide latitude to make product and marketing decisions that would maximize the subsidiary's local profit" (p. 3). The European approach was originally chosen in acknowledgement of the "major differences across European markets" to allow CMs to adapt the product lineup "to the local situation" (p. 3). However, the merit of this approach has been called into question for several reasons. First, the organizational structure has led to increased costs with redundancies in certain roles: UC's "sales, general [sic] and administrative (SG&A) expenses were 25% higher" in Europe than in the U.S. Second, the silos of brand and marketing personnel within each country have led to disparate positioning efforts throughout Europe. For example, one pie product is positioned "as a high-end dessert in

Germany, while in the U.K. … as 'a convenient everyday treat'" (p. 3). The disparate positioning strategies obviously are designed to apply to consumers in the relevant countries; however, a third reason the European status quo has been called into question deals with the convergence of "consumer tastes" and increased regulatory oversight by the EU in regard to "labeling, advertising, and general marketing practices" (p. 6). UC management believes these two trends eliminate the need to cater "to local market differences" (p. 6).

Good observation!

Analysis & Evaluation

In determining the appropriate strategy for a firm, Thompson, Strickland, and Gamble (2008) suggest, "the task … should always begin with an appraisal of the … external and internal situation" for the firm (p. 49). Thus, the analysis of the options for UC will begin by exploring the external environment in which the firm is operating. GREAT!

External Environment

The first step in analyzing UC's external environment involves identification of the dominant economic features of the overall industry. The scope of the external environment analysis is in the context of the European market. There are several economic features of the European breakfast cereal market in which UC competes. First, the market is rather large at "$7 billion … in 2010" (Bartlett & Carlson, 2011, p. 3) and appears to be in the saturation and stagnation stage of the product lifecycle. This observation is supported by the facts that "consumer tastes are converging" and "old cultural habits are disappearing" (p. 6), while "market growth slowed to less than 1% annually" (p. 4). Second, the bulk of industry sales are concentrated within a relatively small number of competitors. For example, Kellogg, UC, and Cereal Partners are responsible for 63% of the European market (see Table 1). Third, another economic feature of the breakfast cereal industry is that competitors rely on differentiation and product innovation to drive sales. For instance, competitors in the market rely "on strong branding and promotions to gain market share" (p. 3), while "several new-product introductions typically occurred each year" (p. 2). Thus, competitors are leveraging brands and product attributes to differentiate from one another.

Table 1

European Breakfast Cereal Market Share

	% Share
Kellogg	26%
United Cereal	20%
Cereal Partners	17%
Weetabix	7%
Smaller Manufacturers	30%
Total	100%

The competitive forces of the marketplace are the second area of inquiry in regard to the fitness of strategy. Applying Porter's five forces dictates an analysis of competitive forces from different points of origination: industry rivals, potential new entrants, providers of substitute products, suppliers, and consumers (Thompson et al., 2008, p. 54). First, in regard to industry rivals, UC is facing significant competitive forces. UC's position is strengthened by the use of "national subsidiaries" that have crafted marketing mixes leading "to strong penetration in national markets" (Bartlett & Carlson, 2011, p. 3). However, UC's position is weakened by numerous other factors: stagnant demand, aggressive promotional initiatives by rivals, frequent product introductions, and low buyer switching costs. Second, in regard to potential new entrants, the competitive forces are muted. The top four competitors in the European market collectively hold 70% of the market share (see Table 1). Since "maximizing retail shelf space" (p. 2) is one of the key factors determining profitability, UC is positioned well with a developed distribution chain. Third, in regard to providers of substitute products, UC is facing heightened competitive pressure. The firm is facing competition with a number of other options for breakfast foodstuffs. For example, "per capita consumption of cereals varied significantly across markets from 8 kg. a year in the United Kingdom to 0.5 kg. a year in Italy" (p. 3). UC can only counteract this threat by one of two ways. One, a given UC subsidiary can compete in the market for breakfast substitutes by selecting from the firm's "stable of more than 100 branded products" (p. 3). However, this approach will only work to the extent that UC's product portfolio includes relevant products. Two, UC can increase promotion to sway consumer preferences. Fourth, in regard to suppliers, UC is facing minimal competitive pressure as UC's position as one of the industry leaders gives the firm more negotiating power in negotiating prices on commodity foodstuff inputs for production. Finally, in regard to consumers, UC is facing heightened competitive forces. UC is positioned well with a solid distribution network in Europe. However, the only switching costs a consumer incurs in choosing an alternative breakfast food is the loss of the desired attributes of a given UC product.

Excellent

Internal Environment – SWOT Analysis

With a review of UC's external environment complete, a SWOT analysis will now be performed to analyze the firm's internal environment.

STRENGTHS

The first internal area for analysis encompasses the collective strengths of UC. The first strength held by UC is the firm's "set of time-tested policies, processes, and practices" known as "'The UC Way'" (Bartlett & Carlson, 2011, p. 1). The UC Way represents a highly disciplined approach to running the business. For instance, UC was "a pioneer in the use of consumer research and focus groups" and used the findings from "extensive market testing prior to launching new products" to mitigate risks (p. 2). However, the firm is willing to "bet the farm" (p. 2) when thoroughly conducted research meets established guidelines such as "full-scale test market" research findings indicating"60% minimum target" repurchase intent (p. 5). This discipline has led to outstanding financial results for the firm. Table 2 highlights a series of profitability ratios for overall UC operations. The firm consistently provides gross margins in excess of 50% and net margins in excess of 13% annually. Similarly, return on total assets has exceeded 20% and return on stockholder's equity has exceeded 69% in each of previous three fiscal periods. Exhibit A also illustrates the extremely consistent nature of UC financials in relation to gross revenue. Various financial results as a percentage of revenue are consistently within a percentage point of the results from prior years. The outsized and controlled financial results have come while UC has incurred substantial expenses on SG&A. For instance, industry

Good work evidence

participants typically spend "more than 10% of revenues … on advertising and marketing" (p. 2), while UC spent 20.46% in Europe and 16.5% overall in fiscal 2009 (see Table 3).

Table 2

Profitability Ratios

	2009	2008	2007
Gross profit margin	51.96%	52.90%	53.00%
Operating profit margin	16.96%	17.27%	17.97%
Net profit margin	13.12%	13.44%	14.12%
Return on total assets	20.01%	20.34%	20.81%
Return on stockholders	69.34%	68.22%	73.69%

Table 3

2009 Sales and SG&A Expense (in $ 000)

	United Cereal		Europe		France	
	$	% of Sales	$	% of Sales	$	% of Sales
Sales	$9,254,329	100.00%	$1,850,866	100.00%	$ 388,682	100.00%
SG&A						
Advertising & Other M	$1,526,964	16.50%	$ 378,687	20.46%	$ 75,737	19.49%
Product Development	$ 188,815	2.04%	$ 54,701	2.96%	$ 5,553	1.43%
Other SG&A	$1,153,063	12.46%	$ 216,263	11.68%	$ 46,071	11.85%
SG&A Subtotal	$2,868,842	31.00%	$ 649,651	35.10%	$ 127,361	32.77%

In regard to European operations, UC possesses a significant resource strength in the form of a developed distribution network. UC currently enjoys "strong penetration in most [European] markets" (p. 3), which is one key success factor for competing in said markets. However, UC's strongest rivals also leverage "shelf space" and "retailer relationships" to compete (p. 3).

WEAKNESSES

While UC enjoys a number of resource strengths, the firm is also exposed to a number of weaknesses as well in the European market. First, UC currently employs a think-global, act-local (TGAL) strategy in Europe. Such an approach "entails using the same basic competitive theme … in each country" but provides "local managers the latitude" to tweak "product attributes …, production, distribution, and marketing" to match local needs (Thompson et al., 2008, p. 207). This approach has allowed "many products" to flourish "through such local customization," but has required sacrifices that weaken UC's competitive position (Bartlett & Carlson, 2011, p. 3). For instance, allowing local customization of the marketing mix has resulted in an inconsistent brand image for several of UC's products competing in Europe. This requires substantial investment in resources to support the brand image cultivated by each subsidiary. Indeed, UC's SG&A expense in Europe was 35.1% of sales in Europe, but only 31% overall in 2009 (p. 8). Additionally, the TGAL strategy prevents UC from employing its "well-earned reputation as an innovator" (p. 2) in Europe. For example, "due to the high costs of developing and launching new products for single country markets, … most CMs now favored product extensions over new product introductions" (p. 4). This is problematic for two reasons. One, UC may be missing truly promising opportunities due to the fragmentation of resources. Two, product extensions

Great!

may be less risky from a cost standpoint, but are subject to the risk of cannibalization. To wit, product extensions leverage the brand image of an existing brand, so there is a very real risk that existing customers may be the very source of increased demand for the product extension.

OPPORTUNITIES

The third vein in which to analyze the internal situation has to do with opportunities for UC. The main opportunity facing UC is the shift in consumer preferences with "increased interest in natural, healthy foods in both the United States and Europe" (Bartlett & Carlson, 2011, p. 5). This trend led to the specific opportunity identified by the French UC subsidiary: extending the Healthy Crunch brand with a new fruit-based cereal called Healthy Berry Crunch (p. 5). This opportunity presents many potential benefits for UC. For example, UC has the chance to capitalize on consumer health trends, while targeting a relatively unexploited market niche: as of 2010, Kellogg's Special K brand with strawberries is the only fruit-based product in France (p. 5). Additionally, launching Healthy Berry Crunch can be seen as a defensive maneuver as well considering other potential entrants such as Cereal Partners' Berry Burst Cheerios (p. 7). This is especially important because the non-fruit-based version of Healthy Crunch is "already positioned in the health-conscious adult segment" in France (p. 5). Thus, UC risks become obsolete in the category as the firm's more capable competitors pursue fruit-based alternatives. However, this opportunity is not without risks. To start, sample data from the initial "full-scale test market" (p. 5) indicated that only 56% of consumers intended to "repurchase the product in the next three months" (p. 9). This is 4% below UC minimum threshold for product launch. While recent focus group data based on a reformulated version of Healthy Berry Crunch demonstrated an increased intent to repurchase of 64%, a second full-scale market test has not been completed. The stakes are high because a failed launch could result in a significant loss as the French launch is expected to "cost at least $20 million" (p. 6).

The second opportunity facing UC deals with a restructuring of European operations to leverage resources collectively for a *Eurobrand.* Brill believes that Healthy Berry Crunch provides "the possibility of a first test case" for her "'Eurobrand' concept" (Bartlett & Carlson, 2011, p. 5). While Healthy Berry Crunch does provide a good testing ground for launching the Eurobrand, the firm can still realign operations in the absence of this product launch. The benefits of moving to a Eurobrand allow the firm to scale SG&A. For instance, "implementing coordinated European product market strategies could result in staff reductions and other savings that would cut product development and marketing costs by 10% to 15% over three years" (p. 5). Additionally, aligning along brands instead of countries could also help solve the issue with using product extensions in Europe. One of UC's weaknesses identified in the previous section was that European subsidiaries were constrained for resources to launch entirely new products as opposed to product extensions. Thus, pooling resources could allow more innovative products to be introduced in Europe. However, the Eurobrand concept does have some inherent risk. UC would have to move away from the firm's TGAL approach in Europe so that decisions were not made in the silos of national subsidiaries. Brill's initial approach calls on leveraging "Eurobrand Teams" whose membership would include representatives from "each country subsidiary that sold" the relevant brand, as well as from the "European headquarters" (p. 7). The challenge in this approach is ensuring that the teams are structured of the right size and form to facilitate a productive decision-making process. Additionally, Brill's approach could create tension with the

CMs whom "might still see [the approach] as a challenge to their local authority" (p. 7). Another potential issue with the Eurobrand approach is the implications on advertising and marketing activities. A unified positioning strategy works to strengthen the brand across Europe and streamlines processes. However, one must question how UC can market a given product for a consistent image, while still acknowledging the differences in cultural contexts. This issue is key to UC as it serves to explain why the individual subsidiaries have currently pursued divergent positioning.

THREATS

External threats are the final area of UC's internal situation to analyze. The largest threat facing UC is the prospect of competitors gaining share through their own introductions of fruit-based cereals. The competition in the marketplace is extremely fierce right now as the "global recession" prompted "growing price and promotion pressure from Kellogg and Cereal Partners in virtually every country in which" UC currently operates (Bartlett & Carlson, 2011, p. 4). Thus, allowing these formidable competitors to differentiate their product offerings will only work to put further pressure on UC if the firm decides not to launch a fruit-based cereal. This is especially important for UC because "breakfast cereals still account for one-third of [UC's] revenues and" a higher percentage of overall profits (p. 1).

Recommendations

Should Healthy Berry Crunch Become the Company's First Eurobrand and Be Introduced in a Coordinated Manner Europewide?

My first recommendation for UC is to proceed with testing the Eurobrand concept using the Healthy Berry Crunch cereal. Considering the trend in consumer preferences for healthy foodstuffs, the focus group results from three countries – Benelux, France, and Germany, and the introductions of similar products by competitors, UC has enough evidence to suggest that the product extension can be successful in multiple markets. However, there are some issues that Brill must first address before proceeding. First, she must require France to conduct an additional full-scale test market prior to proceeding. UC's track record and outstanding financial results are indicative of the wisdom underlying the *decision rules* for product launch in regard to consumer research. Thus, Brill must follow procedure to ensure that she gets the proper signoff from headquarters. There is some risk in waiting an additional three months for test results; however, UC's significant investments in advertising and marketing will work to help capture share upon launch. Considering that the Healthy Berry Crunch will be a Eurobrand, she should take steps to ensure that the French subsidiary is not saddled with the financial burden for the second market test. She can cite the firm's experience with the PodCaf as well as the recent strategic moves of competitors to help win funding if necessary. Second, she must address the European-wide launch with CMs so as to prevent issues with those personnel sabotaging the success of the launch. Again, she can call upon concrete evidence of the PodCaf failure, consumer preferences, and the strategic efforts of competitors.

Stay the course with framework

Should She Create Eurobrand Teams to Implement Her Proposed Eurobrand Concept?

My second recommendation for UC is to form a Eurobrand Team for the launch of Healthy Berry Crunch, but wait on forming teams for other brands. I echo the concerns of UC's European HR director about the effectiveness of "teams with a dozen or more members," as well as the

U.K and Scandinavian Division VP's about the complexity of the teams as contrasted to "a European product structure" (Bartlett & Carlson, 2011, p. 7). For the Healthy Berry Crunch launch, I recommend that subcommittees be formed along functional business units (e.g. marketing, production, etc.) with representatives from each country to keep groups small. Each of these subcommittees will then be responsible for appointing a chair to coordinate cross-functional activities with the chairs of the other subcommittees. The goal of this structure is to keep each workgroup smaller than ten – although closer than five would be better – to ensure that the groups can expediently work to bring the product to market. However, this model should be used only temporarily. I recommend moving towards the brand management system used by UC's U.S. operations in the future to help streamline activities and prevent wasted opportunities (e.g. PodCaf). I do not believe that Brill's model of using VPs as advisors will lead to a better outcome than her predecessor's "Europeanization Initiative," which was initially tested with "UC's frozen fruit juice line" (p. 4). UC's European operations need to shift to a structure that provides clear lines of responsibility to ensure that targets are met. Gauging the effectiveness of team's under Brill's first hypothesized approach will be daunting as representatives are serving multiple *masters*. I recommend that the shift towards a brand management model be completed slowly and structured in a way so as to include the CMs to mitigate resistance. This group of personnel will likely challenge any changes to the status quo because of their historic autonomy. Brill must also structure the brand management structure to be diverse to ensure that cultural sub-contexts are taken into account when developing and launching products. Taken together, these steps will help to increase profitability in Europe, while encouraging this region to become more nimble and innovative.

Excellent

Exhibit A

United Cereal

Adapted from Exhibit 1 of Case

UC Selected Financial Results (in $ 000)

	2009		2008		2007	
	$	% of Sales	$	% of Sales	$	% of Sales
Sales	$9,254,329	100.00%	$9,069,242	100.00%	$8,993,204	100.00%
COGS	$4,445,671	48.04%	$4,271,613	47.10%	$4,226,806	47.00%
SG&A	$2,868,842	31.00%	$2,856,811	31.50%	$2,787,893	31.00%
Depreciation and amortization	$ 370,173	4.00%	$ 375,000	4.13%	$ 362,500	4.03%
Operating Income	$1,569,643	16.96%	$1,565,818	17.27%	$1,616,005	17.97%
Interest expense	$ 46,271	0.50%	$ 45,667	0.50%	$ 44,120	0.49%
Other income	$ 18,508	0.20%	$ 22,500	0.25%	$ 19,653	0.22%
Income before taxes	$1,634,422	17.66%	$1,633,985	18.02%	$1,679,778	18.68%
Income taxes	$ 420,000	4.54%	$ 415,450	4.58%	$ 410,232	4.56%
Net income	$1,214,422	13.12%	$1,218,535	13.44%	$1,269,546	14.12%
Total Assets	$6,300,000		$6,215,890		$6,313,000	
Long-Term Debt	$1,050,000		$ 998,100		$1,021,300	
Shareholder's Equity	$1,751,400		$1,786,200		$1,722,900	

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