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Final – The Pringles Launch

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Agenda

- The P&G organization
- Pringles product line
- Snack Market in Europe
- Recommendations

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- The P&G organization

- P&G's global expansion strategy
- P&G's global expansion approach
- Assessment of O2005
- Decision making in P&G

- Pringles product line

- Snack Market in Europe

- Recommendations

P&G's global expansion strategy

Expansion experiences and learnings

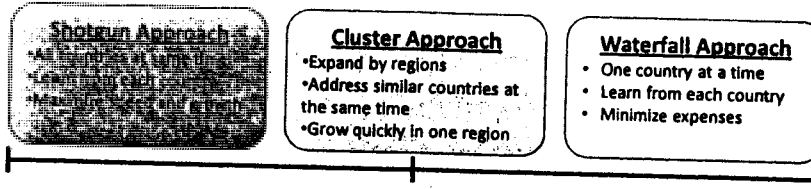
- Enormous growth in global markets, but not all products were universally compatible
- As organization size grew and expanded into different countries decision making was slow and cumbersome
- Need to be consistent across markets, insure brand and products remain high-quality

Adaptations to strategy

- Reorganized organization to allow for more structured approach to regionalization of products
- Make MDO's responsible for market development and customization, decisions now involve less people and are easier to make
- Give overall product responsibility to GBU's and insure consistency and global strategy implementation

However, adaptations could be furthered to include structures and process that allow for regionalization beyond product, i.e. advertising, expansion strategy (M&A), etc.

P&G's global expansion approach



Traditional P&G approach for international expansion has mostly followed a cluster approach

- Grouping nearby countries into regions (Eastern Europe, Western Europe, UK, Asia, South America, etc.)
- Working with similarities of each cluster
- Run trials in small market trials before launch in bigger player of the cluster

However, P&G could have benefited more from a traditional waterfall approach

- Some countries are fairly unique and may require learnings from multiple markets
- Risk of market loss due to competition is low; no need to rush

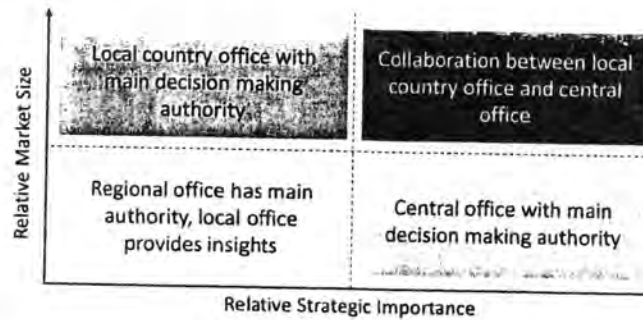
Assessment of O2005

- P&G's new marketing organization has key strong points
 - Clearly defined roles (GBU make strategic decisions, MDO's implement and make tactical decisions) make organization more efficient
 - Good organization for speed and implementation of projects in each country
 - New product development and other strategic decisions under a clear leader ensures brand integrity
- However, some areas of opportunity still exist
 - Centralization of all strategic decisions hinder some local MDO's
 - Little flexibility to MDO's
 - Cross-MDO collaboration is not facilitated
 - No power to create market-specific products, only able to customize global products
 - No clear flow of strategy or key information from bottom to top

Decision making rights in P&G

Decision making autonomy should match differences in markets

- Some markets have considerably more impact on the brand
- Strategic implications beyond market size should be taken into account
- Market size varies greatly across geographies



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 - Evaluation of Pringles strategy in US
 - Pringles Introduction to Europe
 - Learnings for entry to Europe
- Snack Market in Europe
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Evaluation of Pringles strategy in US

P&G's Marketing Strategy for Pringles in US

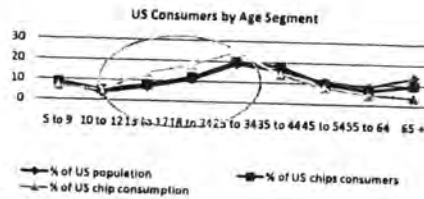
- Opportunity Recognition: Consumer dissatisfaction, high growth potential market (1950-60's)
- Product Innovation: Less greasy, new package for better preservation, don't crumble easily
- Consumer insight: American custom of dipping → unique shape and different taste on each side of chip
- Efficiency: Distributed along with other P&G products
- Communications based on enjoyment.
- Targeted to decision makers (18 to 44) although heaviest consumers are 13 to 17.
- Launch in 1971, great success
- Continuous revitalization: package sizes, additional flavors, international expansion → world leader

Chips Consumers

- 74% of US population
- High consumption compared to other countries
- Ages 13 to 34 highest consumption ratio per capita

Competitors

- Heavily fragmented snack industry in the 60's
- Local manufacturers with small market share
- Distribution hazard due to brief shelf-life
- Flawed and non-differentiated products



Defense Strategy

- Stay ahead on product innovation and consumer research (age/consumption trends, changes in habits)
- Assess trends in snack consumption in foreign markets and how likely they are to be adopted by US consumers
- Large and growing immigrant population in US → have relevant product offer for them
- Maintain distribution and negotiation efficiencies, but keep an eye on snack consumption trends (where they eat snacks)
- Look for complementary snacks that may be gaining popularity and evaluate brand acquisition

Pringles introduction to Europe

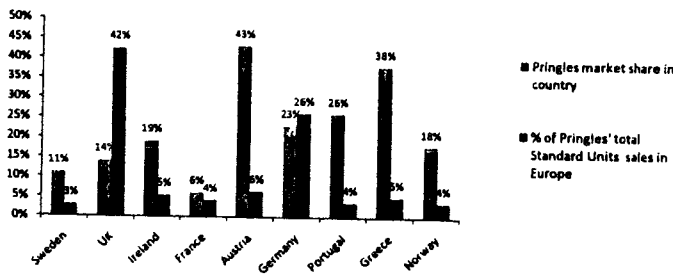
	Western Europe	Southern Europe
Entry rationale and market characteristics	Cultural similarities with US Great market shares of P&G in non food Keep growing non foods increasingly costly → launch Pringles to lead expansion of P&G food products	Next step of P&G's food products in Europe Very different consumption habits than those in US Salty snacks not a popular category as opposed to Western Europe and US. Unhealthy notion of product Highly fragmented distribution in some markets (specially Italy) Frito Lay established in these countries
Launch Strategy	Pilot launches in small markets (Ireland, Austria) with no promotion/ advertising before entering larger markets of similar characteristics (England and Germany respectively) with promo/ad support.	Same pilot dynamics in small market (Portugal) before launching in larger (Spain and Greece) France launched in 1994, problems due to fragmented distribution
Performance	Great success and large MS achieved. Category strength and consumer habits similar among US, UK and Germany → facilitated a successful introduction.	Success met all the expectations Pringles consolidated its presence in Spain, Portugal and Greece.

Pilot test in smaller markets before launching in larger markets have proven successful BUT markets entered so far have similar consumer habits to those of US.

Distribution, competitors and consumer habits are key factors to understand to shape the launch strategy.

Market Size and P&G's goals

- Among European chip markets, low market share in some countries does not necessarily mean low sales volume (UK) and vice versa (Austria, Greece).
- If penetration in Italy is low, this still may potentially account for a higher % of unit sales than less populated markets.
- Understanding if P&G's goal in Europe is linked to volume, value or just having presence in every country with their food category is critical to make recommendations (i.e. recommendations on the level of investment)



Transferability of Strategies

Marketing Strategies

Transferable to Italy?

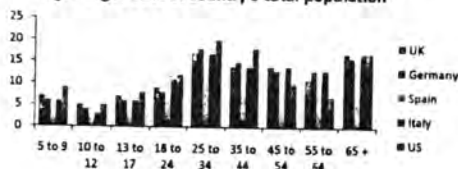
- **Market test and data analysis**
 - Test YES – Analysis NO: Results need to be looked from a local perspective. Tests in Germany and Spain didn't predict what was really going to happen after trial. Test setting and cultural factors may lead people to answer in a different way in tests than in reality.
- **GBU's Target Market (parents of 5 to 17 y.o.)**
 - Not Necessarily: 5-17 are heavy consumers but not great decision influencers compared to older segments. Out of home snacking in Italy specially common among 15-29. Should have efforts focused on them too.
- **Distribution (mass channels)**
 - Need to be more flexible and include HoReCa, where high volumes of snack are sold.
- **Retail Price (from GBU dictated list price)**
 - May need to allow lower margins in order to appeal to the trade
- **Flavors**
 - YES: Seems that flavors that show a better fit with local culture in tests, do well. Could potentially explore a more "Italian" flavor in the future.
- **Communication**
 - YES but needs additions: For mass communications, the brand and slogan show global consistency and should be appealing to Italians. Maybe some emphasis on the healthy part of the product/ production process could help in positioning. HoReCa may need a differentiated direct communication strategy.

Agenda

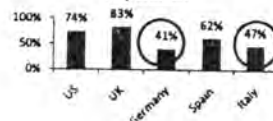
- The P&G organization
- Pringles product line
- Snack Market in Europe
 - The snack markets in W. Europe and S. Europe
 - The snack market in Italy
- Recommendations

Similarities with other markets

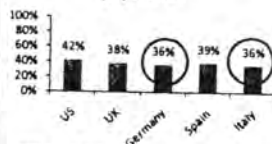
Age ranges as % of country's total population



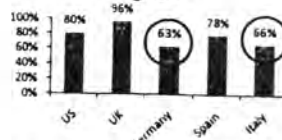
Chips Consumers/ Country Population



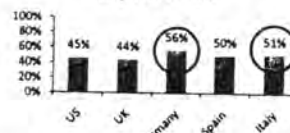
10-34 population/ total population



Chip penetration in 10-34 segment




10-34 chip consumers / total chip consumers



Germany has the most in common with Italy in terms of demographics, chip penetration rates and they share the highest concentration of chips consumers in the 10-34 age range compared to other markets. However, other factors should be taken into account before deciding to replicate the German or other country's launch strategy in Italy or if to do something totally customized for the specific characteristics of this country:

Consumer behavior – Snacking habits (Where & When) – Competitive environment similarities – Distribution – Pre Launch Tests that were similar to Italy's and their outcomes

Select Western & Southern European Markets vs. Italy

	Size of Market	Pringles' Value Share	Category Penetration	Target Market	Consumption (kg/cap/yr)	Similarity to Italy
UK	40,400	14%	High	18-44	3.2	Strong potato chip market. Strong similarity to US
Ireland	3,800	19%	High	18-44	NA	Test country for UK, assumed similar market characteristics
Germany	15,200	23%	Med	18-44	2.4	Large market, consumption patterns similar to NA, penetration patterns similar to Italy
Austria	2,000	43%	Med	18-44	NA	Test country for Germany, assumed similar market characteristics
Spain	NA		Med	13-44	1.5	Preference for sweet snacks, p. chips deemed unhealthy, low consumption
Portugal	1,900	26%	Med	13-44	NA	Test mkt for Spain + Greece, assumed similar mkt characteristics
Greece	1,800	38%	Med	13-44	NA	Preference for sweet snacks, likely low consumption, Italy neighbor
Italy			Low	13-44	0.85	Least Similar  Most Similar

Note: the case indicates certain countries were "test" markets for major launches in neighboring countries. We've therefore assumed that the test and launch countries have similar market characteristics.

Southern European countries are most similar to Italy with similarities around cultural behavior and overall consumption of product per capita. Countries like the UK and Ireland are most dissimilar, instead resembling consumption patterns more closely aligned with the United States. As a result, an entry strategy more closely resembling Pringle's Spanish entry strategy should be considered.

Characteristics of the Italian snack market

Market Structure

- Fruits and sweet snacks account for 45% of the snack market
- Salty snacks account for 7.8% of the market and split into four product categories: potato chips, salty biscuits/crackers, popcorn, salted nuts
- Lower degree of penetration of salty snacks than in other European countries (0.85 kg/capita average yearly consumption)
- Perception of chips as unhealthy impedes growth, but salty snacks are the 3rd fastest growing snack segment at +3.3%
- Consolidated salty snack market with top 4 companies responsible for >70% sales and top 8 responsible for 95% volume
- Clear salty snack market leader, San Carlo, with SOM >2x that of second leading company
- In potato chip category, brand awareness and scope of distribution the most important competitive capabilities
- As impulse purchases, snack products often consumed through alternative Ho.Re.Ca channel (approx. 30% of sales) & play important role during launch phase of a new product
- Core target market is consumer 13-44 years old
- Little attention paid by manufacturers to consumer needs in salty snack market (i.e., protective packaging, no mess snacks, product innovation, high visibility)

Consumer Behavior

- Strong consumer preference for sweet snacks
- Core target market from 13 to 44 years of age, with 13 to 17 year age group unique because of greater decision-making power of these children relative to other markets
- Presence of a "snacking boom," driven mainly by morning consumption and found among young people and adults
- Growing demand for salty products across almost all age groups (except 15-19 years)
- "Hedonists" are heavy snack consumers, concentrated in younger age groups; predilection for salty snacks, quick to embrace new products and demand taste satisfaction; flat growth in this segment
- "Health freaks" tend to see snacks as unhealthy and were concentrated in the young adult age group; declining segment
- "Followers" are concentrated in adult age groups; low snack consumption, but growing rapidly
- Young people eat potato chips to satisfy appetites and "alter their state of mind"; no limits to desire to eat chips; eating chips was fun, often a social occasion; eating experience was linked to crunchiness, texture and sensation generated on contact with the mouth

Competitor Strategies

- San Carlo uses its extensive distribution capabilities and high promotion spend as competitive strategies; owns 160 warehouses and has 1,300 direct salespeople/agents selling direct to stores; 36% salty snack Share of Voice
- Ica sells to the alternative channel, specifically catering and bars, where there is diminished brand value, making possible a significant presence for unbranded products; share market leadership with San Carlo in this channel
- Bahsen pursued a differentiated product strategy by manufacturing a "potato-flake sliver" similar to Pringles in shape and packaging; pursued highly selective distribution channels and target market; enjoyed strong brand image and price positioning, but its only potato chip product had not been successful

Opportunities, risks and bottlenecks in the Italian salty snack market

Opportunities

- + Growing market (+3.3%) with consumer behavior trending towards greater consumption of salty snacks favors Pringles launch; weak overall consumption in the potato chip product category means a lot of \$ on the table
- + Less consolidation in alternative channels allows for entry into this segment
- + No single existing product that appeals to consumers' needs coupled with limited innovation in the category allows Pringles to fill a clear market gap
- + Competition has not effectively invested in advertising and trade promotion to create brand awareness (except San Carlo), leaving space for a well-branded potato chip
- + Wider range of target market age groups creates room for more creativity and options in promotion strategies

Risks/Bottlenecks

- Difficult to modify consumption habits of potential consumers
- Bahlsen's Chipsletten, with product and packaging similar to Pringles was relatively unsuccessful in the market
- Building out distribution capabilities into alternative channels will be expensive and difficult
- Extensive sales force needed to sell into multiple channels and some 600,000 retail outlets over time

If P&G can address the issues of unfavorable consumer consumption habits and lacking sales and distribution capabilities in the alternative channels where most impulse purchases like snacks are made, there is tremendous market share and profits to be gained in the Italian snack market

Reducing risks and circumventing bottlenecks

Risks/Bottlenecks

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Mitigation/Circumvention

- + P&G should distribute Pringles into alternative channels, where consumers are most likely to initially consume salty snacks; coupling this distribution strategy with appropriate advertising spending and promotional campaigns will lead to subsequent purchases through traditional channels and slowly modify consumer behavior
- + Heavy investment in advertising spend and trade promotion should focus on Pringles' features that meet consumers' needs (i.e., healthy chip, resealable packaging, not messy to eat, flavorful) in order to differentiate it from other products in the market
- + P&G will have to invest in building out both its distribution and sales capabilities in order to effectively and efficiently reach consumers; more research may be necessary to better understand the alternative channels segment and to subsequently identify specific targets where sales and distribution development will reap the most rewards

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 - Pringles Italy launch strategy
 - Overall recommendations for Pringles in Europe
 - Three key managerial takeaways in international marketing

Pringles Italy Launch Strategy

Product

- Innovative Packaging
- Multiple Sizes
- Multiple Flavors

Promotion

- Target Group: Adults Ages 18-44
 - Most active
 - Purchase for children
- Advertising Campaign
 - Fun, enjoyable
 - Clear delivery of value prop.

Placement

- Alternative retail channels
- Mass market

Price

- Lower initial price
- Build brand awareness
- Organically led price increase

Product

The more mature sweet snack market gives indications of what customers prefer with regard to snacks. Additionally, multiple sizes will be needed to penetrate various distribution channels effectively.

Product Feature	Recommended Offering	Rationale
Packaging	<ul style="list-style-type: none"> • Resealable tubes • Distinctive graphics and logo 	<ul style="list-style-type: none"> • Sweet snack market is dominated by innovative packaging and branded products; salty snack market should follow suit
Sizes	<ul style="list-style-type: none"> • single and multiple serving sizes 	<ul style="list-style-type: none"> • Single serving size is fit for impulse purchases at alternative retail locations, while larger size allows for bulk purchases for home consumption
Flavors	<ul style="list-style-type: none"> • Original, SC&O, Barbeque and Paprika 	<ul style="list-style-type: none"> • All flavors tested well; potentially launch limited flavors in alternative channels but carry all flavors in mass market channel

Promotion

Through a carefully crafted advertising campaign and well executed distribution plan, P&G should target Adults Ages 18 – 44.

Target Group: Adults Ages 18 – 44

- Social, make impulse purchases of snack foods through alternative retail channels
- Potentially parents of and purchasers for children between 5 – 17 years of age

Children 5 – 17

- Children 5-9 years old have the highest consumption index of any age group in Italy
- 10-12 and 13-17 are 5th and 2nd respectively
- Children tend to be "hedonists" or early adopters of unhealthy snacks
- These children will eventually be purchasers down the road

Adults Age 18 – 44

- High consumption index
- Highest "decided" volume per year
- Highest % consumption
- Most chip consumers
- "Follower" category or medium term adopter
- Likely parents of 5-17 year olds who will be follow on consumers

Promotion (cont'd)

Advertising Campaign

- Fun, Enjoyable, A Little Rebellious
 - Focus on conveying a fun product for all ages
- Clearly deliver value proposition
 - Innovative, superior potato chip
 - Healthier preparation
 - Premium product
- Educate consumers on benefits of product category (e.g. great for parties, can be consumed in many different ways)
- Build off of previous ad campaigns but customize to meet unique, Italian customers. Cult following (similar to US) will help product command premium price points

Advertising spend will be crucial to the success of the brand. As proven by the sweet snack market, top brands have high ad spends. Additionally, advertising will be necessary to properly deliver the Pringles value proposition. Given the uniqueness of the Italian consumer, a new advertising campaign should be developed.

Placement

Mass Market and Alternative Channels

- Alternative
 - Impulse buying
 - Less price sensitive leading to comfort purchasing product at premium prices
 - Potentially limited choices leading to trial of product
 - 28% of product flows through this channel
- Mass Market
 - Subsequent purchases will come through mass market channel
 - Distribution channel P&G is most familiar with and has greatest capabilities
 - Still comprises 50% of the market
 - Lowest cost per product delivered

Given the need to compete with shelf space, Pringles lack of customer mind share at launch, and the limited product flow through the channel, entering the small retail channel is not advised at this point. After establishing brand recognition, Pringles can enter the small retail channel where customers will search for their product since there is no other price sensitive baking product in these locations.

Price

How does P&G reach a price of 3,190 Lire for a 200g package of Pringles?

Risks/Challenges

- 2,990 Lire was the introductory price in rest of W. Europe
- Market research and sales projections based on 2,990 Lire
- Less attractive to customers
- Strategy of a lower introductory price may set anchor preventing future price increases

Potential Mitigating Factors

- ✘ Selling into alternative retail channels will allow for premium price point
- ✘ Consumers will accept product as a premium brand in the mass market
- ✘ Distribute only smaller (50g) canisters into alternative retail channels at lower per package price
- ✔ Introduce at a low price to gain market share. As brand recognition builds, a price increase will naturally follow.

To reach a price of 3,190 Lire, P&G must introduce Pringles at a lower price to capture market share and build brand awareness. As Pringles' share of mind builds, demand for Pringles will grow, and a price increase will be organic.

Overall Recommendations for Pringles Europe

P&G should continue to invest in Pringles in Western Europe, with the hopes of Expanding into Eastern Europe as those markets mature and become wealthier.

- Market Characteristics Necessary for a "Building SOM" Strategy
 - Existing potato chip market with sufficient size that is either growing
 - Enough wealth to be able to purchase premium priced potato chips
 - Limited saturation of the premium potato chip market
 - Sufficiently consolidated distribution channels to allow P&G to quickly distribute market wide
 - Example: Portugal where Value Share relatively low and developing salty snack market
- Market Characteristics Necessary for a "Hold" Strategy
 - Deep understanding of market, limited or flattened future market growth
 - Current position is profitable, but increasing market share will decrease profitability
 - Product innovation has slowed or halted with little foreseeable future progress and operational efficiencies have peaked
 - Example: Austria where Value Share is high (43%)
- Market Characteristics Necessary for a "Divest/Harvest" Strategy (sell division)
 - Value of division's assets are worth more than the NPV or future profits
 - Company lacks sufficient capital to fund other businesses

Key Managerial Takeaways

- Organizational structure is critical to determining the essence and key capabilities of a company; roles and responsibilities of groups and personnel (bones), reporting relationships (bones), systems and procedures (blood) and communication mechanisms (soul) must be carefully thought out to match corporate strategy, and consequently marketing strategy
- One of the most important considerations when launching a product internationally is how quickly and into how many markets the product is launched. Even when resources are seemingly plentiful, advantages gained from early entry can be easily lost through a misunderstanding of entry markets; a company must correctly distinguish between a waterfall, shotgun or cluster approach for entering into multiple markets.
- A winning product launch strategy across several markets does not mean that it can be automatically applied when entering a market with completely unique characteristics; typically the local/regional division of an international company, which understands a local market, must give special attention to the tactics that can effectively address unique cultural, governmental, geographical or economic conditions