Lessons from Quaker Oats

A Special Report

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Introduction

One of the biggest challenges faced by food manufacturers and the agriculture and food industry in general, is the fact that many food products are mature product lines. That means that sales are essentially steady - at best. In fact by its very nature, the food industry is characterized by relatively steady growth at relatively narrow profit margins. In mature markets, competition typically takes the form of price-cutting and gains by one firm are often at the expense of another. From that point the entire product line or category can become nothing more than a commodity that is priced as low as possible and simply "milked" for whatever profits are possible. That is not an enviable position, nor is it a position that a firm can easily escape.

When an example occurs in which a mature product category is revived from the mature stage, it is worth taking a close look at how it was done. Lessons learned from one firm or product category might be applied to another in order to escape the clutches of maturity and commoditization. The purpose of this note is to examine the case of Quaker Oats rice cakes and how that firm twice managed to escape the clutches of product maturity.

Background

Every marketing student is taught the theory of the product life-cycle. That theory suggests that successful products typically go from launch and strong initial growth to maturity and then decline. The grocery store, especially the dry grocery aisles, are chock full of evidence to support the theory.

Rice and corn cakes, however, appear to be flaunting the "product life-cycle" theory. In fact, the October 1996 edition of Grocery Trade Review contained an article entitled, "Quaker Gives a Lesson in Marketing." That article asserted that in 1993 and 1994 Quaker Oats, Peterborough, took a relatively bland, moribund product, rice cakes, and revitalized or re-created it. Quaker had the good sense to recognize the product's market potential with regard to both health and lifestyle (portable foods). In other words, Quaker managed to buck the product-life cycle for rice and corn cakes by revitalizing the mature line. The April 1998 edition of Grocery Trade Review followed up, however, with an article that suggested that rice cakes, had once again spun through its life-cycle, albeit for a second time, and was slipping back into maturity and decline. That was because, after soaring from 1994 to 1996, sales softened and began to decline in 1997. Canadian rice cakes sales peaked in 1996 at just over $27 million.

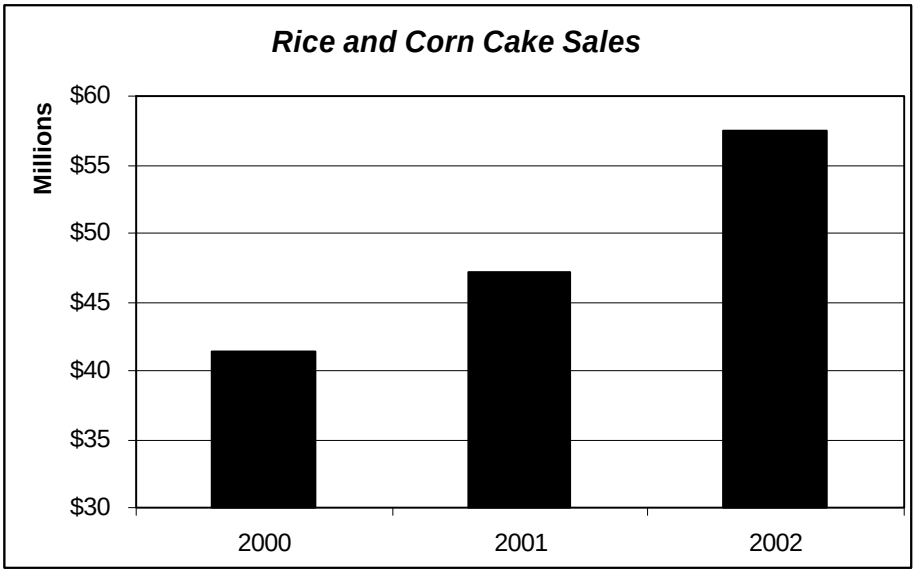
That April 1998 GTR article concluded by saying: "For Quaker, we can guess that the situation once again falls into a classic marketing conundrum. Is it worth spending more on product development in order to provide a truly unique and improved rice cake, again? Should money be spent on marketing to remind consumers of the product's merits? Should trade spending be increased to improve the profitability at retail? Or should the product simply be treated as a mature product to be 'milked' for its profits before receiving a decent burial."

Based on the results of the last two years, it appears that Quaker answered those questions.

- The product was further developed to make it more appealing from a taste, convenience and image perspective
- Marketing budgets were revamped to inform consumers via media and promotions about the merits of the re-developed product
- Trade and consumer promotions were increased in order to improve retailer profitability and induce trial.

Rice Cakes Revitalized

The following graph shows the recent growth trends in rice and corn cakes as reported by **ACNielsen**, Markham, Ontario. The graph shows the sales totals for the 52-week period ending in March for each year.



Source: ACNielsen, Markham, Ontario, MarketTrack, 52 Weeks to March 23, 2002; March 24, 2001; March 25, 2000

Obviously, after "peaking" at $26 million in 1996 and then declining, something dramatic occurred in the 1999-2000 period to cause sales to surge to $40 million and then to over $55 million this year.

ACNielsen data shows that rice and corn cake sales increased by 22% in the latest 52-week period. Sales are so strong that one of the biggest problems faced by Quaker and distributors is actually keeping stores stocked. In fact it has the highest out-of-stock rate with certain distributors. Given the product's relative bulk, it is difficult to provide it with adequate shelf space.

The surge in sales was caused by Quaker's 1998/99 introductions of "Crispy Minis." All of the growth in the rice and corn cake category is being caused by "Crispy Minis" while the older puck-like product sales are flat at best. Crispy Minis are a revitalized version of the older puck-like rice and corn cakes. They are shaped more like potato chips with more intense, potato chip flavors such as salt and vinegar, nacho cheese, barbeque etc. In addition to the improved flavor and appearance, the product maintains its healthier image given its presence in the rice and corn cake category.

Given that Quaker actually found a way to improve and enhance a mature product line, the next challenge was marketing. In that regard, while Quaker's spending data is obviously not public, it is readily apparent that the company has been aggressive on all marketing fronts. Both the trade and Quaker are aware that potato chip penetration is about 90% while rice cakes are probably less than 60%. As such the bar is set. Intense media and ad spending has created awareness while the consumer and trade spending are designed to induce sampling, initial and impulse purchases.

It is also of interest to note that Quaker has been protective of its price points on the product. The retail is usually $1.99/bag in southern Ontario. Featuring has been comparatively sparse during recent quarters, and when featured, the price typically stays steady.

Retail margins on the Crispy Minis are generally better than average for the grocery department. That in combination with the exceptional sales growth makes them a prime candidate for private label. Not surprisingly, Loblaw was the first to recognize the potential and launched its PC and No Name brands of minis. The PC and NN brands retail for $1.79 and $1.59 respectively. Canadian private label sales amount to just over 16% of the category, up from 14% in 2000. The private labels' share is reflective of the fact that the private labels' presence is still dominated by the pucks as opposed to the minis which have only been marketed by Loblaw. Private label sales amount to $9.4 million while the national brand sales, meaning Quaker, are at $48 million. More interesting, however, is that private label sales are growing at 62% compared to 22% for the category as a whole. That is reflective of the introduction of private label minis. Private label growth will continue as other major retailers begin to launch their own versions this spring and summer.

Conclusion and Lessons

The bottom line for the rice and corn cake minis is that Quaker has proven again that the product life cycle does not necessarily have to apply to all products. Is Quaker going to come-up against the natural life-cycle forces again? The answer is yes but given the un-met penetration potential, there is likely to be a long time before maturity and decline.

The basic message is that if the product can be improved in a tangible way and as a result, it meets a consumer demand, then the decline phase of the cycle can be defeated. The key is that the improvements must be tangible. That is, the consumer must be able to see that the product is enhanced, better or different. Simple line extensions or "me-too's" won't make it. From that point, the hard work and expense of marketing the better product becomes paramount. Nevertheless, if a rice cake puck can be improved, is there any other product that should not at least be given a second look?

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