



The University of Chicago
Graduate School of Business

New Product Business Case



"Oats-on-the-Run"

Bus 369-81
Prof. Art Middlebrooks
Developing & Commercializing New Products

Oda Drake
Dionne Kuhnau
Steve Sprindis
Sacha Stawski

Executive Summary - Introduction

For the purpose of this assignment, we set out to explore the Quaker Oats oatmeal customer base and to better understand their existing consumption patterns, and more importantly their consumption needs. We wanted to explore things customers especially liked and/or disliked about existing instant oatmeal offerings. As part of this initial exploratory research, we identified that oatmeal fell in a special category of both breakfast, as well as nutritional food, largely valued because of its taste, but also traditional American values, quite unlike many other products. Having identified the category, we set out to generally identify customer problems and needs within the given category. Two key concerns, which were raised most frequently during our research were to do with time and the inconvenience associated with preparing the oatmeal. Many people told us that they generally enjoyed eating oatmeal in the mornings, but that they did not typically have time to either prepare a warm oatmeal breakfast, or that they just could not find the time to sit down for breakfast before leaving for the office. Based on this finding and some initial screening, we set out to develop a new product concept with corresponding strategic objectives. This concept in turn was based on a simple vision statement, which correlated what we set out to do with a basic company mission.

New Product Vision Statement:

We want to be recognized as the leading oatmeal manufacturer and innovator, serving the needs of our customers. Our products will serve the needs of every oatmeal consumer, whether on the run, or enjoying the comforts of their home.

We will drive our new product efforts by understanding and anticipating our customer's needs, always staying in close contact with our consumers. We will increase customer loyalty in order to retain current customers, as well as attracting new customers, by exceeding their real life needs and expectations while consistently and responsively delivering high quality and value. We will strive to offer innovative products, while yet remaining true to our traditional company ideals and high nutritional value. We look to introduce new and different products, which will generate excitement and further differentiate Quaker from other manufacturers. In addition we strive to have an "all-family appeal", serving both the children, as well as the adults in a household.

Product Objective & Strategic Role Filled

As a result of our research and interviews with existing Quaker Oats oatmeal customers, we became aware of the fact that many oatmeal users found existing instant oatmeal offerings inconvenient for a person on the move, a person not currently near a bowl, spoon, milk/water or a microwave oven. Based on this insight, we set out to find a way to better serve the needs of people on the run, who still want to enjoy their regular oatmeal. In order to explore this issue further, we had an internal ideation session, later followed by a potential-customer survey, to help us better define our product objectives and strategic roles.

In our initial problem/need identification sessions many possible product ideas were brought up. Unfortunately, many of the ideas proved to be either in existence already, unrealistic or not a good strategic fit with Quaker Oats, (thus failing in terms of one or more of the initial screening criteria). We also came across a number of possible product improvements, or simple line extensions, which we in turn set out to incorporate into our new product objectives. One problem/opportunity area, which we did decide to explore further, was to do with the need to heat the oatmeal with water or milk prior to consumption. Though there are existing instant oatmeal products, each of these still requires the user to mix the contents of a pouch with milk or water in a bowl, and then to either heat or microwave this mixture to create the desired oatmeal mixture. This further requires access to a bowl for mixing and either a stove or microwave oven for heating. We found this to not only be inconvenient, but a reason for many potential customers not to eat oatmeal on a more regular basis.

More specifically, the information found signaled to us that there was a tremendous opportunity, if we found a way for consumers to get around the need to have a bowl, access to either milk or water, a microwave oven or stove, and if we found a way to generally shorten the time required to prepare and consume the product. This ultimately became the key product objective, creating a new to the world type oatmeal product, which could be consumed anytime of day at any location, without the need to have access to any other item, (whether it be milk, water, a bowl, spoon, stove, microwave, or whatever). This new product, though somewhat in competition with existing oatmeal products, set out to expand the Quaker customer base, particularly since other changes in terms of serving size and fruit contents were



also incorporated, to help set this product apart from existing offerings, (making it more than just another breakfast item).

Strategically, this has a lot of importance, both from requisite, as well as opportunistic roles¹. This new product really is more than just a line extension. It might not only make existing customers more likely to consume oatmeal more frequently, but it is a new to the world type product, designed to help expand the Quaker Oats customer base to new consumer segments, so far unserved by Quaker. In other words, some existing customers may increase their existing consumption from one or two times per week, to three or more times per week, choosing this new product for the additional days. At the same time, Quaker Oats can use this product to enter a new hot breakfast segment for people on the run, while also using its larger size with increased fruit content to serve the snack segment, which was ignored so far. Quaker can expand its oatmeal segment from sit-down meals to meals-on-the run, virtually creating an all-new segment of healthy, hot, self-prepared "fast food", not comparable to much else currently on the market today. While a limited amount of cannibalization in terms of existing oatmeal purchases may be anticipated, the product's real importance lies in helping to grow the Quaker customer base by expanding into a new, under-served category, while also better meeting the needs of existing customers. This in turn is perfectly in line with the new product vision statement above and thus represents a good strategic fit.

Overall, the new Quaker Instant Oatmeal in a self-heating bowl, "Oats-on-the-Run", with increased fruit contents and 50% larger serving size calls for volume growth on Quaker Oatmeal. This growth is expected to come from increased buying rates among current users, as well as bringing in buyers who are new to the Instant oatmeal category. The target group for this product are people on the move. This can be people who typically do not have time to consume a hot breakfast sitting down in the mornings, or people who generally enjoy having a hot snack without having to go through a preparation process, which includes multiple steps. It is also an all-family product, ideally suited to be used by parents as a snack to be given to their children for in school, or generally outside the house consumption. There are thus primary and secondary targets, as outlined later.

Product / Financial Goals

From a strategic perspective, as stated before, the primary goal for this product is not to cannibalize existing oatmeal sales, but to grow existing oatmeal sales, as well as expand sales into other segments. From a financial perspective, this means breakeven in year two, with 5% volume growth in years three through 5. Additionally, we expect a minimum sales level of \$50 million by year two and a contribution margin of at least 5%. (See Appendix 5).

Customer Problems Addressed

Based on the initial product concept, such as included in Appendix 2 (a), a questionnaire was distributed to existing oatmeal customers and potential new customers. The goal of this primary research was to refine the existing concept, by looking to identify strengths and weaknesses of the concept. In addition we sought to better understand customer's perceptions of this new product, while identifying additional opportunities and segments worth pursuing. At the same time, we also wanted to find out the potential level of cannibalization which could be expected in terms of existing oatmeal (and other) products.

Some of the key new product insights gained through this research, included information about favorite flavors, in this case Maple & Brown Sugar, Apple Cinnamon & Regular. There was also indication that "Oats-on-the-Run" would not cannibalize existing oatmeal sales, but that customers would generally use this product in addition to other oatmeal products, bagels/sandwiches and other cold cereals. In terms of packaging, we found that most customers prefer a round bowl with a tablespoon (larger type spoon), approximately 4" in diameter (some preferring an even larger bowl). In addition, we learned that most customers want more fruit, preferably in small chunks and that the great majority of customer surveyed find the current serving size insufficient, looking for at least a 50% or more increase in the serving size. As far as price is concerned, customers indicated a willingness to pay \$3.99, though \$4.99 and even \$5.99

¹ Managing New Products, Chapter 4, Thomas D. Kuczmarski



were found to be acceptable. Another interesting side effect was the suggestion by at least two surveyed customers that this may be a good camping product; something we may be able to pick up on in our positioning and advertising at some later point. (A more detailed list of the key research findings can be found in Appendix 2 (b)).

As a direct result of this research, we refined our new product concept to include more fruit than traditional instant oatmeal, as well as a 50% larger serving size. Among other things, we were made aware of potential new opportunities, in terms of future promotional alliances with producers of goods commonly consumed together with oatmeal, as well as preferred consumer packaging information. In addition, the survey helped us choose which flavors we would initially launch the new product with, as well as identify the time of year most critical to us in terms of sales potential. Other ideas for future product launches and line extensions were another positive side-effect of this study.

New Product Concept / Description

Based on the above mentioned consumer insights, we came up with a refined new product concept statement. This statement is somewhat different to the initial product concept statement, which was the basis for the questionnaire enclosed in the appendix 2 (a) and is the direct result of ongoing customer feedback.

INTRODUCING "OATS-ON-THE-RUN" - NEW QUAKER INSTANT OATMEAL IN A SELF-HEATING BOWL!

You will love the convenience of a hot breakfast or snack on the go!

Life can get crazy in the mornings: the kids, the dog, the husband/wife, the dishes, the train schedule... There isn't always time to sit down to a hot breakfast, so you settle for a cup of coffee at the office, or a slice of cold pizza left over from last night. Wouldn't you like to eat a warm, healthy breakfast and still get to work on time?

Now you can! New Quaker Instant Oatmeal comes in a self-heating bowl! Nothing is easier to prepare in the morning than grabbing a package of oatmeal as you leave the house, shaking the bowl to start the heating action, enjoying a hot bowl of oatmeal on the train or in the car, and throwing away the container. It even comes with a plastic spoon attached, more fruit chunks and 50% more content than traditional instant oatmeal products! No mess, No fuss, No dishes! The heating material in the bowl is separate from the food and completely safe. In addition, New Quaker Instant Oatmeal has the same great nutritional content as regular oatmeal.

On your next busy morning, try "Oats-on-the-Run", the New Quaker Instant Oatmeal in a self-heating bowl! Nothing is more nutritious and convenient!

Available in Regular, Apples & Cinnamon, and Maple & Brown Sugar.
Suggested retail price: 6 pack = \$4.99

Overall, this concept not only meets the strategic criteria we set out with, but also satisfies the customer problems, which were identified as part of our preliminary research, as well as our more in-depth segment analysis.

Market Assessment

The instant oatmeal category has been showing small to flat growth for the last few years. Dollar sales for 1997 were \$331 million and 108 million pounds. Since Quaker is the category, Quaker's growth for the past few years has mirrored the category growth. Quaker has a 77% share of the instant oatmeal category, therefore the competition has a 23% share. The only direct competitor in the category is Private Label, which is product sold under a grocery store label. While some name brand manufacturers also produce the private label brands, Quaker does not produce any private label product. Since Private Label's strategy is to introduce products that copy the larger name brand company products, we believe that this new product will be isolated from the Private Label competition. The technology is not easily copied when you do not have the resources to devote to new product development.



The universe in which Quaker competes is far bigger than the instant oatmeal category, however. Consumers have many breakfast choices today, ranging from ready-to-eat cereals (cold cereals), bakery items, pancake/waffles, fast food restaurants, cereal bars, and even places like Starbucks and bagel shops. These are all competitors to our current products and our new products.

We believe that this product is different enough to create excitement in the category and drive growth of the category. The products will be premium priced and therefore not likely to attract the value-conscience consumer. Since the consumers who purchase private label brands are making their decision based on net effective price, stealing share is not likely to occur with this new offering.

Target Audience

We believe the target audience of "Oats-on-the-Run" to be people who feel they are too hurried in the morning to have time for a healthy breakfast. We have further defined this to include two major sub-segment categories:

- Working people too busy to slow down for breakfast in the morning
- Families with children: Moms who care about their families health and wish to serve a quick, healthy meal before school to their children

We believe that the primary decision makers in both segments for purchasing "Oats-on-the-Run" will be young to middle aged adults in the 18-35 yr. old category. We also believe that there will be enough secondary purchasing influence from young children in the 4-10 yr. old category to merit advertisement consideration here as well.

Distribution/Sales Channel Strategy

In terms of distribution, we envision two main potential sales channels. These are grocery retail, as well as alternative channels:

- **Grocery Retail:** We plan to use our existing distribution relationships to take this product to market. This product will be available nationally, and we currently have the resources to sell in this new product. Concern from the sales side includes success at selling in the three new SKUs incrementally. While "Oats-on-the-Run" will be presented as a new "sub-line" deserving incremental acceptance, if stores are not convinced, we are prepared to offer discontinuance of the Quick n' Hearty line (three SKUs also) as a sacrifice for this new product line. Sales on Quick n' Hearty have been declining steadily since the end of 1996, and would be a logical trade out if necessary.
- **Alternative Channels:** We plan to target alternative channels as well in the introduction stage. These channels would include: Super-centers (Wal-Mart, Target, Kmart), Warehouse clubs (Sam's, Price Costco), Convenience stores, Drug stores, Vending machine suppliers and Military (on-base stores). Some of the sales would likely be "in and out" orders in the season, while other channels would be permanent placement. As we have an existing thriving business in each of these channels, we are not concerned with potential conflict selling to the alternate channels would have with the retail customers.



Positioning Strategy

We believe that “Oats-on-the-Run” falls into several target segments within the breakfast market. While this new product will naturally fall into many product categories including breakfast foods, hot breakfast foods, and instant breakfast foods, we believe that “Oats-on-the-Run” creates its own new specific niche category of hot, healthy breakfast food prepared at home. As such, we believe that it will compete with many current product offerings outside of traditional oatmeal including other on-the-go markets such as Starbucks coffees and fast food chain breakfast sandwiches. Throughout each segment, we believe that “Oats-on-the-Run” should be positioned as a quick, hot, healthy breakfast for people who feel they just don't have a lot of time to prepare traditional hot meals.

Given this broad market potential, yet small overall niche, we believe that “Oats-on-the-Run” can be positioned as a premium product on both price vs. quality and more specifically, price vs. product benefits perceptual maps. As such, we will focus pricing strategy and marketing to reflect the quality, value, and benefits that “Oats-on-the-Run” provide to all breakfast eaters.

Pricing Strategy

This product is a new to the world product, so there are no current price expectations in the market. In determining our suggested retail price we first determined the cost per six-pack plus minimum retail and wholesale markups, which is \$1.81 ($\$15.06 \text{ case cost} / 12 \text{ boxes per case} * 1.2 \text{ wholesale mark-up} * 1.2 \text{ retail mark-up}$) in the first year. We then determined that consumers will likely compare this product to other products in the marketplace, which they feel offer similar value. Currently, a 12 package box of instant oatmeal cost the consumer \$3.29. We are increasing the volume of each serving but only offering 6 packs (vs. 12 packs of instant oatmeal), so the relative value perception should be similar. However, we are also increasing the convenience of the product, so the value to the consumer should actually be well above \$3.29 per six-pack. Other non-cola products that come in cans and are a breakfast substitute, such as Slim-Fast, sell on the retail level at \$6.49.

Knowing that we had a floor of \$1.81 and a ceiling of \$6.49, we surveyed consumers to determine the maximum rate they would pay. We found that 32% of respondents would pay a maximum of \$4.99. We decided that because we are in the food category a skimming strategy would not be effective, and we did not perceive enough of a competitive threat to pursue penetration pricing. Therefore, we priced it at the price in which we intend to sell it on a long-term basis. At \$4.99 we should deliver adequate value to the consumers while maintaining healthy margins for Quaker Oats.

Quaker Oats does not believe in frequent price changes. Price increases will not happen more than one time every three years. At that time we will increase the price to an appropriate inflation adjusted level. However, for 2 week periods during January and September of each year Quaker will pay the retailers to do in-store promotions in which our target retail price will be \$3.99 and the items will be slotted on the end of aisles to bring more attention to them.

Communication and Promotion Strategies

With the launch of the product Quaker will undertake an aggressive advertising and public relations (PR) campaign. The advertising for the launch will be similar to that of other new to the world launches for Quaker. The two primary goals of the advertising campaign will be educating consumers about this new to the world product and giving consumers the incentive to try the product.

Marketing will have extensive television and radio campaigns, as well as print advertising. Ideas for some of these campaigns may come from existing and additional market research, (such as included in Appendix 2). Because of its historical success, Quaker Oats will use FSI's and coupons in newspapers to motivate trial of the new product. We will also sponsor extensive in-store sampling and education as well as sampling at train stations and other commuter gathering places.



Along with the traditional marketing we will undertake a very extensive PR campaign. Normally an oatmeal product or any typical breakfast product would not lend itself well to PR, but we feel that the uniqueness of this product will make for interesting press coverage (via TV, Radio, Magazine, and Newspaper). This PR should prove more effective and reach more people than any of our typical advertising approaches. It will also aid in the education process and create the type of hype that will encourage people to try this new product.

As we progress past the launch stage, we will support the product by spending 10% of revenues on traditional media advertising. Additionally, we will give discounts to certain retailers at different times throughout the year to get them to put product on end aisle displays, reduce their prices for a week, and advertise in store circular advertisements. This trade advertising will cost an additional 10% of sales per annum, leading to a stabilized advertising budget of 20% of sales.

Risk Assessment

We believe that there are many risk based decisions to be made about “Oats-on-the-Run” before this product moves into full production. Specifically, we believe there are three major risks that must be absolved before “Oats on the Run” becomes a viable product.

Heating Element Cost and Sourcing

Currently, we have found a number of consumer products worldwide that are using safe, viable heating elements within their product design (see Appendix 7). However, at this time, we have been unable to negotiate pricing and quantity levels with any of the current element producers. We believe that there are two main risks involved. First, we must be able to purchase the heating elements for a very low cost. Second, we need to be able to either create a long-term commitment contract with one supplier or find multiple supplier sources to insure constant production.

Cost of Bowl / Element Integration

The second major risk we see involves the product integration of the bowl and heating element. We do not currently have the production capability to do this work, and as such, need to outsource. Again, major risks involve finding low cost producers and either locking one producer into a long-term commitment contract or finding multiple producers to insure constant production.

Heating Element and Heat Safely Contained

Keeping the heating element contained from the oatmeal product and insuring that the heat dissipates into the bowl rather than away to the outside of the bowl is our third risk. While we understand that other consumer products have already conquered these problems and that they will be solvable, we realize that at this point we have no intimate experience with this technology, and as such, have a product liability risk that must be resolved.

We also believe that there are a number of minor risk questions that must be resolved to complete the project design and development. The table below addresses these high priority issues that we believe face “Oats-on-the-Run”.



Product Issue	Key Assumption	Potential Risk	Decision Criteria	Alternate Decision
<u>PACKAGING²</u>				
Bowl dimensions of 4" user friendly	Test market groups approve bowl at 4" round by 3" deep	Consumers do not like small, deep bowls.	Test other sizes 4" x 4"; 5" x 4 " 5" x 3"	Change bowl design based on consumer preference
Heating element throughout bowl	Manufacturing can integrate element throughout bowl	Too costly to manufacture or outsource	Evaluate cost and benefit of quicker heating	Change design to element on bottom only
Liquid separation issue	Packaged such that liquid on bottom, oats on top	Packaging defective and product mixes before use	Can we create packaging to successfully separate ingredients?	Separate pouch for dry oats - OR - pre-mixed and ready to heat
'Easy to use' pour spout	Consumers wish to have a pour spout option	1) Spillage 2) Consumers dislike spout	Questionnaire for spout acceptance and move to test market if successful	Remove spout from bowl design.
<u>CONTENTS</u>				
Pasteurized / homogenized milk unacceptable to U.S. consumers	U.S. consumers will accept a warm, shelf stable milk product	Consumers won't buy milk product line	Questionnaire and test market for preferences	Remove milk line if unsuccessful
Serving size	Customer wish to have more volume than in pre-packaged instant oatmeal	2oz. too much, or 1oz. too little	Questionnaire people with their current oatmeal serving sizes	Restructure packaging to reduce/enlarge quantity
Consistency	Consumers wish to have a creamy consistency	Consumers wish to have either : 1) thicker such that it won't spill 2) more runny to pour	Test market, as questionnaire will not accurately convey consistency	Highly De-emphasize product texture / consistency
<u>SALES VOLUME</u>				
5% increase in oatmeal volume	Some growth due to cannibalization from segments other than oatmeal / hot cereals	Overall oats sales stay flat or grow below 5%	Need to determine price point for both revenue and volume sales	Decrease price to increase sales
<u>SALES PRICE</u>				
6 Pack for \$4.99	Consumer will accept higher price because of convenience	Price point too high for repeat purchase	Need > 5% incremental growth in oatmeal	Lower price to 6 for \$3.99 or repackage at 8 for \$5.99
<u>QUALITY ISSUES</u>				
Oats and liquid separation must be stable	Need a secure environment for both water and oats before use	Cannot find cost effective design that keeps ingredients separated	Run engineering tests to validate separation techniques	* two separate packets (bad) * 'ready to eat' oatmeal just needing heat

² See Appendix 7 and 8 for additional information about other self-heating products & packaging ideas.

Product Issue	Key Assumption	Potential Risk	Decision Criteria	Alternate Decision
PRODUCTION COST				
Shelf stable milk	Shelf stable milk demanded by consumers	Shelf stable milk must costlier than water	1) Review surveys for milk only % 2) review cost of shelf stable milk	Eliminate milk based offering
Heating element must be lowest possible cost for profitability	Can element be sourced for less than \$0.30 each?	Inability for us to keep source active and price low	Research and review potential new suppliers and obtain multiple channels	GO/NOGO: Need resolution on element before project can move forward.
Integration of bowl and heating element must be lowest possible cost	Can bowl/element integration be sourced for less than \$0.20 each?	Inability for us to keep source active and price low	Research and review potential new suppliers and obtain multiple channels	GO/NOGO: Need resolution on element before project can move forward.
SAFETY ISSUES				
Heating element activator stable	Element activator initiated only when needed	Product spoilage due to premature activation	Evaluate package with engineering to best design activation switch	Activation must be premeditated at low cost to be a viable product
Heating element safely contained in bowl	Heating element contained and will not leak, soak, or permeate into bowl and product.	Element seeps and contaminates product	Run full design engineering tests to confirm bowl / element seal is stable	GO / NOGO: Cannot produce product if element is not easily contained.
Heat safely contained from consumer	Heat reflects into bowl rather than away toward consumer	Excess heat away from product could warm bowl enough to scald consumer	Run full design engineering tests to confirm bowl outer surface cannot attain a temperature greater than 37° C	GO / NOGO: Must be able to contain outer shell heat to 37° C

Further Product Testing

While preliminary investigations show that “Oats-on-the-Run” will be received very favorably, we realize that our current target population and our present testing sample size vary considerably. To that end, we wish to focus further product research through consumer testing in two arenas. First, we will use consumer focus groups to determine product qualities such as serving size, bowl dimensions, necessity or request of a pour spout, liquid / solid separation vs. pre-mixed, and pricing points vs. perceived product quality and value. These focus groups will be run both in malls, with a focus on mothers with children, and by call-in, focusing toward on the go professionals. We will have differing product packaging designs on display, and discuss consumer preferences toward the actual consumption product.

Second, we will further refine our product using consumer in-field testing (i.e. limited test-markets). Our testing here will validate consumer interest, purchasing patterns, as well as perceptions about serving size, consistency, ingredients (shelf stable milk vs. powdered milk flavoring vs. water), and bowl warming issues. These tests will include full scale, small batch, first run production product, and be conducted at actual points of consumption. This will include to arenas: both in homes and in commuter (train stations, etc.) facilities.

Financials



The table below shows the pro forma financial statement for the product down to the contribution margin that this product will contribute to Quaker Oats. The assumptions for the model can be found in the appendix. We feel that given the size of the potential market, the established distribution channels, and the Quaker Oats brand, these projections are conservative. We have the benefit of reams of data including current and historical velocity figures for other oatmeal products. A sales growth average of approximately 6.5% per annum over the period is in line with historical results.

(in thousands)					
	Year 1	Year 2	Year 3	Year 4	Year 5
Net Sales	\$88,157	\$93,479	\$98,802	\$114,558	\$121,146
Product Cost	11,130	12,156	13,234	14,365	15,647
Packaging Cost	<u>15,476</u>	<u>16,903</u>	<u>18,401</u>	<u>19,974</u>	<u>21,757</u>
Cost of Goods Sold	<u>26,606</u>	<u>29,059</u>	<u>31,635</u>	<u>34,339</u>	<u>37,403</u>
Gross Margin	61,551	64,421	67,167	80,219	83,743
Less: Cannibalization Effect	<u>30,775</u>	<u>32,210</u>	<u>33,584</u>	<u>40,109</u>	<u>41,871</u>
Effective Gross Margin	30,775	32,210	33,584	40,109	41,871
Advertising & Promotion	22,416	18,696	19,760	22,912	24,229
Other Direct Expenses	<u>8,816</u>	<u>6,544</u>	<u>6,916</u>	<u>8,019</u>	<u>8,480</u>
Total Direct Expenses	<u>31,231</u>	<u>25,239</u>	<u>26,677</u>	<u>30,931</u>	<u>32,709</u>
Contribution Margin	<u>(\$456)</u>	<u>\$6,971</u>	<u>\$6,907</u>	<u>\$9,179</u>	<u>\$9,162</u>
<i>See assumptions in Appendix 5</i>					

Project Timeline and more

In terms of going from need identification, (which we have already done), to launch, we are envisioning something similar to a "fuzzy" gate system. While we have a projected timeline for the different stages, (see table below), with an expected order in which things should take place, these are not necessarily all really separate stages, or definite time allotments, but instead somewhat overlapping and interlinked. This does mean, for example, that we would like product development and testing to be correlated with one another, improving cross-functional communication and helping to better define "Oats-on-the-Run", i.e. through a more market oriented approach³.

Furthermore, we are hoping to be able to expedite the getting to market process, by encouraging simultaneous and parallel processing where possible, thus decreasing the overall cycle time. Again, examples of this may be marketing beginning to develop the PR campaign while the product is still under development, as well as generally employing cross-functional teams where possible. Part of this will include recruiting leading employees from throughout Quaker and getting management support from the highest levels of the organization.

Lastly, we may also introduce new unconventional motivation and compensation plans to promote innovativeness and unconventional approaches, in an otherwise very traditional company. Even without this, we intend to build on some of the best practices Quaker Oats has acquired over the many years of its existence, thus taking advantage of the best of both worlds, experience and "fiction".

³ Bus369, Lecture Notes, Class 3, Art Middlebrooks, Summer 1998



<u>"Time"</u>	<u>Action Description</u>	<u>Responsibility of:</u>	<u>Comments</u>
1 month	Complete prototypes for internal testing	R&D	
2 weeks	Run internal testing to choose best prototypes for in-home test	Marketing/R&D	Choose two for in-home test.
3 months	Administer in-home testing of prototypes	Market Research	3 months to get results
1 month	Incorporate consumer results into final product	R&D	
3 months	Run test market	Marketing/Sales	
1 month	Read results of test market and make any changes	Market Research/ Marketing	Go / No-Go decision point
1 month	Launch product in full market if decision is to go ahead with product.	Marketing/Sales	
On-going	Continue to monitor success of product in market	Marketing/Sales	

Summary / Conclusion

"Oats-on-the-Run" fills a clearly identified niche in the market. The problems customers described with existing oatmeal offerings demonstrated that there is tremendous potential for a simpler and faster to use product. "Oats-on-the-Run" is just that and more. It fills a requisite role in terms of existing Quaker businesses and an opportunistic role in terms of the snack market, among other things. Volume growth is anticipated from sales to existing consumers, as well new customers, (e.g. from people on the run, who previously did not find the time to prepare an oatmeal breakfast). Additionally, there is long term potential to position this product to other segments and for other uses, such as for camping, as suggested by at least two survey participants. This in turn could be a launch pad for Quaker Oats to diversify into other business areas. Furthermore, the market for self-heating products is currently in an expansionary phase⁴, suggesting that there may be some early-mover advantages for Quaker by launching sooner, rather than later. Based on primary and secondary research conducted, we anticipate good market acceptance with a calculable risk. The strategic and financial goals, as well as assumptions made as part of our analysis were conservative, and sufficient leverage was built into the communication plan to support an aggressive advertising and public relations campaign. Moreover, the long term strategic plans with contingencies for varying scenarios, in addition to on-going developments ensuring close contact with the target audience should be critical to the success of the product. Lastly, the untraditional market processes and cross-functional teams described above, in combination with Quaker Oat's existing best practices should help make "Oats-on-the-Run" a well-deserved success.

⁴ Ontro, Natural Thermic Technologies, <http://hedge-hog.com/bbs/messages/379.html>



APPENDIX 1 - QUESTIONNAIRE⁵

PRODUCT BACKGROUND:

INTRODUCING NEW QUAKER INSTANT OATMEAL IN A SELF-HEATING BOWL!

You will love the convenience of a hot breakfast on the go!

Life can get crazy in the mornings: the kids, the dog, the husband/wife, the dishes, the train schedule...

There isn't always time to sit down to a hot breakfast, so you settle for a cup of coffee at the office or a slice of cold pizza left over from last night. Wouldn't you like to eat a warm, healthy breakfast and still get to work on time?

Now you can! New Quaker Instant Oatmeal comes in a self-heating bowl! Nothing is easier to prepare in the morning than grabbing a package of oatmeal as you leave the house, shaking the bowl to start the heating action, enjoying a hot bowl of oatmeal on the train or in the car, and throwing away the container. It even comes with a plastic spoon attached! No mess, No fuss, No dishes! The heating material in the bowl is separate from the food and completely safe. In addition, New Quaker Instant Oatmeal has the same great nutritional content as regular oatmeal.

On your next busy morning, try New Quaker Instant Oatmeal in the self-heating bowl! Nothing is more convenient!

Available in Apples & Cinnamon, Maple & Brown Sugar, & Raisins Dates & Walnuts.
Suggested retail price: 6 pack = \$3.99

QUESTIONNAIRE:

Are you currently an instant oatmeal consumer?

☐ Yes.

If yes, what is your favorite flavor?

How often do you currently eat oatmeal per week/month?

☐ No.

If no, have you ever tried instant oatmeal? ☐ Yes ☐ No

If you are currently an oatmeal consumer, do you

☐ Eat it with MILK

☐ Eat it with WATER

☐ add additional ☐ sugar, ☐ other sweetener

☐ typically add anything to your instant oatmeal besides the required milk/water?

If yes, what?

Would you like the option of either

☐ Milk

☐ Water

☐ Both

⁵ Survey was distributed via Email to existing full-time and part-time GSB students, faculty, as well as alumni via Email. 31 replies were received back. Questionnaire results can be found in Appendix 2.



Would you be discouraged from purchasing this product if refrigeration was required?

- ☐ Yes
☐ No

Would you use this new product ☐ IN ADDITION TO, or ☐ INSTEAD OF:

- ☐ - other oatmeal products
☐ - bagels / breakfast sandwich
☐ - cold cereals?

What time of day / for what meal do you typically eat your instant oatmeal?

- ☐ Breakfast
☐ Lunch
☐ Dinner
☐ Snack

Where would you use the bowl product?

- ☐ * in the car?
☐ * at the office?
☐ * on the train/cab?
☐ * on the run?
☐ * seated at your kitchen table?
☐ * other _____

If you are eating your oatmeal on the run, would you prefer that it be
☐ packaged thinner so that you can effectively "drink" it out of the cup,
without having to worry about a spoon?

☐ In a bowl ☐ with a spoon, or ☐ without a spoon?

If served in a bowl, how large would you envision the ideal bowl (diameter in inches):

- ☐ * 3 inches
☐ * 4 inches
☐ * 5 inches
☐ * 6 inches

Would you prefer:

- ☐ a round bowl
☐ square bowl
☐ other _____

Which spoon design would be more beneficial to you?

- ☐ * teaspoon
☐ * tablespoon
☐ * soup spoon

To prepare the product for consumption, the heating element will warm the contents and the bowl. What are your thoughts about a warm bowl?

- ☐ * I like the thought of feeling the warm bowl in my hand
☐ * I do not wish to feel warmth from the bowl / I am afraid of burning myself
☐ * Other _____
☐ * No comment / thoughts

How often do you believe you would use this new product?

- ☐ * 4-5 x week
☐ * 2-3 x week
☐ * 1 x week
☐ * 1-2 x month
☐ * Other _____



Do you prefer traditional flavors of oatmeal, or would you like to try some bolder flavors?

- ☐ No
☐ Yes - Which ones? _____

Would you prefer:

- ☐ more fruit in your oatmeal?
☐ less fruit in your oatmeal?

Do you prefer:

- ☐ small chunks of fruit in your oatmeal?
☐ big chunks of fruit in your oatmeal?

Is the typical serving size of Quaker Oats instant oatmeal "packet"...

- ☐ sufficient for your purposes?
☐ Insufficient and you would you prefer a bigger package?

If you would prefer bigger, how much bigger

- ☐ 25% bigger
☐ 50% bigger
☐ 75% bigger
☐ 100% bigger
☐ Other _____

Which of the following do you usually have to accompany your oatmeal?

- ☐ Juice
☐ Milk
☐ Other beverage
☐ Fruit
☐ Pastry or Baked Good
☐ Eggs
☐ Pancakes / Waffles / etc.
☐ Nothing
☐ Other _____

Would you prefer:

- ☐ Single Packs
☐ Six-Packs
☐ Other _____

Lastly, what are your thoughts on pricing for this product? Would you purchase this product, if it was priced at... (please tick the maximum applicable amount):

- ☐ Suggested retail price: 6 pack = \$2.99
☐ Suggested retail price: 6 pack = \$3.99
☐ Suggested retail price: 6 pack = \$4.99
☐ Suggested retail price: 6 pack = \$5.99
☐ Suggested retail price: 6 pack = \$6.99
☐ Suggested retail price: 6 pack = \$7.99

THANK YOU for your time and help!
Please email your completed questionnaire back to sslawski@nito-usa.com.



APPENDIX 2 (a) - Questionnaire Results

	<u>YES</u>	<u>NO</u>	<u>Total # people</u>
Eat Oatmeal	18	13	31
<u>Favorite Flavors:</u>			
Maple & Brown Sugar	8		8
Cinnamon & Spice	1		1
Plain	2		2
Apple Cinnamon	3		3
Raisins & Spice	3		3
Currently eat Oatmeal >1 / week	8		8
Currently eat Oatmeal 1>5 / week (*many often only in winter!)	7		7
Currently eat Oatmeal <5 / week			0
Eat with Milk	15		15
Eat with Water	14		14
Add Sugar	3		3
Add Sweetener	1		1
Add nothing	2		2
Typically add other....	Butter	Raisins	
Want option of Milk	5		5
Want option of Water	5		5
Want Both	12		12
Refrigeration Discouraging	15	14	
IN ADDITION to other oatmeal products	11		11
IN ADDITION to bagels/sandwich	13		13
IN ADDITION to cold cereals	11		11
INSTEAD of other oatmeal products	4		4
INSTEAD of bagels/sandwich	4		4
INSTEAD of cold cereals	1		1
Typically eat for BREAKFAST	23		23
Typically eat for LUNCH			0
Typically eat for DINNER	1		1
Typically eat for SNACK	6		6
			0
Will use in car	5		5
Will use in office	20		20
Will use in train/cab	6		6
Will use on the run	9		9
Will use seated at kitchen table	11		11
Other	Camping Carry around house getting ready	Prob. Wouldn't use May be for Camping	
Prefer in drink-type package	3		3
Bowl with spoon	21		21
Bowl without spoon			0
3" bowl	4		4
4" bowl	16		16
5" bowl	5		5
6" bowl	4		4
7" bowl			0



Round Bowl	24		24
Square Bowl	2		2
Other			0
Teaspoon	9		9
Tablespoon	12		12
Soup spoon	8		8
Like thought of feeling hot bowl	12	11	
Other	"Sounds scary"	"Worried about chemicals in heating pack"	"As long as it does not burn, warm is good"
Expect to use product 4-5 x per week			0
Expect to use product 2-3 x per week	6		6
Expect to use product 1 x per week	3		2
Expect to use product 1-2 x per month	12		12
Other	8		8
Traditional Flavor	24	5	28
Other Flavor...	Raisin, Date		
More fruit	20		20
Less fruit	5		5
Small fruit chunks	18		18
Big chunks	7		7
Typical size sufficient	10	17	
Prefer 25% bigger	2		2
50% Bigger	10		10
75% Bigger	1		1
100% Bigger	3		3
Other	200%		1
Usually have JUICE with Oatmeal	15		15
Usually have MILK with Oatmeal	11		11
Usually have OTHER BEVERAGE with Oatmeal	6		6
Usually have FRUIT with Oatmeal	6		6
Usually have PASTRY/BAKED GOOD with Oatmeal	2		2
Usually have EGGS with Oatmeal	2		2
Usually have PANCAKES/WAFFLES with Oatmeal			0
Usually have NOTHING with Oatmeal	2		2
Usually have OTHER with Oatmeal			0
Single Pack Preferred	9		9
6-Pack Preferred	23		23
			0
Suggested retail price: 6 pack = \$2.99	6		6
Suggested retail price: 6 pack = \$3.99	13		13
Suggested retail price: 6 pack = \$4.99	8		8
Suggested retail price: 6 pack = \$5.99	2		2
Suggested retail price: 6 pack = \$6.99			0

COMMENTS:

"Don't like warm cup. Do not want to burn myself"

"Most people probably happy with cold cup of cereal on the run"

"Good for Camping"

"Worried about chemicals in heating package"



APPENDIX 2 (b) - Key Customer Insights:

(Based on preceding survey)

- There is increased instant oatmeal consumption during the winter months
- The favorite flavors currently are Maple & Brown Sugar, Apple Cinnamon & Plain
- There is an equal division of customers eating oatmeal with milk or water, though most instant oatmeal customers seem to prefer water
- Customers have generally expressed an interest in having both milk and water available
- There is indication that the new product would not cannibalize existing oatmeal sales, but that customers would generally use this product in addition to other oatmeal products, bagels/sandwiches and other cold cereals
- The vast majority of customers surveyed eat oatmeal for breakfast, though there are some "snackers"
- Most anticipate consuming the new product in the office, though there is a fair division between other "on-the run" eaters and those looking to consume seated at the kitchen table
- At least 2 surveyed customers indicated that this may be a good camping product
- Most customers prefer a round bowl with a tablespoon (larger type spoon), approximately 4" in diameter (some preferring an even larger bowl)
- There is an equal split between customers who like the feel of the hot bowl and those who do not
- Most expect to use this product once per week
- Most people are happy with the traditional flavors
- Most customers want more fruit, preferable in small chunks
- The great majority of customer surveyed find the current serving size insufficient, looking for at least a 50% or more increase in the serving size
- Many customers typically have juice or milk accompanying their oatmeal, though fruit or a pastry/baked good are also common
- Given the choice between single packs and six-packs, the vast majority prefer six-packs
- Customers generally indicated a willingness to pay \$3.99, though \$4.99 and even \$5.99 were found to be acceptable



APPENDIX 3

Feasibility Assessment:

Product Description:	Each package of "Oats on the Run" comes with 2oz of ready prepared oatmeal. The consumer activates the heating action on the container and is able to enjoy hot Quaker instant oatmeal in a few minutes.
Key Communication Message:	Now it is so convenient to have a hot bowl of oatmeal for breakfast, even if you are short on time. Ready-prepared oatmeal in self-heating bowl, this new product is great for busy commuters or moms who are in a hurry but still want to give their kids a hot breakfast.
Packaging:	Oatmeal in individual serving size packages. New technology used to design a package that has heating abilities that can be activated on demand and maintains heat for up to 60 minutes. Packaging must be easy to use and easy to open, in keeping with the message of convenience.
Pricing:	Does not need to be line-priced with current product. Our initial research indicates that pricing could be as high as \$4.99 for a 6-pack. Additional consumer testing with prototype will indicate further boundaries.

APPENDIX 4

Financials

(in thousands)					
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Net Sales	\$88,157	\$93,479	\$98,802	\$114,558	\$121,146
Product Cost	11,130	12,156	13,234	14,365	15,647
Packaging Cost	<u>15,476</u>	<u>16,903</u>	<u>18,401</u>	<u>19,974</u>	<u>21,757</u>
Cost of Goods Sold	<u>26,606</u>	<u>29,059</u>	<u>31,635</u>	<u>34,339</u>	<u>37,403</u>
Gross Margin	61,551	64,421	67,167	80,219	83,743
Less: Cannibalization Effect	<u>30,775</u>	<u>32,210</u>	<u>33,584</u>	<u>40,109</u>	<u>41,871</u>
Effective Gross Margin	30,775	32,210	33,584	40,109	41,871
Advertising & Promo	22,416	18,696	19,760	22,912	24,229
Other Direct Expenses	<u>8,816</u>	<u>6,544</u>	<u>6,916</u>	<u>8,019</u>	<u>8,480</u>
Total Direct Expenses	<u>31,231</u>	<u>25,239</u>	<u>26,677</u>	<u>30,931</u>	<u>32,709</u>
Contribution Margin	<u>(\$456)</u>	<u>\$6,971</u>	<u>\$6,907</u>	<u>\$9,179</u>	<u>\$9,162</u>
See assumptions in Appendix 5					



APPENDIX 5

Assumptions

Key financial assumptions					
	Year 1	Year 2	Year 3	Year 4	Year 5
Growth Factor	1.00	1.03	1.03	1.03	1.03
% of stores selling product:	60%	60%	60%	60%	60%
Attrition from current line:	50%	50%	50%	50%	50%
Ingredient Cost per pound:	\$0.70	\$0.72	\$0.74	\$0.76	\$0.79
Packaging / Case	\$8.76	\$9.02	\$9.29	\$9.57	\$9.86
Velocity Index ⁶ :					
<i>Maple Brown Sugar</i>	136	144	152	160	169
<i>Apple Cinnamon</i>	63	67	71	75	79
<i>Regular</i>	66	70	74	78	83
Pounds Sold (velocity x % of stores selling)	15,900	16,860	17,820	18,780	19,860
Calculation of Sales					
Suggested retail price per unit	\$4.99	\$4.99	\$4.99	\$5.49	\$5.49
Retail margin	20%	20%	20%	20%	20%
Unit price to retailers	\$4.16	\$4.16	\$4.16	\$4.58	\$4.58
Units in case	12.00	12.00	12.00	12.00	12.00
Case price	\$49.90	\$49.90	\$49.90	\$54.90	\$54.90
Pounds per case	9.00	9.00	9.00	9.00	9.00
Sales price per pound	\$5.54	\$5.54	\$5.54	\$6.10	\$6.10
Summary:					
Price / Case	\$49.90	\$49.90	\$49.90	\$54.90	\$54.90
Cost / Case					
Ingredients	6.30	6.49	6.68	6.88	7.09
Packaging	8.76	9.02	9.29	9.57	9.86
Total Cost / Case	\$15.06	\$15.51	\$15.98	\$16.46	\$16.95
Advertising % Sales	NA	20%	20%	20%	20%
Trade Sales Ratio	10%	NA	NA	NA	NA
Advertising & Marketing Budget (millions):					
TV		\$3.70	(includes airtime + production of spot)		
Radio		2.0			
Print		2.0			
Coupons:		1.3	(Sunday paper inserts)		
Package design		0.2	(what label will look like)		
Sampling of product		0.4	(if we want to)		
Development		0.4	(both product and package development)		
Slotting fee		3.6	(fee to grocers to get on shelf)		
		\$13.60			

⁶ Velocity is defined as Total Pounds Sold/ Percent of Stores Selling (PSS). It is a measure of how quickly a particular product moves off the grocery store shelf. This index can be used to track one SKUs velocity over time, or to compare velocities with other SKUs, or in forecasting volume. We have used this measure for forecasting, by assuming that the velocity would be the same (eventually by year 5) for each flavor but the PSS would be less.



APPENDIX 6

AC NIELSEN DATA FOR INSTANT OATMEAL FOR 1997 TOTAL US (STORES OVER \$2 MILLION IN SALES)

Nielsen doesn't capture all sales, gross up volume by 6%

	Lb Vol (000)	\$ Vol (000)	Prc per Unit	Average % of Stores Selling	Velocity
<u>TTL INSTANT OATMEAL CATEGORY</u>					
C'97 Q1	34,105	\$102,082	\$2.47	100%	
C'97 Q2	19,480	\$62,286	\$2.64	100%	
C'97 Q3	22,448	\$67,848	\$2.50	100%	
C'97 Q4	32,610	\$98,692	\$2.49	100%	
Cal 1997	108,642	\$330,909	\$2.51	100%	
<u>TTL QKR INSTANT HOT</u>					
C'97 Q1	24,110	\$79,382	\$2.74	100%	
C'97 Q2	12,888	\$46,386	\$3.01	100%	
C'97 Q3	16,278	\$53,136	\$2.73	100%	
C'97 Q4	23,105	\$76,875	\$2.77	100%	
Cal 1997	76,381	\$255,779	\$2.79	100%	
<u>TTL QKR MAPLE&BROWN SUGAR</u>					
C'97 Q1	4,928	\$14,284	\$2.74	97%	
C'97 Q2	2,775	\$8,870	\$3.02	96%	
C'97 Q3	3,561	\$10,174	\$2.70	96%	
C'97 Q4	5,089	\$14,929	\$2.77	98%	
Cal 1997	16,353	\$48,258	\$2.78	97%	169
<u>TTL QKR FLV VARIETY PACK</u>					
C'97 Q1	2,805	\$9,253	\$2.70	95%	
C'97 Q2	1,357	\$5,009	\$3.02	93%	
C'97 Q3	2,014	\$6,554	\$2.66	93%	
C'97 Q4	2,971	\$9,971	\$2.75	95%	
Cal 1997	9,147	\$30,787	\$2.76	94%	97
<u>TTL QKR REGULAR FLAVOR</u>					
C'97 Q1	2,357	\$8,928	\$2.79	96%	
C'97 Q2	1,520	\$6,259	\$3.04	95%	
C'97 Q3	1,729	\$6,507	\$2.78	95%	
C'97 Q4	2,302	\$8,785	\$2.81	97%	
Cal 1997	7,909	\$30,479	\$2.84	96%	83
<u>TTL QKR APPLE&CINNAMON</u>					
C'97 Q1	2,323	\$8,125	\$2.69	95%	
C'97 Q2	1,116	\$4,372	\$3.01	92%	
C'97 Q3	1,583	\$5,433	\$2.64	92%	
C'97 Q4	2,346	\$8,316	\$2.72	96%	
Cal 1997	7,369	\$26,247	\$2.74	94%	79



APPENDIX 7

Examples Other self-heating Products



ONTRO: "This Company has invented a revolutionary new product called an Integrated Thermal Container. They have designed self-heating beverage containers designed to heat liquid contents such as coffee, tea, hot chocolate, soups, and baby formula. You simply pop the top, wait five minutes, and you drink a hot beverage." For more information about this packaging option, please see: <http://hedge-hog.com/bbs/messages/379.html>



A gradual exothermic reaction takes place at the instigation of the consumer who uses the perforating device attached to the tin. Reactive products are sealed in a completely safe and hermetic fashion in the annular chamber surrounding the food. Once this reaction has been set in motion, the food is heated (65°C) and retains its heat for a full 60 minutes. For more information about Hotcan, please see: <http://www.hotcan.com/hotcan/about.html>



The above picture shows an example of a Japanese "lunch box", which has, in fact, a self-heating element. The Japanese have long been using the self-heating technology. In fact, self-heating foods started with Hot Sake (Japanese rice wine) more than 10 years ago, with a product called "One Cup Sake". In addition, the technology was expanded to lunch boxes, such as the one shown above.

APPENDIX 8

Possible Packaging Idea:



One possible packaging option is to have the oatmeal on one side and either water or milk on the other side of the plastic container, such as shown above. The self-heating device could be either on the bottom, or on the side of the oatmeal half. Alternatively, the packaging might be more similar to the Hotcan product shown earlier, which would be a can surrounding to the actual oatmeal. In terms of activating the self-heater, there are two possible options. Firstly, there may be an automatic activation, resulting from the opening of the product. More specifically, this may be through either bending the milk/water half and pouring it over the oatmeal (similar to the yogurt example shown above). Alternatively the heating process may be activated by pressing a button, such as is the case with products similar to the hot coffee can shown on the preceding page.

