**Buying & Merchandising**

**OPERATIONS RESEARCH EVENT**

**Nutella**

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1. **Executive Summary**

 Through our research, we found that many people are quite satisfied with the current status of Nutella. However, there are a significant amount of people who do not like Nutella. The main reason these people do not like Nutella is because of the flavor. We felt that new flavors would be a great addition to the already well-received original flavor of Nutella. Vanilla, peanut butter, and caramel flavors would resonate well with people who do not like Nutella. It is a very rare occurrence when somebody does not like at least one of these flavors. We will change the label as well to appeal to people with a “winning” attitude by adding stars to the label as well as changing the colors. Advertising these new changes by implementing social media promotions and producing a commercial with Brad Pitt and Angelina Jolie will solidify the idea of new flavors in the consumers’ minds. The changes are not necessary to keep the Nutella brand successful, but they are necessary if Nutella wants to majorly increase its market share.

1. **Introduction**
2. **Description of the business or organization.**

Nutella was first developed in 1940. The product was invented by Mr. Pietro Ferrero, who was employed by a patisserie. A patisserie is a type of French bakery that specializes in pastries
and sweets. Ferrero later went on to found his own company, named Ferrero Rocher. The company is in the food business. Their mission statement is as follows: **High quality, crafted precision, product freshness, careful selection of the finest raw materials, respect and consideration for our customers.**When Ferrero invented Nutella, Italy was embattled in WWII. Cocoa was in short supply. As a replacement for cocoa beans, Ferrero used toasted hazelnuts with cocoa butter & vegetable oils and created 'Pasta Gianduja'. Pasta Gianduja was eventually renamed Nutella. Six years later, Ferrero Rocherwas officially recognized by the Italian Department of Commerce. Ferrero Rocherwent on to launce the brands Tic Tac, Nutella, and Kinder Chocolates. In the years that followed, Ferrero Rocher focused on high quality chocolates. Nutella was brought to the United States in 1983. The U.S. was chosen because of its large population, giving Nutellaaccess to a bigger target market and an opportunity for a large increase in sales. Production for the U.S.and entire North American market occurs at a plant in Brantford, Ontario in Canada. It is because of this that the product was first distributed to the Northeastern part of the U.S, before defusing to the rest of the country.Nutella had some success in the U.S. and became very popular in Italy and other European countries. Nutella sales are currently rising in both the United States and Italy, but there is room for improvement and their sales should continue to grow.

1. **Description of the community (economic, geographic, demographic and socioeconomic factors)**

The target market of Nutella is children ages 6-14 and their parents, demographically speaking. In the United States, geographically they target people in the South. As for socioeconomic Nutella targets larger families with young children. The main distribution channel is through airways because Ferrero Rocher’s headquarters is located in Italy. Currently the United States is coming out of a recession and is on the upswing. With the correct marketing plan and strategies, Nutella can become very big in North Carolina. We can use North Carolina’s tourist attractions such as Nascar, Blue Ridge Parkway, and the Wright Brothers Museum as key places to advertise our new Nutella brand. This will help us gain new customers and their business.

1. **Description of the business or organization’s mission, target market and existing branding efforts**

The mission statement of FerreroRocher includes wanting to introduce the wonders of Nutella to the U.S. population. Nutella is unique in its quality ingredients and taste and Ferrero wants the U.S. to love it as much as Italy has in the past. The mission statement of Nutella demonstrates that the product has been a large success in its home country of Italy, and they believe that it will be a success in the United States. The various advertisements for Nutella in the United States currently show that Ferrero is keeping its word regarding the introduction of the product to the U.S. masses. Nutella’s secondary goal is to become the leading general breakfast spread in the U.S.

 The target market is parents of young children. Young children often do not want to eat a balanced breakfast in the mornings and Nutella capitalizes on this. They have targeted their marketing efforts toward displaying Nutella as a way to make healthy, non-appetizing meals into delicious and appealing nutrition. The hazelnut spread is advertised as being a good way to make bagels, toast, and English muffins appealing to young children who often won’t eat the balanced breakfast set before them.

 The Nutella brand is distinctive. The black and red color scheme for the logo is a color scheme often used, but the black “N” and the red “utella” sets it apart. Nutella has been getting increased promotion throughout the years, with Kobe Bryant being featured on the jars including his favorite recipe. The brand also got a good amount of promotion from their product being provided in sample sizes for the 1998 “Got Milk?” campaign. The target market is not restricted to parents of young children. This is simply a focus for the company. The spectrum of potential buyers is very broad, they do not have to rely on one small market. Their marketing mix includes a promotional trial pack shaped like a squirrel (to emphasize the hazelnuts), a 5% larger jar than other competitive spreads, the initiation of recycling programs, and the introduction of various new products in the Nutella line. These new products are peanut butter-Nutella swirls and Nutella bars for on-the-go consumers. The sales approaches for Nutella are simple and precise. The company has a slightly larger sized container than competitors, has a small combination of unique ingredients, and is marketed as a spread for almost anything. Nutella samples have increased product sales by up to 75%, and the brand continues using the “the taste sells itself” method of advertisement. Commercials for Nutella have been recently shown on television, being advertised as a simple way to make a good breakfast even better.

1. **RESEARCH METHODS USED IN THE STUDY**
	1. **Description and rationale of research methodologies selected to conduct the research study**

For our primary research method, we used a survey that outlines whether participants bought, liked, and thought the product needs improvement. My partner and I decided to choose a survey for the primary research method because we wanted to get a wide range of opinions from different types of people. This would not be possible with a focus group, interview, or observation. A picture of the survey can be found below.

**Nutella Survey**

1. **How often do you buy Nutella products?**

Never Rarely Sometimes Often Whenever I run out

1. **Where do you buy Nutella?**

 Grocery stores Supermarkets Online retailers

1. **Do you think that the price of Nutella is acceptable?** Yes No
2. **Have you ever tried Nutella products?** Yes No
3. **Do you only eat Nutella for breakfast?** Yes No
4. **Do you consider Nutella to be healthy for you?** Yes No

**For questions 7 and 8 please answer 1-10, 10 being the highest, 1 the lowest.**

1. **What would you rate the taste of Nutella? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**
2. **What would you rate the packaging of Nutella products? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**
3. **What is one change you would like to see happen to Nutella?**
4. **What age group best describes you?**

 0-10 11-20 21-30 31-40 41-50 Over 50

We chose to use this survey because it covers all aspects of the Nutella brand while still keeping the questions concise. We wanted to find out what every day customers thought of Nutella and if they hadn’t bought Nutella before why that was. This quick survey gives us all the answers we desire while not taking up too much of the participant’s time.

# One of our secondary resources was an article entitled Heads up about Nutella- European vs. US versionon chow.com. A customer noticed a substantial price difference between European Nutella and American Nutella of the same size. The American jar had included extra trans fat in the form of hydrogenated peanut oil. The customer was upset with this addition and actually ended up buying the European Nutella. This exemplifies the importance of health to our customers. Our other secondary resource is also an online article, this time from usbusinessexecutive.com. We were able to verify the validity of these sources through easybib.com, who confirmed they were legitimate. This site allowed us to gather some information about Nutella’s increasing market share and sales. This past year(2012) retail current value sales within the US spreads market increased by 4 percent and retail volume sales increased by 1 percent.Chocolate spreads represented the fastest-growing spread category in 2012, with a commanding 13% growth in retail sales, reaching US$252 million. Parallel to the market’s growth Nutella’s retail sales jumped up a staggering 12 percent. This shows that there is an increase in Nutella’s sales, but it is still not at the profitability level Nutella achieved in Italy.

* 1. **Process used to conduct the selected research methods**

We used random sampling in Harris Teeter and Target to gather info about customers. We visited Harris Teeter in the Arboretum, Charlotte, North Carolina at 2p.m. on a Saturday afternoon and stayed for a half hour.We chose Harris Teeter because Nutella is sold mainly in supermarkets. We chose this specific store because it is always busy and we knew we could find people to survey. Going at 8 p.m. on a Saturday and standing at the checkout line assured that we received results from adults who were buying products, not just in the store. Most people were in a hurry so we offered to bag groceries for them as they took the survey. We found that many of the people in the store at that time had previously bought Nutella products. The sample size was ten people who were willing to take the survey at the time. We surveyed ten people between the ages of 11 and 50. Five were between the ages of 11 and 20, and the other five were between the ages of 31-50. We selected people that were at the checkout line waiting to be served, and let the participants choose whether they want to take the survey or not. Whether the customer was buying Nutella or not did not affect who was surveyed as it was completely random.The people inside of Harris Teeter were a good choice because Nutella is sold in grocery stores. We found that people who buy Nutella enjoy the taste the most, the consistency second, and the packaging left something to be desired. Regarding the suggestions, participants thought that Nutella should release new flavors, healthier versions of the product, and lower the cost. Following that we visited Lowes Foods at 11am to survey more people, this time a larger amount. At Target we surveyed 100 people in 2 hours with the help of some friends. The Target was located in Blakeney, Charlotte, NC. This Target is always busy and is located in a large shopping district so lots of people from different cultures were available to survey. We visited this target at 5:00pm and stayed until 6:58pm. During this time we surveyed 102 people between the ages of 8 and 65. 2 people fell into the 0-10 range, 27 between the 11-20 range, 33 between 21-30, 19 between 31-40, 14 between the ages of 41 and 50, and 7 were over 50. We followed the same surveying process that was previously used, as it seemed to work pretty well in Harris Teeter. The feedback received from Target customers was similar to the feedback we ascertained from Harris teeter customers. People enjoy the taste of classic Nutella, but something needs to be done to spice it up (figuratively).

1. **FINDINGS AND CONCLUSIONS OF THE STUDY**
	1. **Findings of the research study**

Surveying the customers in Harris Teeter produced results very helpful toward our goal for Nutella. We asked customers to rate the packaging of Nutella from 1-10. The average rating was a 5.63 and 71% of our sample scored less than or equal to a 5. This led to the conclusion that the packaging is lackluster. We also asked our sample the open ended question, “what is one improvement we could make to Nutella.” An overwhelming 86% mentioned new flavors. This question and the answers we received allowed us to deduce that the flavor of Nutella leaves something to be desired. We took these surveys into consideration heavily for this assignment. The secondary sources that we used were various articles about Nutella. We learned from these articles that Nutella has never changed up the flavors or the packaging, which is a good indicator that the survey takers were right. We also learned the spread market is expanding which makes this the perfect time to try something new with Nutella.

* 1. **Conclusions based on the findings**

Based on the results of the surveys, we will need to augment Nutella. A majority of the sample surveyed suggested new flavors and we took those suggestions to heart. Peanut butter, caramel, and vanilla are being considered to add as new flavors. These new flavors will be sold for two weeks under a special buy one get one free promotion. The free jar of Nutella will be one of the new flavors and will be packaged with the classic counterpart. This will ensure that the consumers try the new flavors and allow us to gain feedback on our new items. We will obtain this feedback through the customers that chose to return a 1 question survey included in the packaging. The question is “did you like this flavor.” Then all the customer has to do is check yes or no and return it upon their next visit. The two most popular flavors will be made permanent after more testing and tweaking. The least popular flavor will be abandoned. The packaging will also be redone to make Nutella stand out more and attract the customer’s attention. The current packaging is too bland and our research supports this statement. The White strip on Nutella will be changed to black and will add yellow stars on each side of “Nutella.” We chose the color black because it carries with it a prestigious connotation. Yellow was chosen to convey happiness and eagerness to be a good product. Below is the new Labeling we have designed.



1. **PROPOSED REBRANDING PLAN**
	1. **Objectives and rationale of the proposed rebranding plan**

The objective of our rebranding of Nutella is to alter the brand to create a more versatile appeal. By “versatile appeal” we at Nutella mean a more broad market for our product. The results of our surveys and research showed that the label and flavors are the main factors that need to be changed within the Nutella brand. To appeal to a wider variety of consumers, new flavors are going to be added to the product line. Vanilla, caramel, and peanut butter flavors will be added to the line to spread the consumer appeal to those willing to try something besides the chocolate-hazelnut flavor. We will conduct blind taste-testers on the street will finalize the new flavors and increase public awareness of our rebranding. The taste testing will involve people tasting the new flavors along with the original flavor. They will be told “These spoons all contain flavors of Nutella, which one did you like the most?” The participant will answer. This series of events will affirm our new approach to marketing and how we now keep an open mind and realize that not everybody will enjoy original Nutella or, for that matter, the new flavors. This new approach will be condensed into the slogan “A flavor for every personality”. To further implement our new slogan into Nutella fans worldwide we will be shooting a commercial where Brad Pitt and Angelina Jolie. The commercial will start off with brad making himself a breakfast consisting of toast with the new vanilla flavored Nutella spread. Then Angelina will come down and have some toast with the new peanut butter spread. They will smile and then “A flavor for every personality” will appear on the sreen.The original Nutella label will be altered to show a black background, a white “n”, red “utella”, and two yellow stars next to the word on each side. This label creates a new image and evokes a sense of hunger in the reader with the yellow stars. Multiple studies, including those from weightloss.com, confirm that the colors red and yellowhave a positive correlation with appetite. The white “n” on the black background represents a smooth, dependable product that invites people to purchase it. Nutella will be transitioning to this new and improved labeled from their old mediocre label. The old label featured a white background a black n and the Nutella was in red. We will also be launching a social media campaign to increase publicity and gain awareness.

 

The first step to our rebranding efforts would be to start a social media campaign on Facebook, Tweeter, and Instagram promoting the new Nutella with special promotions and giveaways. The second step would be producing the new Nutella labels. We would need to get these new labels by January 15thto be paired with the new flavors and proceed with our rebranding of Nutella. Once the old Nutella products have been bought and are no longer in stores the first step will be complete. The next step will be producing the new finalized Nutella flavors( peanut butter, caramel, and vanilla). We will start producing these new Nutella flavors with the promotion packaging (packaging one of the new flavors with the classic hazelnut). At the same time we will be airing the Bradgelina commercials based around our new slogan. It is with these rebranding efforts that we will put the new in Newtella.

* 1. **Proposed activities and timelines**

|  |  |  |
| --- | --- | --- |
| Rebranding Effort/Step | Date | Explanation/goals |
| 1. Social media campaign
 | January 1st | We would run promotions and giveaways to promote our product to a large number of people and increase sales for a relatively low cost. |
| 1. Public Taste Test
 | January 1st-4th | To gain publicity, acquire additional customer feedback, and to show our company is open minded and wants to satisfy all the different customers we have |
| 1. Production of new label
 | January 8th | Increase brand image, awareness, and create a label that will catch customers’ eyes and thus increase sales. |
| 1. Production of finalized flavors
 | January 15th | Introduce new products and increase the depth of our product line  |
| 1. Airing of commercials
 | February 2nd | To promote our product using very popular celebrities and reach a large audience  |

1. **PROPOSED BUDGET**
	1. **Costs associated with proposed rebranding strategies**

The label change will cost us an additional 10 cents a label as black packaging is the most expensive color.The new label has no additions that cost more than the existing label. The existing labels we have already produced will be used, but the new labels will start being produced on January 1st. The social media campaign carried out on Twitter, Facebook, and Instagram will be started on January 1st. The cost will be approximately $20,000. The costs included are the payments needed to have tweets featured and the payments toward employees devoted to tweeting, posting pictures, and updating Facebook with information about the new Nutella. The commercial will cost about $200,000 to produce, including the costs of hiring Brad Pitt and Angelina Jolie. The new flavors will cost a cumulative $300,000 dollars to pay for new machines to produce the new flavors and marketing efforts. It is important to note, however, that the 100,000 dollars a flavor only accounts for a limited distribution of the product and more money would need to be invested in the future. Early estimations and calculations show that those costs will be around $50,000 each year to further distribute, maintain, and update the flavors.

* 1. **Proposed metrics to measure return on investment (ROI)**

 All of these rebranding efforts would be useless if they didn’t help the company make money. To adequately determine which methods were successful and which weren’t, we have come up with specific ways of measuring the return on investment(ROI). We believe the black label adds more to the rebrand than the cost. We will measure the return on the new labels by tracking the sales from the time we implement the labels until the next year. Wewill also pay stores to access their security films and see if our labels are at the very least grabbing customers’ attention. This is a completely original idea so there isn’t an exact cost of this today. Costs are expected to be in the $10,000- $50,000 range depending on the number of stores we use.To measure the ROI of our celebrity endorsement we will poll a core demographic to see if the Nutella brand image has risen in the minds of customers’ minds. However, we expect that not everything in a celebrity-centric deal can be evaluated using traditional metrics. It is believed the endorsement will benefit our company in a greater degree than that of what we have estimated. To measure the success of our rebranding efforts as a whole we will compare the sales from this year with the previous year, factoring in other elements that may skew the data. The goal of our investments is obviously to make a return on it. If the sales from the previous year are close to this year’s that doesn’t necessarily mean the investment didn’t succeed. As long as there is a steady growth in sales and improvement from past years, the rebranding can be considered a success.