SKU-rationalization from a customer point of view

*How H.J.Heinz should translate the Dutch consumer preferences into the Heinz Tomato Ketchup product format rationalization.*





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During the process of writing this thesis the subject kept me motivated to finish the research in the appropriate manner. Even though there were some challenges, the central research question continued to interest me and therefore I was determined to execute this assignment in the best way possible. As conducting this research was not always easy I would like to thank a few people that have helped me in creating this dissertation.

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Executive summary

Based on a survey of 162 respondents, interviews with H.J. Heinz employees and a literature review, this thesis aims to answer the question:

*‘How should H.J. Heinz translate the Dutch consumer preferences in their Heinz Tomato Ketchup product format rationalization?’*

Following a reorganization and a zero-based budgeting strategy, H.J. Heinz is planning to cut its costs by rationalizing the number of SKUs (Stock Keeping Units) across Europe. In this case, the Dutch product format portfolio is being examined. Although advised within the literature, H.J. Heinz does not take the consumer opinion into account when making decision regarding the Dutch HTK product format portfolio. The decision regarding delisting is based on hurdle rates including profits, volume and rotation of a product. However, risks of a sku-rat include losing customers, changing brand perception, losing shelf space and high write-offs. Especially these first two are key subjects of this research.

The Dutch consumer finds the product the most important marketing mix element in the decision making process when purchasing tomato ketchup. Furthermore, the reason for preference and the purchase frequency show a significant relation with the preferred product format. Therefore, the answers to these questions can be generalized on a greater scale. Thus regarding the advice of delisting product formats, the four squeeze bottles of 220ml, 300ml, 400ml and 500ml are preferred the most. As the switch is easily made from a bigger product format to a smaller one than the other way around, it is advised to delist the two large squeeze bottles of 600ml and 875ml. Furthermore, regarding the glass bottle, the 300ml glass bottle is seen as an iconic bottle for the brand H.J. Heinz, and due to this status, it is not advised to be delisted. However, the larger variant of 750ml is recommended to be delisted as it is not user friendly and least preferred by the respondents.

According to the black box model of marketing specialist Kotler (Kotler, Burton, Deans, & Armstrong, 2013) and the employees of H.J. Heinz, the characteristics of consumers have a big influence on the product format preference and the development of a product format portfolio. Therefore, it is advised to continuously consult the changing opinion of the consumer. If their opinion is not consulted, the company might delist products that have a loyal group of customers who will switch to another brand instead of switching to a different HTK product format if their preferred product format is no longer available. Therefore, it is recommended to consult the available market research to ensure customer loyalty.

Regarding the risk of write-offs, H.J. Heinz has set up a process to minimize these costs. This notion of discontinuation (NOD) process aims to collect all the necessary information regarding current stock and supplier contracts of the products that are in the bottom 20% according to the hurdle rates. This means that this notion creates an overview of all the possible write-offs and this way, limits the risk of having unexpected (high) write-offs.

Lastly, the risk of losing shelf space remains a risk as the retailer always wants to make efficient use of its shelf space and therefore discharges a product format in case it is not profitable enough. Therefore, H.J. Heinz should keep a close eye on changing consumer demand and sales data to make sure that they are able to replace a bad performing product format in time to prevent losing shelf space.

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Glossary of terms

|  |  |
| --- | --- |
| **Term** | **Explanation** |
| Sq | acronym for squeeze - product format |
| TK | Tomato ketchup |
| HTK | Heinz Tomato Ketchup |
| FMCG | Fast Moving Consumer Goods |
| SKU | Stock keeping unit |
| SPSS | Statistical computer program |
| TD | Acronym for top down – product format |
| H.J. Heinz | One of the biggest companies in the FMCG world, most famous for its tomato ketchup. |
| NOD | Notion of discontinuation |

1. Introduction

H.J Heinz B.V. is a food processing company founded in Pennsylvania. The company is most known for its main products; ketchup, pasta sauces and beans. With a market of almost 200 countries and around 45.000 employees, the company has managed to reach the number one or two market position in over 50 countries. Because of this broad market, H.J Heinz covers several other brands besides Heinz, Orlando in Spain for example, HP sauces in the United Kingdom and Honig in the Benelux. The international headquarters are still located in Pittsburgh with the European head offices in London, United Kingdom and Zeist, the Netherlands. (H.J. Heinz B.V., 2014)

In February 2013 the company was acquired by Berkshire Hathaway and 3G capital complete. This acquisition was seen as a valuable buy due to its strong brand portfolio and worldwide presence. The acquisition also led to the delisting of the company from the New York Stock Exchange. In June the delisting was complete and every shareholder had received $72,50 per share. Furthermore, Bernardo Hees was appointed as the new CEO of H.J. Heinz. With a new CEO, the privatization of H.J. Heinz and the largest food company takeover in history, the H.J. Heinz reorganization started. (H.J. Heinz B.V., 2013) (CNBC, 2013) (H.J. Heinz B.V., 2013)

# Thesis statement

The idea for the following thesis statement appeared during the introduction period of the internship within the H.J. Heinz Marketing Operations Europe team. The above mentioned reorganization is a result of the aims presented in the Annual report of 2012 to increase efficiency and productivity around the globe. (H.J. Heinz, 2012) One of the strategies of this reorganization is the zero-based budgeting (ZBB) strategy; an element of this strategy is to eliminate all the activities that are superfluous. This has led to a loss of jobs, closing factories and will lead to a product format rationalization or SKU-rationalization in the future. This rationalization will be the main subject of this thesis. Rationalization is explained by increasing the efficiency of a company or process, in this case through disposing employees and/or superfluous products. (Oxford Dictionary)

When Heinz eliminates the otiose products it will decrease their production costs and therefore increase its savings. However, Heinz decisions are based on internal data regarding NSV (net sales value) and other criteria as hurdle rates and volume. Moreover, the consumer side is not included in the final decision making when performing a product format rationalization. However, the theory advices to consult the consumer and its demand when making decisions on the future product format portfolio. Therefore the aim of this thesis is to determine the role that the opinion of the Dutch consumer could play in the SKU-rationalization based on information retrieved from interviews with employees of H.J. Heinz, a literature review and a survey focused on the opinion of the Dutch consumer regarding the current product format portfolio of Heinz Tomato Ketchup or HTK.

In order to decide on the future product portfolio of Heinz Tomato Ketchup in the Netherlands, a literature review has taken place in which the available external information on SKU-rationalization will be analyzed. Furthermore, the methodology chapter elaborates on the research and data collection method of the thesis. In the fourth chapter, the findings, the results of the survey, the interviews and the literature are displayed. A discussion and the conclusion can be found in chapter 5 in which the relevance of the thesis is discussed together with the most important results of the findings. Finally, chapter 6 contains the final recommendation for H.J. Heinz regarding the future Dutch Tomato Ketchup product format portfolio. This research regarding the situation has led to the following central research question: *‘How should H.J. Heinz translate the Dutch consumer preferences in their Heinz Tomato Ketchup product format rationalization?’*

# Sub-questions

In order to answer the thesis question, the following three sub-questions will be discussed to create a substantiated final recommendation. Moreover, the current Dutch Heinz Tomato Ketchup product format portfolio can be found on the next page to visualize the product formats that will be discussed within this thesis.

* What is the influence of the characteristics of a Dutch consumer on the HTK product format preference?
* What are the most important marketing mix components according to the Dutch consumers? And how is this opinion reflected in the product format preference?
* What will be the future risks for H.J. Heinz as a result of the product format rationalization?

# Current Dutch Heinz Tomato Ketchup product format portfolio



|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Format** | Glass Bottle | Glass Bottle | Squeeze Bottle | Squeeze Bottle |
| **Weight** | 300ml / 342 gr | 750ml / 855gr | 300ml / 342gr | 875ml |
| **Material** | Glass | Glass | PET | PET |



|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Format** | Tube | Squeeze TD | Squeeze TD | Squeeze TD | Squeeze TD |
| **Weight** | 220ml | 220ml / 250 gr | 400ml / 460gr | 500ml / 570gr | 605ml / 700gr |
| **Material** | N/A | PET | PET | PET | PET |

2. Literature review

In this chapter, the approach towards the evaluation of a product portfolio and the stock keeping unit (SKU) rationalization are described. Secondly, supported by literature, the reasoning behind a big or small product assortment from a consumer and retailer perspective will be explained.

# 2.1 Product rationalization

Firstly, one of the main reasons for the existence of large product portfolio are the former strategies which included the introduction of (many) new products. When introducing new products it might increase revenues however, it does not necessarily lead to higher profits according to (van Hoek & Pegels, 2006). This happens because the increase in the number of products leads to a reduction of the margins as the total sales will be divided by a high number of products than before. Additionally, the costs of goods sold (COGs) will be higher due to a higher number of produced goods.

After some time, this often leads to an evaluation of the product format portfolio of a company with the use of a complexity reduction of the product portfolio, also called, stock keeping unit rationalization (SKU-rat). The purpose of such a product rationalization is to assess the portfolio and eliminate or delist any product formats that do not meet the requirements. These requirements can differ per evaluation and relate to the goals and/or values of a company and/or manager. Moreover, the main goal of SKU-rat is to minimize the company’s costs by eliminating superfluous product formats from the product portfolio. Furthermore, complex or big product portfolios use resources inefficiently and make it difficult for a company to respond to the changing market dynamics according to (Leiter, 2006). By performing a portfolio analysis, the company can plan to ‘‘reduce the write offs, reduce inventory value and administrative costs’’ (Leiter, 2006). How this portfolio analysis works, will be discussed in the following section.

## 2.1.1 Portfolio analysis

SKU rationalization starts with the first step to identify the SKU’s that do not perform (well). These non-performing SKU’s are selected based on a variable list of criteria; it depends on the company and retailer which factors are included in this list. (Mittel, Sharma, Batra, & Maheshwari, 2012)

(Quantum Retail, 2011)advices the company to consider the consumer demand and therefore states the following three parameters to be important in the rationalization process:

1. The relative value of each SKU in the assortment
2. The GMROI (gross margin return on investment) of the SKU
3. The demand of consumers

The first parameter looks at a SKU in relation to the other SKUs in the product format portfolio. This means that the results in terms of sales and consumer satisfaction rate of the product formats are compared with each other. The GMROI gives more information regarding an individual SKU. This GMROI, stands for gross margin return investment, calculates the ability of a company to ‘transfer inventory into cash above the cost of inventory’. (Investopedia, 2015) The formula for the GMROI is:

GMROI = Gross Margin / Average inventory cost

The higher the outcome of this formula, the higher the GMROI and the more likely a SKU will stay within the product portfolio due to its positive performance as the revenue exceeds the costs.

Thirdly, the demand for consumers is included in the SKU rationalization process of quantum retail. If many consumers buy a product it is not advised to remove the SKU from the portfolio due to its popularity with the consumers.

Furthermore, many companies are focused on eliminating the low-volume products, however these products might create a big value for customers. According to a survey of the (Boston Consultancy Group, 2014) amongst FMCG executives, many are not satisfied with the projects involving the reduction of portfolio complexity/SKU-rat, of their company. More than 90% of the respondents admit that their company is working on a project that is focused on complexity reduction while only 15% considers these projects to be successful. Moreover, these executives argue that there is not enough reliable market data to make sustainable decisions regarding the most valuable product variants. This shows that parameter number 3 of Quantum retail is indeed important. Therefore, based on the sku-rat process of quantum retail and the Boston Consultancy Group research, it can be concluded that the influence of the consumer demand is highly important and should be taken into account when making decisions regarding the product format portfolio. However, the lack of reliable market data is not the only risk of a SKU-rat analysis and execution.

## 2.1.1 Risks of product rationalization

**Reducing the number of product formats available may lead to a reduction of costs regarding inventory but it also results in several risks, as cutting product formats from the portfolio can lead to a change of the customer’s perception towards the brand according to Nejmeldeen 2011. Customers like to compare different options as they like to feel as if they have bought a product from an appropriate assortment offer. To avoid cutting the most popular items, the company can analyze the previous sales numbers and/or making use of loyalty card information e.g. the Albert Heijn bonus card where a retailer can track the purchases of a consumer. Additionally, a retailer and FMCG company could agree to discontinue the replenishment of a product and measure the time until a product is stocked out. After these analyses, the producing company can decide on keeping or delisting a product. Another risk is losing a ‘key customer’ to competitor brands. After that it is hard to regain a lost customer. Therefore, it is advised by quantum retail to first analyze the consumer demand and to start selecting SKUs for rationalization based on these findings.**

Moreover, retailers need to be informed regarding the SKU rationalization. The positive sides of the SKU-rat should be presented clearly according to (Kapitanova, 2014) to the different retailers and the positive results as efficient use of shelf space and the prediction of higher profit margins should refute any arguments against the SKU-rat. An internal risk for a company in the SKU-rat process are the write-offs, thus the total amount of costs that represent the price of discontinuing a product. Moreover, the objective of a SKU-rat is to minimize the costs. Therefore, once the ‘to be delisted’ SKUs are identified, the company should set up a plan to make sure that the write off costs are limited. This can be executed by clearly identifying when the production volume is at its lowest and thereafter delisting the product format from the portfolio. Lastly, there is a risk that ‘‘a company cuts too deeply into its revenue streams and discovers it has discontinued products that key customers care for, damaging important relationships.’’ (van Hoek & Pegels, 2006) To make sure that the right products are targeted, (Leiter, 2006) advices to conduct regular product reviews with customers and thereby consult the preferences of the consumer.

# 2.2 Product assortment

When looking at the product offer or assortment in the supermarket, the question is raised whether a big assortment benefits the consumer or if a smaller offer facilitates the product choice. However, it is very easy to assume that a large assortment benefits the consumer. The more products are offered, the easier it will be for the consumer to find a good match with his/her preferences. On the other hand, offering the customer many products might lead to a reverse effect due to confusion of the consumer which delays and complicates the purchasing decision. (Chernev, 2003) In the worst case there will be no purchasing decision at all.

From the perspective of the retailer, the decision of the number of items in its assortment is primarily based on cost related reasons, e.g. the cost of inventory, the cost of products and the price of the shelf space (the price for displaying products). Therefore, retailers prefer a smaller assortment while customers benefit from a larger product offer because of an increased chance of finding their preferred product. However, like mentioned before, in the case of uncertain preferences of the consumer the feeling of confusion grows when confronted with a great assortment. (Chernev & Hamilton, 2009). According to Chernev (2003), once a consumer has a clear and expressed preference, a big assortment will not influence this decision.

# 2.3 Consumers black box model

But what factors influence consumer behaviour? The following model answers this question. This consumer decision making process is according to (Business Dictionary) a process in which the consumers determines their needs, gathers information, evaluates other product or brand options and makes the final decision on which product will be purchased. The 83-year old American marketing professor Philip Kotler has created a model that shows the step by step factors that influence the consumer behaviour. This ‘black box model’ focuses on the external factors in the decision making process. (Lye, Shao, Rundle-Thiele, & Fausnaugh, 2004) (Kotler, Burton, Deans, & Armstrong, 2013)

The model includes three segments: Stimuli, the consumer black box and the buyer responses. In the daily life of the consumer, he/she is confronted with two kinds of stimuli: on the one hand, the marketing mix (price, product, promotion and place) and the other being the environment including the influences of the economy, technology and culture.

The four P’s in this model and their importance within the marketing mix can be altered, and their relation will be different in every situation. In this research the main focus will be put on the two P’s of price and product. However, the other two P’s, promotion and place, should not be seen as irrelevant as they are part of the mix and should be taking into account when determining the influence of the four separate P’s of the marketing mix on the purchasing decision of a consumer. (Goi, 2009)

The second segment introduces the buyer’s black box. According to (Kotler P. , 1965), this segment consists of two components, the characteristics of a consumer and the decision process of this same consumer. The buyer characteristics are divided into four diverse sections: personal, psychological, cultural and social. Firstly, personal characteristics include age, lifestyle and personal traits. Section two includes the motives, impression and beliefs of a person. The culture aspect is concerned with a combination of values, language, traditions and social class. Lastly, the social element focuses on the people around the buyer, their family, friends, social groups and status.

The second part of the buyer’s black box is the decision process of the buyer. This process is set up in five stages:

1. Problem recognition: problem or need is defined by the consumer.
2. Information research: consumer starts to collect data to support his final decision and will start searching for possible substitute products, alternatives or other brands.
3. Evaluation of alternatives: when the information on the alternatives is gathered the consumer starts evaluating the options.
4. Purchase decision: with the evaluation stage over, the decision of which product to buy is made in this second-to-last stage.
5. Post purchase behaviour: after the purchase has been made the consumer evaluates his/her choice whether it has met his/her expectations and if he/she would make the decision to buy the product again.

The buyer responses are the third segment of Kotler’s model. This segment gives a clear overview of the decisions that need to be made by the consumer in case he/she makes the buying decision. This response includes the choice of product, brand and dealer. Besides these three choices, the buyer has to decide on the purchase timing and the number of products he/she will buy. You could say this segment is part of the second-to-last step in the buyer’s black box, the purchase process. (Sahney S. , 2011)

3. Methodology

To ensure a structured research that will support the final recommendation, the following methodology has been set up. This chapter will explain and describe the steps that have been taken.

During this research, three steps were organized and taken

1. Familiarization with the company and the current situation of H.J. Heinz.
2. Data collection
3. Analysis

Moreover, the following three sections were considered: population & sampling, (de)limitations and ethics. The thesis uses both quantitative data and qualitative data in the shape of a literature review, interviews and a survey. Section 3.2 will further elaborate on this data collection.

# 3.1 Familiarization

Firstly, the familiarization step covered a period of two months in which the introduction to the company and its product format portfolio took place. During this orientation, more information was gained about the recent takeover of H.J. Heinz by Berkshire Hathaway and 3G capital as mentioned in the introduction of this thesis. A direct result of this was the evaluation of the product format portfolio which is the inspiration of this thesis. Additionally, the familiarization of the product format portfolio was another important part during the first two months. With a current brand portfolio of over 20 brands across Europe it was necessary to define the company’s diversity and the division there was between countries in terms of product preferences.

However, even though this thesis is focused on the Dutch product format portfolio, the knowledge of the European brand and product portfolio has facilitated the understanding of local and cultural preferences.

# 3.2 Data collection

## 3.2.1 Questionnaire

As mentioned in section 3.1, the research contains both quantitative data and qualitative data. With the use of a questionnaire the responses of 162 respondents were gathered. An online tool, www.surveytools.com, gave the possibility to easily distribute the survey and gather the results in a central place. The reason to use this way of online quantitative data collection is the user-friendliness and the ease of distribution of the survey with the tool. (Verhoeven, 2008) The survey was shared on social media (Facebook), through email communication and direct communication. The survey that was used can be found in appendix 1 in the translated version in English. The questionnaire had to be simple and short to ensure a sufficient number of respondents, therefore it consisted out of 17 questions in the Dutch language.

As a result from the literature review, the consumer needs and preferences are advised to be included in a SKU rationalization. Therefore, the aim of the survey was to gather more information about the preferences and needs of the Dutch consumer regarding Tomato Ketchup. In order to research their buying behaviour, characteristics and preferences the survey has been divided into two sections~~:~~

- Questions focused on the most important characteristics; age, current occupation, income and household composition.

- Questions focused on the consumers’ preferences and the relation between the marketing mix (product, place, promotion and price) and Heinz Tomato Ketchup (product formats). E.g. preferred tomato ketchup brand, the buying frequency of Heinz Tomato Ketchup and the preferred HTK product format.

With this division into two sections it was possible to investigate if a significant relation existed between one of the consumer characteristics and their preference regarding a certain HTK product format. Moreover, their buying behaviour and the significant relation with the preferred product format was tested with the remaining questions.

## 3.2.2 Literature review

Secondly, the qualitative data is presented in the shape of a literature review and three interviews. The review includes all the relevant available literature relating to the main subjects of this thesis; product format rationalization. This literature was gathered through searches on the internet, in the library and on the database of the Utrecht University of Applied Sciences.

The literature review provides more insight in the reasoning behind portfolio rationalization and the consumer decision making process. Moreover, the focus on the consumer influence on SKU-rat has been emphasized in the review and will play an important role in the recommendation. Additionally, the black box model behind the influence of the consumer characteristics on the consumer behavior is explained. Furthermore, the information included in the literature review provides knowledge about the topics that are discussed in the thesis.

## 3.2.3 Interviews

Thirdly, the interviews that were held have provided more information regarding the SKU-rationalization process that takes place at H.J. Heinz and the influence of local and European preferences on the development of a product format portfolio. The interviews included questions regarding the steps that Heinz takes when performing a SKU-rat, the influence of consumer demand on SKU-rat and product development, the risks that a rationalization entail and research that takes place within Heinz. Furthermore, the possible future product format portfolio was presented together with the results of the survey and the responses of the interviewers have been taken into account when drawing up the recommendation.

As the final recommendation will be based on information gained from a survey, a literature review and the interviews, the research will be of a mixed nature. This means that both quantitative and qualitative sources will be consulted. This research has resulted in the conceptual model of this thesis, on the following page. It provides an overview of the method of gathering the information and it displays the information that will be researched.

*Conceptual model of thesis*

# 

# 3.3 Analysis

In the final phase of the research, the collected data of the survey are analyzed with the use of SPSS, this analysis will examine if there is a relation between the variables that are part of the survey. With the use of the Chi-square test these possible relations are determined. Furthermore, in the analysis, the results of the survey and the relevance of the outcome will be expressed as well. Moreover, the literature review will play an important role in answering the sub-question regarding the risks of SKU-rationalization. And as mentioned above, the interviews that were held provide an internal view of the situation and help by making a connection between the theory and practice.

## 3.3.1 Sampling

The target population consisted of men and women between the ages of 18 and 65 or older with the Dutch nationality. The sample size of 162 respondents does not fully represent the target group in the Netherlands but it gives insight into the consumer behaviour of Dutch citizens. Moreover, the responses give a general idea of what the opinion of the consumer in the Netherlands is.

## **3.3.2 Limitations**

There are several limitations to this research as H.J. Heinz has a very broad portfolio; the decision has been made to limit this research to the Heinz Tomato Ketchup portfolio in the Netherlands. Furthermore, there are certain constraints in terms of legal and ethical issues. There will be corporate information that cannot and will not be shared e.g. data regarding sales, turnover etc. Another limitation will be the relatively low number of respondents to the survey. Moreover, as the internship took place in the Marketing Operations Europe team, the research will be focused on the marketing side of the industry. Therefore, information relating to other departments involved in the SKU-rationalization will not be included in this thesis. Furthermore, as mentioned before, there is no financial input from H.J. Heinz due to confidentiality reasons and therefore the financial risks are based on theoretical information and any quantitative data will not be included. Moreover, as the main question is focused on the consumer side of SKU-rationalization in terms of their preferences and needs, and due to the lack of financial information, the core of this thesis is based on Dutch consumers and the consumer point of view towards the HTK product format portfolio.

## 3.3.3 Delimitations

The scope of this research is limited to the Netherlands. The respondents that have been approached are Dutch citizens with a difference in age, household composition, income and occupation. Moreover, the product format portfolio that is utilized throughout this thesis consists of products within the Dutch HTK portfolio. Therefore, the availability of the different product formats might differ per retailer and this could influence the opinion of the consumer.

## 3.3.4 Ethics

The survey that was held has been completely anonymous, furthermore the internal information from H.J. Heinz that has been shared will not be published.

4. Findings

To support the future recommendation regarding the future Dutch HTK product format portfolio, multiple sources have been consulted. The following chapter presents the findings of the three elements as part of the research:

* Findings related to the survey that was held with 162 Dutch respondents, divided in:
* Findings related to the Dutch consumer characteristics.
* Findings related to the opinion of the Dutch consumers regarding the marketing mix of the HTK product format portfolio.
* Findings related to the literature review
* Findings related to the interviews

In appendix 2 the total results of the survey can be found, presented in charts.

4.1 Survey  
**Dutch consumer characteristics**

The results of the questions regarding the Dutch consumer characteristics include the following:

* **Age:** The majority, 47% of the respondents were between the age of 18 and 25 years old. The age groups between 26 and 35 years and 36 and 45 years old were both represented with 10% of the total number of respondents. The groups of 46 – 55 years old and 56-65 years old had an equal percentage as well, both of 12%. Lastly, the group above 65 years old consisted of 12 respondents or 7%.
* **Education:** The majority of the Dutch consumers that responded have studied or are currently studying at a university (of applied sciences). The remaining 15% has finished high school or MBO (vocational education). One of the 162 respondents did not continue his/her education after elementary school.
* **Employment:** 54% of the respondents are employed, either full-time or part-time. While the other 46% is either unemployed (8%), no longer employed (10%) or currently studying (27%).
* **Marital Status:** more than half (59%) of the respondents are unmarried against 63 married respondents. Moreover, three of the respondents are widowed.
* **Children:** 102 out of 162 respondents (63%) does not have children. Moreover, 3% or 5 people have one child, 23% has two children, 10% has three children and 2 people (1%) has four or more children.
* **Income:** 13 respondents (8%) have no income while 20% has an income of up to 500 euro and another 20% has an income between 500 to 1.000 euro per month. The income segments above are relatively equally distributed with percentages between 7 and 10%, thus around 11 to 17 respondents per segment.

**Marketing mix**

The following questions and results relate to the prices, products, availability, the promotions of (Heinz) tomato ketchup and the buying behavior of the Dutch consumer.

* **Determining factor when buying Tomato Ketchup:** In the first chart of this chapter, we can see that according to the results, the **product** is most important for 101 respondents (63%) when buying tomato ketchup. 46 of the 161 respondents (29%) are more focused on the **price** when making their decision on which product format to purchase. Nine people (6%) think that the **availability** of the product is most important and only 5 respondents (3%) buy tomato ketchup based on the actual **promotions**. 1 person did not answer this questions

*Chart 1: determining factor when buying tomato ketchup*

* **Opinion marketing mix:** The following four questions in the survey were focused on the satisfaction of the respondents regarding the marketing mix. As can be seen in the graph below, the majority of the people are neutral to satisfied. The respondents were especially satisfied with the product offer and the availability of the HTK product formats. When looking at the promotions and price, more people were neutral than very satisfied. Moreover, some respondents are unsatisfied with the elements of the price of HTK and the promotions of the product formats.

*Chart 2: opinion price and availability*

` *Chart 3: opinion product format offer and promotions*

**Dutch consumer tomato ketchup buying behaviour**

* **Tomato ketchup brand preference:** there is a strong brand preference of 115 respondents (71%) regarding Heinz Tomato Ketchup shown in the answers. The second place with 33 responses are the private labels, the brands that are owned by the supermarkets. Furthermore, the other brands have 5 votes, Remia and Calvé both have 3 votes and Hela and Euroshopper both have 1 vote.
* **Reason brand preference:** The following chart provides the reason for the above mentioned brand preference. The majority of the respondents (62%) believe that the quality of tomato ketchup is most important. After that, 36 respondents chose price as a reason for their brand preference. Other than that, people have given flavour or taste as a reason, which can be related to the quality reason. Another option that has been given is out of habit.

*Chart 4: reason brand preference*

* **Buying frequency of HTK per six months:** Most respondents (83 of 162) buy Heinz Tomato Ketchup 1-2 times per half year. 39 respondents never buy HTK. 31 of the 162 respondents buy it 3-4 times per six months and 2 respondents exceed the 6 times per six months frequency.
* **Preferred product format:** One of the essential questions was focused on the preferred product format. In the following chart, a clear preference for the 300ml squeeze bottle is shown. After that, three other formats are preferred, the 500ml squeeze bottle, the 220ml squeeze bottle and the 400ml squeeze bottle. The glass bottle with a content of 750 ml is least preferred with the respondents.

*Chart 5: Preferred product format*

* **Reason for preference:** the question that followed, relates to the reason for the preferred product format. In this case, the respondents link the preferred product format to user-friendliness. Secondly, the respondents link their preference to volume. The remaining reasons include packaging (material), price, availability or other. The other reasons that were given were out of habit and because the size fits well in the refrigerator.

*Chart 6: reason for preference*

# 4.2 SPSS analysis

For the SPSS analysis, all the variables were included. With the use of the Chi-square test it was determined whether there was a significant relation between the variables that were included in the survey.

As mentioned before, these variables have been divided into two sections:

* Dutch consumer characteristics.
* The opinion of the Dutch consumers regarding the marketing mix of the HTK product format portfolio.

The variables in these two groups were tested on their relation with the ‘preferred product format’ variable. Therefore, the test has been executed by calculating the significant relation between the following variables:



Product format

For all these variables, null and alternative hypotheses have been set up:

**H0:** *there is a significant relation between variable X and the preferred product format variable.*

**Ha:** *there is no significant relation between variable X and the preferred product format variable.*

After the chi square test has been performed on all combinations of the variables, a significant relation has been found between two different variables and the ‘preferred product format’ variable.

A significant relation of two variables is shown between:

* The purchase frequency and the preferred product format
* The reason for preference and the preferred product format

**1. Significant relation purchase frequency and preferred product format**

When calculating the relation between the two variables of purchase frequency and preferred product format the following hypotheses where used:

**H0:** *there is no significant relation between the variables of purchase frequency and preferred product format.*

**Ha:** *there is a significant relation between the variables of purchase frequency and preferred product format.*

As the following chi square test shows, the value is below 0,05 or 5%. This means that the null hypothesis (H0) is rejected and the alternative hypothesis is accepted. Therefore, the result is a significant relation between the two variables.

|  |  |  |  |
| --- | --- | --- | --- |
| **Chi-Square Tests** | | | |
|  | Value | df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 54,114a | 32 | ,009 |
| Likelihood Ratio | 38,760 | 32 | ,191 |
| Linear-by-LinearAssociation | ,080 | 1 | ,777 |
| N of Valid Cases | 113 |  |  |
| a. 39 cells (86,7%) have expected count less than 5. The minimum expected count is ,05. | | | |

**2. Significant relation reason for preference and preferred product format**

The following hypothesis was created for these variables:

**H0:***there is no significant relation between the variables of reason for preference and preferred product format.*

**H1:***there is a significant relation between the variables of reason for preference and preferred product format.*

As the chi square test shows, the value is below 0,05 or 5%. This means that the null hypothesis (H0) is rejected and the alternative hypothesis is accepted. Therefore, the result is a significant relation between the two variables.

|  |  |  |  |
| --- | --- | --- | --- |
| **Chi-Square Tests** | | | |
|  | Value | df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 110,802a | 56 | ,000 |
| Likelihood Ratio | 85,175 | 56 | ,007 |
| Linear-by-LinearAssociation | ,067 | 1 | ,795 |
| N of Valid Cases | 113 |  |  |
| a. 65 cells (90,3%) have expected count less than 5. The minimum expected count is ,05. | | | |

# 4.3 Interviews

The interviews that were held enable the writer to make a connection between the theory found in the literature, the survey results and the concept in practice shown at H.J. Heinz. Three employees of both the European and the Dutch marketing team were interviewed regarding market research, portfolio development and SKU-rationalization.

**Current portfolio**

At the moment, H.J. Heinz offers every necessary pack format in Europe according to research. Moreover, the European portfolio created by the European marketing team operates as a menu from which countries can choose their pack sizes. There are large, middle-size and small formats available. It depends on the decisions of the local marketer which product formats are sold in the local market, same goes for the marketing communication. However, the company is not always positioned well when looking at the offer regarding price categories, as not every market offers a 1 euro, 2 euro or 3 euro bottle while competitors do sell these SKUs. For these markets, the activities of the competition are considered, not necessarily those of the consumer.

**New concept development and market research**

After the reorganization at H.J. Heinz, the research team within the local Dutch team disappeared and moved completely to the European team. In the past, the Dutch team had a consumer panel of about 100 consumers called ‘Foodenzo’. Concepts and new product idea could be presented to this group and based on their feedback, it was decided whether the product would be further developed. The group would determine if the concept would solve a problem and if they needed it. Once the panel accepted a product, a research plan was set up and the team would start working on the technical aspects. If this step finished, the price test was performed. This price test takes the consumer opinion into account when determining the optimal price level. The products are judged on potential, thus how many people are interested and are prepared to purchase the product. A graph is set up with two axes, price and number of buyers. Therefore a choice is made regarding the price level, and this optimal level is decisive in the end.

At the moment, the European team is working on two new product formats, these projects have been started internally, based on the available caps within the portfolio and the question ‘how can we increase the profit per bottle that is sold’. Thus there was no consumer influence at the starting point of the development of these products.

Even though, the consumer is number one, it is also important to focus on the strong points of the company and what is currently available, instead of constantly developing new products. Moreover, the competitor is taken into account, depending on the competition in the local market. H.J. Heinz has such a market share in the UK that the next biggest competitor is has a 60% lower market share. However, in France for example, the company competes on a weekly basis with the brand, Amora for market share, in that case the competitor has a bigger influence on the decisions that are made regarding changes in the market portfolio.

The market research on a European level differs per product. However, the key volume drivers in Europe are Germany, France and the UK, therefore that is where the focus of research is placed. If research regarding consumers takes place, it happens in multiple ways. The company makes use of Nielsen or GFK data but also ad hoc research is organized by interviews, group discussions or in home usage tests.

However, if the Heinz product is already available in retail then research is rarely performed, only in the case of creating a variant of the existing product or if there is a sudden drop in demand.

**SKU-rationalization process**

Even though the mentioned SKU-rationalization process of the literature review is slightly similar to the one of H.J. Heinz, there is a difference in the steps that are taken and the criteria for the SKU-rat.

Firstly, an analysis of the products in the bottom 20 percent is set up with respect to the other products in the portfolio. These products are defined based on volume or net sales value (NSV). Besides these criteria, Heinz makes use of hurdle rates, if a product earns less than approximately $20.000, it will cost the company more than it yields.

Another hurdle rate used by Heinz is the supply chain hurdle that has been set up by the factory. This rate states that ‘if the volume of a product is lower than a certain number, different per product and factory, on the level of label, recipe and format, then the efficiency of a factory decreases that much that from a factory point of view, the product is too small’. Therefore, there is a possibility that a product is very profitable but that it still performs under factory efficiency. Lastly, the third hurdle rate, is the commercial hurdle rate. A minimum profit should be earned and it should be a certain percentage of the turnover. Once the bottom 20 products are identified, decisions are taken on the future of these products. Furthermore, H.J. Heinz looks at the rotation, how many times per week per store is the product sold. If these results are not sufficient, Heinz can either take the product from the shelf or try to find out what is going wrong. It can also be a strategic choice to keep a product in your portfolio and therefore a long term plan. Either, production is stopped, the product is replaced or a program is created to increase the sales, e.g. with the use of distribution expansion. Additionally, Heinz can look at the price and increase it or lower the costs, e.g. making the recipe cheaper.

An example is mentioned with a relatively new product in the Netherlands, curry gewurz. The problem with this product is an awareness problem, as consumers are attached to their current curry flavor. Therefore, it is necessary to announce that Heinz is selling curry and the consumers need to be able to try to product and made aware of the fact that Heinz has the better recipe. The product was advertised in printed media and demonstrations in large supermarkets were held together with adding neck sleeves to the bottles, making it possible for the consumers to try the product for free and hereby lowering the threshold.

Regarding the third step, including the consumer demand in the SKU-rat process, Heinz does not specifically take the preferences or demand of the consumer into account when going through the process. The reason for this is that the products are already in the bottom 20, therefore investing in them with the use of market research or taking the preferences into account would be more valuable when developing a new product instead of spending time on less profitable products.

**Delisting of SKUs and the risks of making changes to the SKU portfolio**

In case of the delisting of a product, there is no communication and the product should be taken from the shelves as quickly as possible. However, it is emphasized that consumer behaviour is most difficult to influence and it is a long term plan. In the case of ketchup and curry, these are products that people have been using for many years; therefore it will take a long time to adapt consumer behaviour. If you are convinced that the product fits in your strategy, then it is advised to invest in it and support it for a period of 2 to 3 years. On the other hand, the communication with the retailer is different. In most cases, the retailer will be the first to indicate that a product is not selling well, and they will push to remediate the product.

Moreover, regarding the risks of a SKU-rationalization process, the risks that were found in the literature are applicable to Heinz. Most certainly, the write-offs that are managed with the NOD (notion of discontinuation) process. The NOD process involves gathering information regarding available stock, existing contracts with suppliers and finished goods. Meaning, that it creates an overview of all the possible write-off costs in the case of delisting. Furthermore, it is also necessary to explore the possibility to sell the finished goods via other channels. Moreover, when removing a product format from the portfolio, it is better to have a replacement to ensure shelf space at a retailer.

The risk of making changes to a product portfolio differs per product. The tube that H.J. Heinz currently offers in the Dutch market will be delisted, however this is a risk as the packaging attracts a specific and exclusive type and group of buyers. In case of delisting a 605ml TD the buyer will switch to a different format as the 400ml TD and the consumer will stay loyal to the brand. But because the tube is such a specific product format, many people will not switch to a different HTK product format but will move to a different tube of a different brand.

When comparing the results from the survey and the factors that Heinz uses to research consumer behaviour, there was a clear overlap. The survey showed that the price and the product were very important when deciding on which product format to purchase. Furthermore, the purchase frequency showed a significant effect on the preferred product format. As the rotation of Heinz product formats is taken into account within the analysis of the bottom 20%, it is clear that the number of times Heinz is bought is very important within the decision process of the SKU-rat. Moreover, within the product development process, the product and the price are important steps of the plan. Additionally, these elements are taken into account when performing market research. However, as mentioned above, these elements are not incorporated in the SKU-rationalization process of H.J. Heinz as the opinion and demand of the consumer is not part of this process.

5. Conclusions and Discussion

This dissertation is focused on researching the Dutch consumer preferences regarding HTK and how these preferences should be taken into account in the decisions regarding the HTK product format rationalization. In order to answer the main research question, three different sub-questions will be answered. Two of these questions are focused on the Dutch consumer characteristics and marketing mix. The third and final sub-question relates to the risks that can arise if a SKU rationalization takes place. Before these three questions are answered, a summary of the main findings of the research will be provided below.

* The majority of the respondents (63%) found the **product** to be the most important element when purchasing tomato ketchup, while a third of the respondents believe that the **price** is the determining factor. Furthermore, the Dutch consumers were especially satisfied with the availability and the product offer of HTK. This doesn’t come as a surprise as the product format portfolio in the Netherlands includes a wide variety of product formats. Furthermore, the opinion regarding the price and promotions is slightly divided, however, the majority of the respondents have a neutral or satisfied opinion regarding these two factors. Moreover, the survey shows that HTK is the preferred brand with a vote of 71% of the respondents. While the private labels are placed second. On average, Heinz Tomato Ketchup is bought once or twice per 6 months.
* One of the most decisive question, was the question regarding the preferred product format. A strong preference is shown towards the squeeze bottle, specifically the 220ml, 300ml, and 500ml. However, the other product formats are also marked as a preferred product format, but by less people. This proves that there are risks of delisting a product format as consumers will be disappointed that their preferred product format has disappeared from the shelves in the supermarket. Moreover, the reason for preference for the mentioned product format is mostly answered with **user-friendliness**. If this reason is linked to one of the marketing mix elements, it would be **product**. Moreover, **volume** and **quality** where also marked as important when arguing the reason for preference. These two answers can also be related to the **product** element. Lastly, the ‘other’ reason that was given for the preference, was out of habit.
* After an analysis of the survey results with the use of the SPSS program, **a significant relation** was found between the purchase frequency and the HTK product format preference. In this case, the buying behavior of the Dutch consumer influences its preferences. Moreover, a **significant relation** was also found between the variable of reason for preference and the preferred product format. Therefore, this significant relation shows that the reason for preferring a product format influences the choice of preferred product format.
* This analysis means that these two relations are likely to hold up in the population. Therefore, these results could be generalized for the Dutch population. However, as mentioned in the methodology, due to a small sample size the results might not be as reliable. For the first significant relation, it can be concluded that a person’s preferred HTK product format can be derived from their purchase frequency. Secondly, the reason for preferring a certain HTK product format also shows a significant relation with the choice of the preferred product format. E.g. if price is given as a reason by the respondents for preferring a product format then, according to the significant relation, there is a high chance that these people also have the same preference for a HTK product format. A similar example is relevant for the relation between the purchasing frequency and the preferred product format. The group of people that purchase HTK 1-2 times per six months will most likely have a common preference for one of the product formats. As these two variables show a significant relation with the preferred product format variable, it can be concluded that this significant relation can provide a basis for future estimations of the Dutch consumer preferences regarding the HTK product format portfolio.
* Regarding the other variables that were tested, as part of the consumer characteristics, there was no significant relation found. Therefore, the conclusion can be drawn that there **is no significant relation** between age, education level, employment, marital status, (number of) children and brand preference with the variable of the HTK product format preference. Moreover, there is **no significant relation** between the variables of the HTK product format preference and the opinion of the respondents regarding the satisfaction towards the marketing mix (price, product, place and promotion).
* These significant relations help to predict general preferences of the Dutch consumer. These relations show in this case which variables and factors have most influence on the product format preference and therefore the SKU rationalization. The product formats that are most preferred in relation to the variables will be included in the next chapter, the recommendation. Furthermore, the answers regarding the question that is solely focused on the preferred product format will also provide a determining factor as part of the recommendation.
* Both the literature review and the interviews have resulted in insights regarding the risks that accompany a SKU-rationalization. The effect that a change in the product format portfolio has on the customer perception towards a brand is an important risk. This change in the opinion regarding a brand could lead to a switch between brands, resulting in a loss of customers. Moreover, from the perspective of the company, H.J. Heinz in this case, it is important to ensure the existing shelf space at the retailer. In general, the retailer will be the first party that flags a lack of sales and will take action by discharging the product to make room for other more profitable products. Therefore, H.J. Heinz has to keep a constant eye on their product format performance to make sure they do not lose shelf space (to the competitor). Additionally, high write-offs are a great risk for a company when going through a SKU-rationalization process. The process that takes place within H.J. Heinz will be discussed next.
* The current Dutch product format portfolio has been chosen from a big European portfolio in which all available formats are presented. Therefore, the local product format offer depends on the decisions of the local marketers. In the past, new products were presented to a local Dutch consumer panel. However, this and other market research has moved to the European marketing team after the reorganization. This team also initiates new concepts for HTK, not based on consumer demand but on available caps within the portfolio and the question ‘how can we increase the profit per bottle that is sold?’. Therefore, the consumer demand used to influence new concepts but as the portfolio already covers many product formats, new ideas are generally created internally instead of flowing from an external problem.
* If market research does take place, it is generally organized in the key volume drivers in Europe, France, Germany and the UK. Examples of these researches are in-house usage, taste panels and interviews. Moreover, Nielsen or GFK data are used to perform quantitative research and enable the company to compare results with competitors. Furthermore, the approach towards the market and competition differs per country. It depends on the current market share that H.J. Heinz has in the country and the product formats that are available in the portfolio of the competitor. Lastly, it is important to mention that research is rarely performed after a product has been launched on the market.
* The literature review included three parameters, presented by quantum retail to prepare a SKU-rationalization; the relative value of each SKU in the assortment, the GMROI (gross margin return on investment) and the demand of the consumer. Furthermore, the research of the BCG group shows that many companies are working on a project regarding SKU-rationalization. But the managers that have been interviewed were not always satisfied with the market data that is available to take decisions regarding the product portfolio.
* In the case of H.J. Heinz, as mentioned in the interviews, the data provided is checked for reliability and relevance. Furthermore, the SKU-rationalization process starts with an analysis of the bottom 20% based on volume and/or NSV (net sales value). Secondly, the company makes use of hurdles rates. The first one is that a product should earn more than approx. $20.000, otherwise the SKU will cost the company more than it yields. The second hurdle rate depends on the factory as it says that ‘if the volume of a product is lower than a certain number, differs per product and factory, on the level of label, recipe and format, then the efficiency of a factory decreases that much that from a factory point of view, the product is too small’. Thirdly, the commercial rate states that there should be a minimum profit which should be percentage of the turnover. Additionally, H.J. Heinz looks at the rotation of the product, how many times per week, per store the product is sold.
* After these hurdle rates are applied, decisions are taken on the future of these bottom 20 products. This can mean two things, delisting the product or introducing a plan to increase the sales. The latter could be a strategic choice and there are multiple option to improve the performance of the SKU, e.g. change in the price, recipe or expand the distribution.
* Moreover, there is a separate process for the delisting of the SKUs, the NOD process (notion of discontinuation) which leads to an overview of all the possible write-off costs. This involves gathering information regarding the available stock, existing contracts with suppliers and finished goods. Furthermore, it is also necessary to explore the possibility to sell the finished goods via other channels. When removing a product format from the portfolio, it is better to have a replacement to ensure shelf space at a retailer, as mentioned in the risks.
* A specific risk of SKU-rationalization in the Netherlands, is the delisting of the tube. This product format is very specific for the Dutch market and has a loyal group of customers. As the other product formats in the HTK product format portfolio are not comparable with the tube format, it is very likely that this group will switch to another tomato ketchup brand that does offer a tube product format if the HTK tube is delisted.
* Regarding the third step, including the consumer demand in the SKU-rat process, Heinz does not specifically take the preferences or demand of the consumer into account when going through the process. The reason for this is that the company rather invests in innovation and the development of new products with the use of consumer behaviour, on a larger scale. In the case of the sku-rationalization process, these products are already in the bottom 20, it concerns such a small part of the company and it is therefore not worth consulting the consumer’s opinion regarding these SKUs in the bottom 20 percent.
* When comparing the information regarding the influence of the consumer characteristics on the consumer behavior, the literature matches with the information given in the interview. However, a relation between the characteristics and the preference for a product format has not been found, as will be discussed in the following section, additional research.
* In the creation of the current HTK product format portfolio, many different factors that are included in the black box model have been taken into account. H.J. Heinz has a strong focus on affordability and tries to include a product format of 1 euro, 2 euro and 3 euro in the portfolio of each local market. Furthermore, the different sizes of the product formats that are offered make sure that every potential customer has a volume that meets their need. Also, the brand aims to ensure that there are product formats available for families, people that look for convenience and/or value. Thus, Heinz aspires to ensure that the portfolio offers a product format for every consumer. Therefore, Heinz has taken the different characteristics and the demand of the consumer into account when researching the possibility of launching new HTK product formats.

## Additional research

As mentioned before, the research is limited to the Dutch consumer between the ages of 18 years and older, as there is a big difference in terms of consumer behaviour and culture within Europe, there is a possibility to extend this research across borders. As the product format portfolio differs between countries, just as the competition and the citizens of each market, it would be interesting to determine these differences and to see where they overlap.

Moreover, within the Netherlands there is room to expand as well. For this research, 162 people have been contacted, however as the population of the Netherlands is many times bigger than this number, the survey could be distributed with a much wider scope.

Moreover, the research is currently limited to the marketing branch and could be expanded across multiple departments within H.J. Heinz. The finance department could give more insight into the calculations around the hurdle rates, just as the supply chain department. Furthermore, if plans are set up regarding recipe changes for products in the bottom 20, then the supply chain department could share the process they go through when changing a recipe in order to make it cheaper. Also, the sales department could give more details regarding the communication with the retailers and what happens with the relationship between retailer and seller when changes in the occupation of the shelf space take place. Additionally, this thesis is focused on the product side of the company, but within Heinz, a lot of changes happen as well. Human resources, for example, are working on the decisions taken by management regarding the number of employees, as a result of the reorganization. While the facilities department is trying to figure out how to organize the company as there number of employees has declined and the main aim has become to decrease cost, also in terms of rent, heating and electricity.

This research might also be applicable to other products within the H.J. Heinz brand. As the Heinz brand is not restricted to tomato ketchup, there are possibilities to utilize the lay out and structure of this research and apply it to other Heinz sauces as mayonnaise, mustard or other condiments. Furthermore, there are different brands available under the umbrella of Heinz, not just sauces. In the Netherlands, the famous chocolate sprinkles of Venz and de Ruijter are part of Heinz, and this research could be adapted according to the consumer behaviour relating to chocolate sprinkles. However, if research is performed regarding the consumer behaviour of Heinz products other than tomato ketchup, these researches would be focused on the alternative products in terms of flavor or ‘sprinkle’ shape instead off product format. As the difference in product formats and package sizes is more diverse in the HTK portfolio than in any other product portfolio of H.J. Heinz in Europe.

No influence has been found in the analysis of the survey results of the Dutch consumer characteristics on the choice of preferred product format. This is most likely the result of a great diversity in answers to the questions regarding the characteristics. Thus, a strong relation between a characteristic and a product format cannot be identified. Therefore, it is advised to extend this research to a larger group of respondents to increase the chances of finding a significant relation between one of the characteristics (e.g. occupation, income or age) and the preference for a HTK product format.

6.Recommendation

The following chapter will be concerned with answering the central research question. However, in order to answer this main question, it is necessary to state the sub-questions once more. Moreover, these questions will be discussed and answered separately, after that; the final recommendation will take place.

# The sub questions:

*What is the influence of the characteristics of a Dutch consumer on the HTK product format preference?*

According to the black box model of Kotler, the consumer behavior and therefore product (format) preference is strongly influenced by the consumer characteristics. These characteristics include age, occupation and education. (Kotler, Burton, Deans, & Armstrong, 2013)

This influence is taken into account within the product format portfolio of H.J. Heinz. The aim of the company is to offer an as complete portfolio as possible, meaning that they wish to offer a product format for every type of consumer. Therefore, the diversity of price, product format and volume is great within the Dutch HTK product format portfolio. With a current offer of 8 different formats, the aim is to satisfy the diverse demand of the consumer influenced by the characteristics. Moreover, the product format portfolio in the Netherlands includes large formats, identified as family packs, convenience formats, e.g. the squeeze bottles or value packs, the product formats for consumers looking for a lower price. Therefore, while developing the current HTK product format portfolio, H.J. Heinz has taken different preferences into account that are influenced by the consumer characteristics.

Furthermore, the factors that are mentioned in the model; social, cultural, personal and psychological all influence the choice of which product format to purchase. Therefore, the answer to this question is broad, as the influence of the characteristics of a Dutch consumer is flexible and depends on the individual consumer. The characteristics of each consumer differ but as explained in the black box model, the consumer with a lower income will be more attracted to a product format with a lower price. Furthermore, a consumer that has a large family is more likely to purchase the larger volume of 875ml while a household consisting of one person will prefer a product format of 220ml. Therefore, the influence of the characteristics and the strength of this influence differs per person and is difficult to generalize. However, based on the black box model and as explained by the employees of H.J. Heinz the characteristics do have a strong influence on the preference and the diversity in characteristics has been taken into account by H.J. Heinz in the development of the HTK product format portfolio.

*What are the most important marketing mix components according to the Dutch consumers? And how is this opinion reflected in the product format preference?*

As mentioned in the conclusion, the determining marketing mix component for Dutch consumers when buying tomato ketchup is the **product**. Furthermore, the reason for the choice of the preferred product format that was given most frequently was ‘**user friendliness**’ and is related to the ‘p’ for product within the marketing mix. This means that, based on the results, if people believe that **product** is the most important marketing mix component, this belief can be related to certain HTK product formats. Moreover, from the results of the SPSS analysis, a significant relation was found between the HTK product format preference and questions regarding the reason for this specific preference. Therefore, according to the answers given by the respondents, the squeeze bottle 300ml, 220ml and 500ml are seen as most user-friendly. As the product and therefore the user friendliness is so important, based on the significant relation, it is recommended to keep the 300ml, 220ml and 500ml squeeze bottle in the current product format portfolio. The second most important marketing mix element was price, however this element has a significant relation with the 200ml tube as the preferred product format. As this product format has been delisted already, the format will not be taken into account after this in the final recommendation.

*What will be the future risks for H.J. Heinz as a result of the product format rationalization?*

There are multiple challenges that H.J. Heinz will face when performing the product format rationalization. As a result of the product format rationalization there is a risk that customers switch to competing brands due to the fact that their preferred HTK product format isn’t available anymore. If they make this switch to a competitor it will also impact the perception of the customers of the H.J. Heinz brand, in a negative way. Moreover, the challenge of communication is important as all parties of the supply chain need to be involved. In the case of H.J. Heinz, the retailers need to be informed in advance otherwise it will damage the relation when making unannounced adjustments to the product format portfolio at the H.J. Heinz retail points. Furthermore, if H.J. Heinz is not up to date on their product format performance, the retailer might discharge the Heinz product format and this results in loss of shelf space. Lastly, the product format rationalization can create a risk with regards to the write-offs. If the delisting is not timed right, the company will be stuck with large volumes of a certain product format. To reduce this risk, H.J. Heinz has set up the NOD-process in which an overview is created of the available stock, existing contracts with suppliers and finished goods. Additionally, in case of the delisting of a product, the company will look for alternatives to replace the product and to make sure that the shelf space stays within the company.

# Final recommendation

This research aims to answer the question:

*‘How should H.J. Heinz translate the Dutch consumer preferences into their Heinz Tomato Ketchup product format rationalization?’*

To answer this question, multiple sources have been consulted including, 162 Dutch respondents, literature sources and three employees of H.J. Heinz. From the results of the survey, a clear preference regarding certain HTK product formats was shown. Moreover, after the interviews, the influence of the consumer on the development of the HTK product format portfolio became clear and a review described the SKU-rationalization process according to literature and practical examples.

After the interviews it became clear that the consumer opinion is not taken into account at Heinz, when making choices regarding the future product portfolio in the SKU-rationalization process. The reason that is given, is because there is no use for the opinion of the consumer as the decisions are made, based on hurdle rates and therefore quantitative data in terms of sales performance and volume. Furthermore, the products that are considered in the SKU-rat are already in the bottom 20% of the company. This means that the chances of losing money are higher than the chances of improving the performance of these products in such a way that they become significantly more profitable. Therefore, the company rather invests in new product development and innovation than in SKUs that are likely to be removed from the entire portfolio.

This argumentation is very relevant as it is wise to invest in new products that are most likely going to be more profitable in the future than the products that are considered to be delisted. However, this does not mean that the opinion of the consumer should be forgotten. The decisions regarding SKU-rationalization should not only be based on financial data, because if delisting an SKU leads to losing (loyal) customers, it will damage the sales numbers in the long term.

Moreover, the risks that are mentioned in the literature review are confirmed by H.J. Heinz to be relevant for the company. This means that one of the major risks of a SKU-rationalization is losing customers due to the fact that the brand perception changes and the preferred product format are no longer available from one brand, and therefore switch to another brand. If the company is going to delist product formats solely based on internal hurdle rates, it will lose loyal consumers as these customers will start looking for the same volume or product format at a competing brand. Especially in the Netherlands, where there are numerous brand that offer tomato ketchup there is a strong competition and it is easy to lose customers.

Therefore, it is recommended to perform research regularly to make sure that the consumer stays satisfied with the HTK product format offer. This research does not necessarily have to take place during the SKU-rationalization process as it is an on-going barometer of the opinion of the consumer regarding the HTK product formats and brand. Unfortunately, this type of research will not be possible on a local scale due to the lack of budget. However, the data that is delivered regarding buyer profiles from Nielsen and GFK is already available according to the interviews. This type of information is advised to be taken into account within the SKU-rationalization as the information is available and relevant for the situation. As mentioned by quantum retail, the consumer demand should be part of your SKU-rat and with a strong competition in the Netherlands the risk of losing shelf space and/or customers is high. Therefore, the consumer demand and preferences should be taken into account when performing a SKU-rationalization.

Moreover, the knowledge gained from market research will not only be beneficial if a SKU-rat takes place but also when developing a new product or improving the current HTK products. The opinion of the consumer should not only matter in the development of a concept because if the H.J. Heinz brand wants to stay the preferred tomato ketchup brand, according to the survey results, then they should continuously improve their products by consulting the consumer regarding their preferences, comments and changing opinion.

Therefore, the previous gathered information consisting of experience and market data should be used in the decision making process of the SKU-rat. Based on this data, the preferences of the consumer will be understood, and product formats that should stay within the local product format portfolio Furthermore, in the case of this survey, a clear preference regarding certain product formats became clear from the survey. A strong preference was shown for the squeeze bottles with a volume of 220ml, 300ml, 400ml and 500ml. The other two larger squeeze bottles of 605ml and 875ml were least preferred within the squeeze product format. Therefore, based on the survey and SPSS outcome, the four squeeze bottles between 220ml and 500ml should stay within the portfolio. In the situation that squeeze bottle formats need to be delisted because of a low rotation or disappointing sales it is advised to take the larger two formats from the shelf. This, due to the fact that it is easier for the consumer to switch to a smaller product format than it is to a larger product format

Regarding the two glass bottles, the 300ml has a very loyal consumer group according to the interviewee and is seen as an iconic product format, and is therefore not advised to be delisted. Furthermore, the larger glass bottle with a volume of 750ml is least preferred from all the product formats in the Netherlands, and should therefore be the first product format to be delisted, in the case the delisting takes place.

Regarding the communication between H.J. Heinz and the retailers that offer the product formats in the Netherlands, this should be clear and supported with arguments. These arguments are based on the research that has been done with the Dutch consumer and the quantitative data regarding the performance of the product format and the hurdle rates of H.J. Heinz. The positive sides of the SKU-rat should be presented clearly to the different retailers and the positive results e.g. efficient use of shelf space should refute any arguments against the SKU-rat. If the communication between both parties stays transparent and the arguments to delist a product format are substantiated by results from quantitative data, then there shouldn’t be any risks involved regarding the relationship between retailer and H.J. Heinz. Both parties benefit from this approach as H.J. Heinz has more insight into its customers and the retailer can optimize its in store product offer. However in most cases, the retailer will have noticed if a product format is not performing well, before H.J. Heinz. If this happens, the retailer would likely want to discharge the particular product format as quickly as possible to make room for more profitable products. Therefore, H.J. Heinz should take fast decisions and keep a constant eye on changing consumer demand as the retailer wants to make use of its shelf space as efficient as possible.

Internally, the biggest risk for H.J. Heinz will be the high write-off costs. As these are difficult to define without any financial input from within the company it will not be possible at this time to determine the actual write-offs. The aim will be to limit the amount of write-offs as close to zero as possible. In the end, H.J. Heinz needs to clear out any inventory they have on the three product formats that are on the SKU-rat list. However, as H.J.. Heinz is well aware of this risk, an entire NOD-process has been set up to create an overview of all the write-offs that will be involved in the case of delisting. It aids with minimizing write-offs and the timings of the SKU-rat as the management of H.J. Heinz can see where time can be saved or e.g. if bottles, caps or ingredients of a to be delisted product can be used in the product of other SKUs. Therefore, a recommendation regarding this risk is not necessary.

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Appendices

# Appendix 1: Survey in English

1. What is your age
   1. 18-25 years old
   2. 26-35 years old
   3. 36-45 years old
   4. 46-55 years old
   5. 56-65 years old
   6. Older than 65 years
2. What is your current level of education?
   1. Lower education
   2. VMBO
   3. HAVO
   4. VWO
   5. MBO
   6. HBO
   7. WO
   8. Other, namely…
3. Are you currently employed?
   1. Yes, I am currently full-time employed
   2. Yes, I am currently part-time employed
   3. No, I am retired / no longer working
   4. No, I am currently studying
   5. No, I am not employed
4. What is your marital status?
   1. Unmarried
   2. Married
   3. Widowed
5. Do you have children?
   1. No
   2. Yes, I have one child
   3. Yes, I have two children
   4. Yes, I have three children
   5. Yes, I have four or more children
6. What is the decisive factor when purchasing Tomato Ketchup?
   1. Price
   2. Product
   3. Place
   4. Promotion
7. Which tomato ketchup brand do you prefer?
   1. Heinz
   2. Remia
   3. Calvé
   4. Hela
   5. Euroshopper
   6. Private label
   7. Other, namely...
8. What is the reason for this preference?
   1. Price
   2. Place
   3. Quality
   4. Packaging material
   5. Promotion
   6. Attractive packaging
   7. Other, namely…
9. How often do you buy Heinz Tomato Ketchup per six months?
   1. 1-2 times
   2. 3-4 times
   3. 5-6 times
   4. More than 6 times
   5. Never
10. What is your opinion about the price of Heinz Tomato Ketchup

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **What is your opinion about the:** | Very unsatisfied | Unsatisfied | A little unsatisfied | Neutral | A little satisfied | Satisfied | Very satisfied |
| Price of Heinz Tomato Ketchup |  |  |  |  |  |  |  |
| Place of Heinz Tomato Ketchup |  |  |  |  |  |  |  |
| Product of Heinz Tomato Ketchup |  |  |  |  |  |  |  |
| Promotion of Heinz Tomato Ketchup |  |  |  |  |  |  |  |

1. Which Heinz Tomato Ketchup product format do you prefer?
2. Tube 200ml
3. Glass bottle 300ml
4. Glass bottle 750ml
5. Squeeze bottle 220ml
6. Squeeze bottle 300ml
7. Squeeze bottle 400ml
8. Squeeze bottle500ml
9. Squeeze bottle 605ml
10. Squeeze bottle 875ml
11. Why do you prefer this product format?
    1. User friendliness
    2. Volume
    3. Attractive packaging
    4. Price
    5. Packaging material
    6. Quality
    7. Availability
    8. Promotion
    9. Other, namely…
12. What is your monthly netto income?
    1. No income
    2. Up to 500 Euro
    3. 500-1.000 Euro
    4. 1.000-1.500 Euro
    5. 1.500-2.000 Euro
    6. 2.000-2.500 Euro
    7. 2.500-3.000 Euro
    8. 3.000 Euro or more
    9. Unknown / Do not want to share
13. Do you have any additional comments?

# Appendix 2: Graphical outcome of survey

**Q1 – Age**

**Q2 – Education**

**Q3 – Employment**

**Q4 – Marital status**

**Q5 – Children**

**Q6 – Decisive factor when buying tomato ketchup**

**Q7 – Preferred brand**

**Q8 – Reason for brand preference**

**Q9 – Purchase frequency per 6 months**

**Q10 – Opinion regarding place of HTK**

**Q11 – Opinion regarding product of HTK**

**Q12 – Opinion regarding availability of HTK**

**Q13 – Opinion regarding promotion of HTK**

**Q14 - Preferred product format**

**Q15 - Reason product format preference**

**Q16 – Monthly netto income**

# Appendix 3: Table significant relationships

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | Tube 200ml | Glassbottle 300ml | Glassbottle 750ml | Squeezebottle 220ml | Squeezebottle 300ml | Squeezebottle 400ml | Squeezebottle 500ml | Squeezebottle 605ml | Squeezebottle 875ml |  |
| Purchasefrequency | 1 -2 times | 7 | 3 | 1 | 13 | 14 | 6 | 12 | 4 | 2 | **62** |
| 3 - 4 times | 0 | 1 | 0 | 1 | 7 | 4 | 4 | 0 | 1 | **18** |
| 5 -6 times | 0 | 0 | 1 | 0 | 1 | 0 | 2 | 1 | 0 | **5** |
| More than 6 times | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | **2** |
| Never | 2 | 2 | 0 | 6 | 4 | 5 | 6 | 0 | 1 | **26** |
| **Total** | | **9** | **6** | **3** | **20** | **26** | **15** | **24** | **5** | **5** | **113** |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | Tube 200ml | Glassbottle 300ml | Glassbottle 750ml | Squeezebottle 220ml | Squeezebottle 300ml | Squeezebottle 400ml | Squeezebottle 500ml | Squeezebottle 605ml | Squeezebottle 875ml | **Total** |
| Reasonforpreference | Userfriendliness | 5 | 1 | 0 | 10 | 16 | 6 | 12 | 1 | 0 | **51** |
| Volume | 1 | 0 | 0 | 9 | 4 | 6 | 7 | 3 | 2 | **32** |
| AttractivePackaging | 0 | 3 | 1 | 1 | 1 | 0 | 1 | 0 | 1 | **8** |
| Price | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **2** |
| Packagingmaterial | 0 | 1 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | **3** |
| Quality | 0 | 1 | 2 | 0 | 5 | 1 | 1 | 0 | 1 | **11** |
| Availability | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | **2** |
| Other, namely... | 1 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0 | **4** |
| **Total** | | **9** | **6** | **3** | **20** | **26** | **15** | **24** | **5** | **5** | **113** |

# Appendix 4: Transcript interview with Charlot Ellis

**Interviewer:** Florieke van der Laan

**Interviewee:** Charlot Ellis, Marketing Operations Manager for H.J. Heinz Europe

**Interviewer (Florieke):** Based on the findings of my literature review and my survey, mainly my literature review regarding SKU-rationalization, three steps have been found that need to be taken according to the theory. The first, the relative value of each SKU in the assortment, this means that it is a comparison of the sales of the SKUs in the assortment and based on this, making the decision to delist. The second is the gross margin return on investment (GMROI), thus the profit margin that a SKU has. Then the third step is the demand of consumers and their preferences. Now the question is, does H.J. Heinz follow these steps as well when performing a SKU-rationalization or does the company make use of different/other criteria?  
  
**Interviewee (Charlot Ellis):** I think it is something different. We have set up a process to annually look at the products in our portfolio that need to be reviewed, because they are small. We set up an analysis of all the products that are in the bottom 20 percent, you could compare this to the first step in the process that you mentioned. As these products are relative with respect to the other products in the portfolio. We identify all the products that are in the bottom 20 of our portfolio based on volume or NSV (net sales value). Besides that, we have certain hurdles defined, thus a product on which we earn less than a certain amount (approx. $20.000), then it costs us more (administratively) than it **yields**, thus with those products we shouldn’t continue the same way. Thus we need to stop the production of these products or we need to set up a plan to ensure that more of it is going to be sold or to make them more profitable. Besides that ($20k hurdle) we have two other types of hurdles, one side, the supply chain hurdles, hurdles set up by the factory. Which say that if the volume of a product lower is than a certain number of volume, which differs per product and factory, on the level of label, recipe and format, then the efficiency of a factory decreases that much that from a factory point of view the product is too small. So it is possible that a product is very profitable and that it exceeds all the absolute hurdle ($20k) but still be under the factory efficiency thus then it is also a reason to look at one product in particular and take a decision on what you’re going to do with the product. And lastly, the third hurdles that have been defined are the commercial hurdles, these differ per category and region. A minimum profit should be earned in this case and it should be a certain percentage of your turnover. All this combined, we identify the products that are in the bottom 20 and that don’t meet the hurdle. We zoom in to these products, first we perform a check if all numbers are correct. Because sometimes the discount that is available is calculate across the entire range. And then it might be a good product so these mistakes have to be taken out. But if we are sure that the numbers are correct, then we need to take a decision on what we are going to do with the product. This could be that we are going to stop with the product, that we replace the product or that we set up a program to increase the sales, e.g. with the use of expanding your distribution. Or you can look at the price, maybe increase the price or you are going to see if you can lower the costs. For example, making the recipe cheaper. This process takes place every year. It starts beginning of March and before the end of April, all actions need to be clear.

And the third step that you mentioned, the consumer side, we don’t make use of that step in the rationalization process. Because it concerns such small parts of the company. You want to research consumer behaviour on a larger scale, regarding innovation. You don’t want to use research for the products that are already in the bottom twenty.

**Interviewer (Florieke):** And you mostly make use of interviews, surveys, taste panel..?

**Interviewee (Charlot Ellis):** There are multiple different ways. You can look at it based on continuous research so those are data of Nielsen or GFK. You can also make use of ad hoc research. This can be qualitative (single interviews or group discussions) or quantitative (in home usage test with 100/300 consumers). So there are different kinds of research and it depends on what you want to examine. Researches regarding price are very different from research regarding concepts.

**Interviewer (Florieke):** And these researches take place continuously?

**Interviewee (Charlot Ellis):** Well, the ad hoc researches aren’t continuous; however research takes place constantly, but not continuously. There are contracts that produce monthly or semi-annually reports.

**Interviewer (Florieke):** Oke clear, well the third questions revolves around how important the influences of the consumer preferences is on the SKU-rationalization, and how this influence is incorporated. But you’ve basically already answered and explained this question.

The next part of this interview is focused on the risks of a SKU-rationalization. The following risks have been found in the literature.

* The brand perception of the consumer changes
* Losing customers to competing brands
* Risks regarding contracts with retailers (change in stock/shelf space due to SKU-rat)
* Write-offs

Do you think these are applicable to Heinz? If yes, how so?

**Interviewee (Charlot Ellis):** Yes, most of them are applicable. The write-offs definitely, if we decide to stop with a certain product and/or to replace with another product. Then we have a process set up for this, called the NOD process (notion of discontinuation). This process consists of three phases, were we start gathering information on which unique materials are there in stock and what kind of contracts do we have with the suppliers of these materials and how fast we can ‘break’ this contract. As we want to make sure that these write-offs are as low as possible. And you check the amount of finished goods that are available at the warehouse. And that is more sales related, to see if you can stop a product when the stock is out and if that is not possible, if you can find other channels to sell your finished goods through.

**Interviewer (Florieke):** And in terms of externally, the contact with retailers, how is a SKU-rat communicated.

**Interviewee (Charlot Ellis):** At the point that you stop a product, as they are all slow runners, if you’re not going to do it, the retailer will. So I think there is little discussion about this. However, it is always difficult to get shelf space so ideally, you’d rather have a replacement than removing the SKU from the retailer. From shelf space and keeping your current turnover you would always look for possibilities to find an alternative product.

**Interviewer (Florieke):** And do you also communicate it to the public, e.g. with the use of a marketing campaign, if a SKU-rat takes place and products are removed from retailers. Are other product formats in the range more promoted?

**Interviewee (Charlot Ellis):** That could be part of the plan. You could also keep your current product but support it more with the use of a promotion.

**Interviewer (Florieke):** And are there other risks that are part of a SKU-rat?

**Interviewee (Charlot Ellis):** Well you’ve already mentioned them, if you don’t have a replacement or can’t find one then the shelf space will go to your competitor and then you will lose turnover and you will make your competitor stronger. So that is definitely a risk.

**Interviewer (Florieke):** The last part concerns the survey that I did, based on the characteristics of the Dutch consumers and the marketing mix. Based on their preferences I have created a product format portfolio and based on these, it is advised to delist the glass bottles.

**Interviewee (Charlot Ellis):** The glass bottles have a really loyal group of fans in the Netherlands, mostly older people.

**Interviewer (Florieke):** That is indeed my next question, the 300ml glass bottle is known as an iconic product format, so you’re already saying in advance not to delist this format. Furthermore, the other bottles that are considered for delisting are the squeeze bottles, 605ml and 875ml, thus the bigger product formats. Would you agree with this?

**Interviewee (Charlot Ellis):** Well I am mainly focused on the European market so I don’t have many details on the Dutch market but I think that in the Netherlands, the penetration of ketchup less high is than I expected and the frequency isn’t that high either. Based on that, you would say that the bigger formats are less interesting because people don’t use tomato ketchup that often compared to the smaller formats.

**Interviewer (Florieke):** And the tube is a product format that is very specific for the Netherlands, is that correct?

**Interviewee (Charlot Ellis):** Yes, I believe from Heinz the tube is the only one that was sold in the Netherlands, was because the product format has been delisted.

**Interviewer (Florieke):** Well thank you, it is nice to see how my research connects with the things that happen in practice here in Heinz. And also the theory for the SKU-rat is similar to the one used at the company. Do you have any guidelines that you receive in advance?

**Interviewee (Charlot Ellis):** We started with the SKU-rat last year and we have learned a lot from that as it was the first time that we did in on a European scale combined with multiple harmonization programs. Based on that, we now have a clearer process defined where people’s roles are much clearer and what the next steps are and that helps to run everything smoothly.

# Appendix 5: Transcript interview with Fallon Gorter

**Interviewer:** Florieke van der Laan

**Interviewee:** Fallon Gorter, European jr. Brand ManagerHeinz Tomato Ketchup

**Interviewer Florieke:** If research takes place regarding HTK products, when and how does this take place?

**Interviewee Fallon:** Right now we are working on introducing two new formats. And these two new formats are coming from inside of Heinz. These new formats are 380gr TD and a new squeeze format and these formats aren’t decided on by the consumer but have been decided on internally, thus which caps do we have in our portfolio and how can we increase the profit per bottle that is sold.

**Interviewer Florieke:** So basically there is a stronger focus on internal elements and technical aspects than on the influence of the consumer?

**Interviewee Fallon:** Yes indeed, for these two new product formats but that is because in terms of consumer, we think that we are already offering the consumer everything what necessary is regarding pack format. So we have large formats, middle size formats, small formats and trial packs which are very small formats, thus in the format line-up we think that have a good position. But what we can offer for a certain price we are not always positioned well. Thus with regards to that we look at the consumer but not necessarily that a consumer needs a bigger package or a smaller one because we are positioned well in this respect. But per market we do look at where we are at, do we have a 1 euro, 2 euro and 3 euro bottle? And where are the consumers? In some countries you will see that we aren’t in a group to offer a 1 euro SKU or a 2,5 SKU while our competitors do have this. So then we look at the market but more to what the competitors are doing than the consumer.

**Interviewer Florieke:** Thus if e.g. a 1 euro format of HTK is missing then you check what kind of product the competitor has on the market? Instead of looking at the consumer and what they miss?

**Interviewee Fallon:** Yes indeed, so we look at what the local market has, thus if the competitor has a large volume in a 1euro product format then we can always see if we can offer something in that range as well.

**Interviewer Florieke:** I did a survey with 160 respondents, and the conclusion is that there is a relation between the purchase frequency and the reason for preference and the preferred product format. Are these factors that you take into account?

**Interviewee Fallon:** From a European perspective it is very different, because in the Dutch market we offer a relatively low number of HTK product formats. Thus I can imagine that the Dutch consumer might miss certain formats. But from a European perspective, thus the entire line-up, that we have in Europe, that is of course a large portfolio, and then it is difficult to see what for the consumer of a local market the ideal offer is. Because I don’t look at what the line-up for the Netherlands should be. From a European perspective we have a whole lineup and we have per SKU and format we have a clear distinction which format is for big families, for value pack, convenience pack a trial pack etc. We have made this whole lineup. Certain countires will have or won’t have a product format and that will be based on the local consumer.

**Interviewer Florieke:** So that is decided within the countries which formats are sold?

**Interviewee Fallon:** Yes that is correct

**Interviewer Florieke:** From a European perspective the local preferences aren’t included in the development of the HTK portfolio?

**Interviewee Fallon:** If there is a very big local preference that we see in multiple countries then yes, but eventually our European portfolio is already very big and it is a kind of menu from which the countries can choose their pack sizes. E.g. in Netherlands they ‘miss’ a middle-big format but we do have it in the European portfolio. Then it is the question why the local marketer hasn’t implemented this format.

**Interviewer Florieke:** Thus, the initiative for new products or concepts takes place in the European team? Do you run these concepts by the local markets for their opinion or is it from a European point of view suitable for the market and is it therefore advised to be in the local markets portfolio?

**Interviewee Fallon:** Mostly the latter, we perform researches regarding different markets. E.g. if we look at inferno, regarding the entire hot chili range, then we have looked at the markets and the biggest markets where we see potential with hot chili ketchup and then we clearly communicate that the product has become jalapeno chili for example because of the following reasons. Therefore this product is most suitable for your market.

**Interviewer Florieke:** Are there then specific markets or countries where new products are tested? Or does it differ per product?

**Interviewee Fallon:** It differs per product, e.g. for Inferno we have chosen certain countries that are the key volume drivers of the hot ketchup range. So in these countries we have performed the tests with the final products, in Germany, France and the UK. And for HTK we have certain countries on which we put the focus as these are the growing markets and the markets where we have the highest profits. So there are markets where we are never testing, in Italy for example, and there are markets where we always perform research, Germany, France and the UK. And it does differ sporadically, sometimes we also involve the Netherlands or Spain, it depends on the concept and the product.

**Interviewer Florieke:** And now with the introduced new tk chili products, does thepromotion differ per country or are the general campaigns on facebook or in stores across Europe?

**Interviewee Fallon:** From a European perspective we have developed an entire communication campaign for Inferno, that is in-store, facebook, digital and a tv tag. And this again some kind of menu where the countries can choose what they are going to use locally. What you can see, as it is relatively cheap, all choose the facebook and instore promotions. We have developed an entire instore style guide so countries only need to print something instead having to design something. So this promotion comes from European initiative.

**Interviewer Florieke:** So these promotions are adapted to each country? I assume they differ in terms of language?

**Interviewee Fallon:** Indeed, the language is adapted to the country. In Germany we have the fiery chili, jalapeno and the hot chili and in the Netherlands we only have the hot and the jalapeno. And we have made sure that we developed our campaigns in such a way that the Netherlands will have these two SKUs in the key visual or in the instore assets. And for Germany have the full range so we have localized it.

**Interviewer Florieke:** Well that was the question. It is very clear what influences new products and the establishment of the portfolio and that you keep the European or Dutch consumer into account but that this is not always the determining factor. You also see what materials you still have in stock what kind of products exist. It is very interesting

**Interviewee Fallon:** You can’t always you always need to look at your consumer and the consumer is number one but it is also important from your own strong points and what we have and can expand, instead of always developing new products

**Interviewer Florieke:** And in the end you always look at the competitor or does this differ per country?

**Interviewee Fallon:** No we definitely look at the competitor, but you shouldn’t forget that in a country as the UK the market share has such a size that the next biggest competitor on the market is positioned 60% lower. So there we keep an eye on the competition but it is less important. IF you look at France where we fight on a weekly basis with Amora for market share then you take the competitor more into account of course.

# Appendix 6: Transcript interview with Annelies van Hierden

**Interviewer:** Florieke van der Laan

**Interviewee:** Annelies van Hierden, Account manager retail at H.J. Heinz (former Brand Manager Heinz sauces)

**Interviewer Florieke:** I sat down with Charlot and heard more about the SKU-process but that was more concerned with Europe but I am now interested what the Dutch approach is. So I was wondering if market research takes place in the Netherlands and what the influence is of the Dutch consumer on the portfolio and the development of the HTK portfolio in the Netherlands.

**Interviewee Annelies:** Ok, ask away.

**Interviewer Florieke:** Well my first question is, market research takes place continuously but is it also organized on a local level, here in the Netherlands?

**Interviewee Annelies:** No, not anymore. We used to have market research in the past and I’ve always had my own research department and it is of course very important to continuously have research, but after the reorganization the entire research department has moved to Europe which has been a huge loss for the local market as it is important to get a sense of what is going on in the market with the use of research, to check. We also used to have extensive research to get a first feeling we had a consumer panel, (food enzo) where we could plant our first thoughts on that platform. About a hundred people where connected to this panel and they gave us feedback on our ideas. So that was basically our first filter that we could execute. And after that we would enter a research plan or project. But now it is all organized on a European level. And slowly the teamwork is improving and that they will perform researched for us as well.

**Interviewer Florieke:** And these researches where mainly at the start of a new product or also if the products were already in store that you would organize certain tests regarding the quality or user friendliness?

**Interviewee Annelies:** In particular in the beginning, you have an idea and you want to test if there is a problem and if the concept will solve this problem. But if the product was already available then we rarely performed research, only if we wanted to create a variant of the existing product but not products that perform well, thus if there is no reason to perform research, then we won’t examine it. However, if the demand suddenly drops without any reason then research is desirable.

**Interviewer Florieke**: I’ve held a survey that was concerned with finding out what the favourite HTK product format was of the Dutch consumer and based on what. And a strong relation was shown between the purchase frequency and the reason for preference. But based on what kind of elements or types of consumer behaviour are the tests performed?

**Interviewee Annelies:** Eventually, you will be judged on the potential, how many people are interested and are prepared to purchase. That is also your last question, would you buy this product? And at what price level? Then you have two axes, would you buy this? Yes, and at what price level? And at which price level will I have the highest number of buyers? So the optimal price level is decisive in the end.

**Interviewer Florieke:** So you have to explore which price is best for the consumer? Which price meets the price that the consumer is prepared to pay?

**IntervieweeAnnelies:** Yes, but that is of course at the end. As you begin with a concept, and you create 20 – 30 concepts in the concept lab/research. And then you don’t consider price yet but you first check will my product solve an existing problem or not? If yes, will the consumer understand the concept and do they need it? That is phase one, in the end a couple concepts will come out of this phase e.g. 5 concepts that are recommended. Then you continue to develop these concepts and start working with taste and the technical aspect/people. And then a price test will be performed.

**Interviewer Florieke:** So how big is the influence of the preference and the opinion of the consumer, in the concept phase? And in the end if the products are sold, how big is the influence of the consumer behaviour then?

**Interviewee Annelies:** Well it’s really simple, if people don’t buy the product then you haven’t done your research well and then the product will be taken out of the store. We mainly look at the rotation, how many times per week per store is the product sold and if that is very low when looking at the category and you perform badly then you’re doing something wrong. Then there are two options either you take the product from the shelf or you try to find out what is going on. Or it might be a strategic choice to keep the product in your portfolio as the product might become important for the long term.

**Interviewer Florieke:** And based on what are these decisions made?

**Interviewee Annelies:** Based on your strategy. If you want to play a role in soups with Heinz and you now have an SKU but you know that you are developing a great concept revolving around soups, then it is a strategic choice to keep the soups to maintain your shelf space. Thus you are going to try not to get remediated because you know that a new product is coming.

**Interviewer Florieke:** And what are certain things to improve sales? Are these promotions or are you going to combine products or is it extra advertorials or facebook campaigns?

**Interviewee Annelies**: It depends on the problem, with curry gewurz for example, a new product since 1,5 years, there is an awareness problem. People don’t know that we sell curry and secondly, they are attached to their current curry flavor, in this case, Hela. Firstly, we need to announce that Heinz sells curry and secondly, we need to let them taste that we are the best because we have a better recipe. Then we advertised only but also in printed media and shopper pages of the Libelle and Margriet, and you let people try the product. Last week we had a demonstration at the Jumbo to let people taste that it is a good curry. But also with ‘free’ actions, with a neck sleeve on the bottle that says, try it which will lower the threshold for people to try the product.

**Interviewer Florieke:** If in the end it is clear that the product won’t be success, will there be a communication plan if the product is delisted in the end?

**Interviewee Annelies:** Nee, there is no communication. If it doesn’t work you need to ease the pain as quickly as possible and take the product from the shelves. However, consumer behaviour is most difficult to influence, that is no 10month plan, it takes very long before you can adapt consumer behaviour. And most certainly in the case of the curry product where people have been using the same product for many years. It will take a long time to prove yourself. So you shouldn’t do it to fast as your investments will be useless. If you really believe that it fits in your strategy and plan, and you want to become with this product then you will need to give full support for 2 to 4 years. Or if it doesn’t fit into your plan, quickly take it from the shelves and don’t talk about it anymore.

**Interviewer Florieke:** and how does the communication with the retailer go?

**Interviewee Annelies:** The retailer already says the curry is not going well, we will remediate it if you don’t do anything about it. Thus if we say that the product needs to be remediated then the retailer will definitely agree.

**Interviewer Florieke:** What are the risks of making changes to HTK and the portfolio? I believe the tube is going to be delisted? So what are the specific changes and risks that you take into account?

**Interviewee Annelies:** In the case of the tube there is a big risk as the packaging attracts a specific and exclusive type/group of buyers, certain buyer profiles. So if we delist a 600ml TD then you will see that if this product is out of stock, the buyer will switch to 400 or 300ml and then the consumer will be very loyal to the brand. But because the tube has such a different product format, many people will not switch to a different HTK, but they will switch to a different tube of a different brand. So that is why you really need to look at your buyer profiles if delist something, who are these people and can we expect them to go back to the brand if we delist the product.

**Interviewer Florieke:** And these buyer profiles are based on data of Nielsen or is this internal research?

**Interviewee Annelies:** No these are GFK data.