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Case study

The need to adapt to local tastes

Oreo changed its biscuits for China

The story. Kraft Foods' flagship Oreo brand first went on sale in China in 1996. But sales were lacklustre and by 2005 it was clear that one of the world's largest biscuit brands was falling far short of expectations in this fast-growing retail market.

Shawn Warren, regional head of biscuits, and his team knew they had to take radical action or risk the distinctive black-and-white-layered round biscuits being pulled off the shelves in China.

The challenge. Growth was stalling at a time when the biscuit sector overall was experiencing record growth in China. Apart from a small rise in 2003, Oreo sales had been sluggish from the outset, and shipments into China were projected to drop by more than 10 per cent in 2005. To make matters worse, the company was losing money on each Oreo sold. Even a near-40 per cent rise in marketing spend yielded no boost in sales.

Research revealed that Kraft's positioning of the brand had missed the mark. First, its sales and marketing strategy had simply been replicated from the US. Advertising and in-store displays were translated directly, and the pricing structure and packaging were largely the same as in the US. Second, Kraft had paid too little attention to what Chinese consumers prefer. For example, the biscuit was too sweet. It seemed that Oreo's product was dictated by the manufacturing process, not by the market.

Mr Warren recognised that without a significant strategic reorganisation, the company might have to pull Oreo from China altogether. He and his team needed to challenge decisions that had been made at Kraft's Illinois head office and convince it to make Oreos more suited to Chinese consumers.

The strategy. The Oreo China team adopted a multi-pronged approach:

- It introduced a less sweet version called LightSweet Oreo. The team also convinced headquarters to reformulate the original Oreo – for the first time in its 93-year history – to adapt biscuits on sale in China to local tastes.
- The size of the packet was reduced, while the team also introduced another, smaller packet so consumers could get a first taste of Oreo biscuits at a lower cost. The smaller packets required changes in the manufacturing plant. Similarly, marketing promotions that relied on bonus packs (extra biscuits for the same price in a bigger pack) were replaced with more economical in-store samples.
- The team expanded distribution beyond grocery stores and hypermarkets to include convenience stores, a fast-growing outlet for consumer packaged goods. Carrefour in Shanghai offered to sell Oreos by weight, which gave customers more control over how much to buy.
- Recognising the popularity of wafers in China, the team introduced chocolate-covered wafer sticks. Convincing senior management to introduce a new product was not easy, but Oreo sticks were a big hit and soon gained 30 per cent of wafer sales overall. Wafer sticks later launched in some other oveseas markets.

The results. Manufacturing, packaging, distribution and marketing were aligned with the Chinese market and sales soared from \$20m in 2005 to more than \$400m in 2012. But the shift in mindset from rigidly relying on orders from the US to harnessing the local team's sense of consumers' tastes was also a significant outcome.

\$400m

Sales in 2012, up from \$20m in 2005

30%

Share of market for new Oreo wafer sticks

The lessons. Oreo's experience illustrates the dilemma faced by a multinational brand entering a new market. There are different consumer tastes and local sensibilities to cater to but international brands often rely on the parent product's strategies because they have worked well over long periods in established, familiar markets.

By launching new products in China that were recognisably Oreos but were sensitive to local preferences, the brand ensured sustainable growth by balancing traits that made the global Oreo brand successful while adapting to the local market.

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