Nestlé’s Merchandising Location Strategy Wins with Retailers

Ice Cream as a Snack?
Nestlé, the world’s largest food company whose portfolio includes well known ice cream brands such as Edy’s/Dreyer’s, Haagen-Dazs and Skinny Cow, wanted to revitalize the slow growth ice cream category. But how does one revitalize a long-established category that already has nearly universal penetration? Nestlé chose to frame the business differently by looking at it in the context of snacking. At $100 billion, the snacks category dwarfs the $10 billion ice cream category, and it is growing. In fact, nearly two in three people snack four or more times a day. This could lead to new usage occasions for ice cream and grow the buy rate for the category.

Nestlé began the exploration by creating a “roadmap” that identifies broad consumer trends and key retailer needs that could lead to growth strategies. According to Russ Onish, Director of Category Leadership & Shopper Insights for Dreyer’s Grand Ice Cream, Nestlé USA, “We decided to focus on three consumer needs: wellness, convenience, and variety seeking. This naturally led us to ice cream cups.” Unlike packaged ice cream, single-serve cups offer portion control (wellness), they can be eaten from the cup (convenience), and it’s easy to buy a combination of flavors for the household (variety seeking). Not surprisingly, the concept generated strong consumer feedback. At a higher price per serving versus packaged ice cream, there was a great retailer story to trade consumers up to increase profitability.
Business Issue

Where to Locate Cups?
Nestlé was getting ready to launch a new line of cups for the 2010 season, planning to make a big impact to the cups category by introducing 15 SKUs. The flavors were identified, formulations were finalized, packaging was created, and production plans were made. But an important retailer question surfaced: now that the cups category will have critical mass, should the cups be shelved together in dedicated doors or should they be part of their respective brand families? The Nestlé brand teams predictably wanted to maintain brand blocking, while the innovation team saw the opportunity to create a new destination with a new eating occasion and different consumer benefits.

One way to answer the question would be to test each configuration in a handful of stores in market. But there wasn’t time: important retailer meetings were coming up.

Study Overview

Testing Location and Promoted Pricing
Nestlé turned to Decision Insight to answer the merchandising location question as well as a secondary question on pricing – whether the promoted price should be 99¢ each or 10 for $10. Nestlé chose to use Decision Insight’s proprietary online virtual shopping platform called SimuShop®. The platform has been validated in the marketplace and is much quicker, more affordable and more controlled than an in-market test.

The alternative arrangements were tested in two virtual retail environments: Safeway and Kroger. Category shoppers were recruited online to participate in the study. Video fly-throughs moved shoppers from the parking lot into the store and to the ice cream section. Once in the aisle, they shopped the category as they normally would. The shoppers could buy as much of any product as they wished, or even walk away from the aisle without purchasing anything. It was a large study with 20 freezer doors and over 400 SKUs, but one that SimuShop is designed to execute.

Brand Team: With brand family to maintain brand blocking

Innovation Team: Dedicated doors to create a cups destination
Key Learning

Skinny Cow is a Different Animal
Initially the project was designed to test two merchandising location scenarios, dedicated cups doors and cups with the parent brand. But as with many business decisions, it became apparent it wasn’t that black and white. Skinny Cow is different from the other cup brands. Being a better for you product, the brand has a very loyal following who knows exactly where to find it. And once she finds it, she tends not to shop the rest of the aisle. Skinny Cow doesn’t have packaged ice cream offerings; it is in the ice cream snacks section. And, it is higher priced. Skinny Cow cup promoted pricing is $1.25, so it couldn’t be promoted with the other cups at 99¢ or 10 for $10.

With these considerations in mind, the team decided to have respondents shop: totally dedicated cups doors, dedicated cups doors sans Skinny Cow, and cups with the parent brand – all with and without promotion.

Results Give Clear Direction
Thinking of Skinny Cow as a different animal paid off: the strongest location strategy is to merchandise the cups together, except for Skinny Cow. This scenario created the strongest category revenue, as well as the strongest sales for the Nestlé portfolio. Importantly, it motivated shoppers to variety seek which is a fundamental part of the business plan.

The promoted pricing results point to the 10 for $10 strategy. Slightly more shoppers are attracted to the multiples price point, and they buy more cups at a time resulting in stronger revenue.

“The results clearly show the importance of placement in the aisle to drive sales, especially in large categories where it’s easy for new offerings to get lost.”

Alex Sodek, Senior VP, Decision Insight
Conclusion

Speedy and Successful Implementation
Within weeks of receiving Decision Insight’s virtual shopping results, the Nestlé Shopper Marketing team presented the merchandising story to key retailers. Feedback was positive and plans were made to create the dedicated doors for the 2010 season.

The in-market results are impressive: as of Q2 2010, 90% of stores now stock cups together, and cup revenue is up 53% in those stores. Nearly as many stores (85%) followed the recommendation to keep Skinny Cow as a separate brand block, and as a result Skinny Cow sales have more than doubled in those stores.

Overall, ice cream cups are showing explosive growth. Cup category revenue is up 35% in the first six months of 2010 versus the same time period in 2009. Creating the right “on-trend” consumer offering, providing the retailer the right reasons to carry it, and merchandising in the optimal location is clearly a recipe for success.

“At first I had a healthy skepticism around virtual shopping. In this situation we didn’t have the offerings or the time to do in-store work so we decided to give virtual a try. We were very impressed. Decision Insight’s solution is really excellent for merchandising questions. I highly recommend them for their expertise and timeliness.”

Russ Onish
Director of Category Leadership & Shopper Insights, Dreyer’s Grand Ice Cream, Nestlé USA

About Decision Insight
As the importance of shopper marketing programs increase, a rapid, flexible, and cost-effective approach to testing shopping behavior becomes increasingly critical. By using online virtual shopping to recreate the context of a store, Decision Insight tests retail-specific strategies to optimize product assortment, product placement (in store or on the shelf), POP promotions, pricing, and packaging, by category. Named the purest research house among the leading virtual shopping suppliers, Decision Insights is headquartered in Kansas City. For more information or to discuss your business issue, go to www.decisioninsight.com.