

General Certificate of Secondary Education  
June 2008



**BUSINESS STUDIES SPECIFICATION A**

**3132/PM**

**Foundation and Higher Tiers**

**F&H**

**Case Study**

**To be distributed to candidates no sooner than Monday 10 March 2008**

#### **NOTICE TO CANDIDATES**

You will be given **one** copy of this Case Study for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

You will be provided with a clean copy of the Case Study, along with the question paper, for use in the examination.

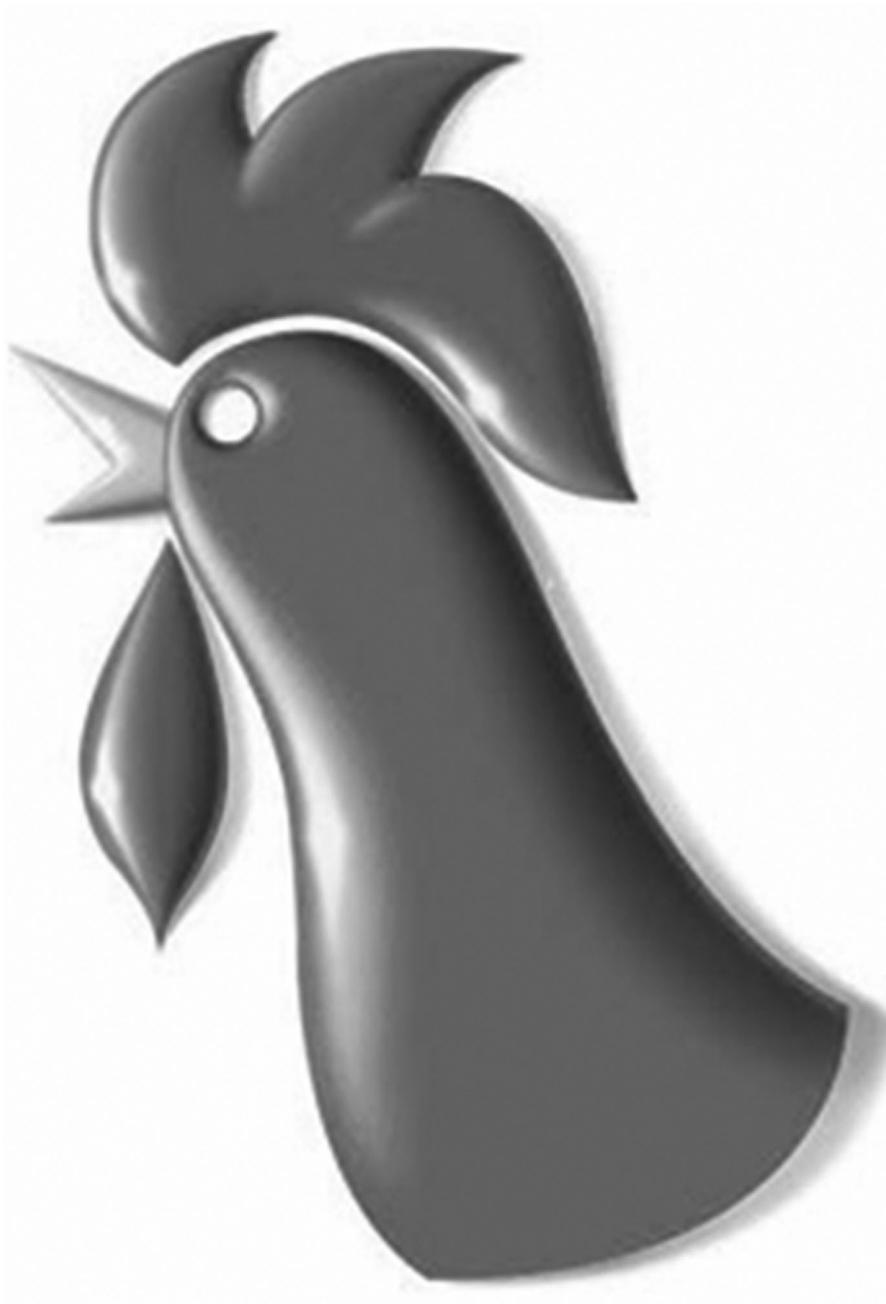
You are advised to carry out your own research using this Case Study. It is the business concepts and ideas raised by the Case Study which should be researched.

**DO NOT ASK THE COMPANY FOR MORE INFORMATION.**

**Your teacher is encouraged to give assistance and advice as required.**

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# Kellogg's



Source: [www.kelloggs.co.uk](http://www.kelloggs.co.uk)

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# Kellogg's

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## Background

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Kellogg's is a multinational company with its main base in the USA. Kellogg's has grown to become the world's leading producer of breakfast cereals and grain-based convenience food products.

Kellogg's manufactures more than 40 products, which are produced in 19 countries and marketed in 160 countries around the world. The Company employs about 16000 people worldwide and generates annual revenues of over \$10 billion.

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## History

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Will Keith (WK) Kellogg started the Kellogg's business in 1906 at Battle Creek, Michigan, USA. Will's brother John Harvey (JH) Kellogg was a doctor at a sanatorium (a type of hospital where people go to recover from illnesses, or to become healthier). John believed in the importance of a natural vegetarian diet, free from alcohol, tobacco and coffee. He encouraged people to change their eating habits to become healthy. Breakfast was seen as the most important meal of the day. John believed that breakfast should consist of grain products, such as oats and wheat.

Cornflakes was the product that got the Kellogg's business started. This product was discovered by accident. Will Kellogg had been trying to make new grain-based foods, that were nutritional but also tasty, for the sanatorium patients. A batch of wheat dough was left out accidentally one night. The next day, Will found the dough had dried out to produce separate grains that, when toasted, made cornflakes.

This discovery encouraged the Kellogg brothers to start food manufacturing on a larger scale. Their business was originally called Sanitas, but it later became known as Kellogg's.

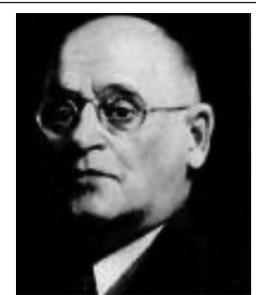
Kellogg's opened a cornflake manufacturing plant at Trafford Park, Manchester, in 1938. Manchester was chosen for the UK manufacturing base because the Manchester Ship Canal allowed bulky grains to be brought straight to the factory.



By the 1950s, the company had started to develop cereals to appeal to younger consumers. Frosties was the first of these products, appearing in the UK in 1954.

The UK operations were expanded when a new plant was opened at Wrexham, north Wales in 1978. The Wrexham plant produces bran-based cereals and Special K.

The UK and Ireland have the highest worldwide consumption of Kellogg's products per person. Kellogg's chooses to produce in a small number of locations in order to achieve large economies of scale. However, marketing is more locally based to meet the cultural needs of the different countries.



W K Kellogg



J H Kellogg

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## Manufacturing

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Unlike some cereal manufacturers, Kellogg's does not make cereals for any other company. Instead of making products that will be sold as supermarkets' own brands, Kellogg's prefers to market its products itself.

Cornflakes are manufactured using continuous flow production methods. The Manchester plant operates 24 hours a day throughout the year. There is some flexibility in the production line, so changes can be made, for example to packaging.

In 2006, the Trafford Park plant was the largest cereal manufacturing plant in the world, employing about 1 000 employees and making more than 65 million packets of cornflakes each year. The UK headquarters were also based in Manchester employing a workforce of 450.

During 2006, Kellogg's announced that it was to scale down its UK production. The Company planned to get rid of 220 jobs. After consulting with the employees' trade unions, it was agreed that there were to be no compulsory redundancies. The job cuts were part of Kellogg's plans to reduce costs and to improve the efficiency of its European operations. The decision to cut jobs was made as growth in European profits was falling, despite turnover increasing. Changes were made at the Trafford Park plant where outdated machines were replaced by more efficient machinery. Employees who used these machines were offered retraining or voluntary redundancy payments.



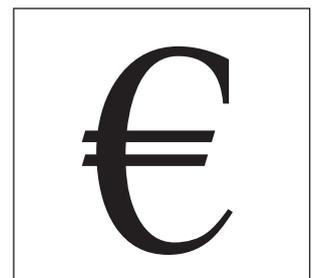
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## Economic Factors

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In 2005, Kellogg's moved its European headquarters from Manchester to Dublin. The decision to move was based on the lower rate of Irish corporation tax. Ireland had one of the lowest corporate tax rates in the world at 12.5%, while the main rate in the UK was 30%.

Ireland's currency is the euro, which makes trade with other EU countries more convenient. Kellogg's uses 39 types of cereal to manufacture its products, many of which are imported. This means that exchange rate movements affect how much Kellogg's has to pay for its raw materials.



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## Marketing

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In 1906, Will Kellogg decided to spend much of his working capital buying a full-page advertisement in a ladies' magazine. The results astonished him. Sales of cornflakes increased immediately from 33 to 2900 cases per day. Advertising remains the most important method of promoting Kellogg's products.

Kellogg's was the first company to use television as its main medium for advertising. Television remains an important promotional method. Kellogg's advertises products when its target market is most likely to be watching television. It also uses advertising as an extension strategy to prolong the lifecycle of a product that is approaching its decline phase.

Kellogg's also uses promotional campaigns to increase sales. In 2003, for instance, it launched its 'Drop a Jeans Size Challenge'. Slimmers were encouraged to swap a normal meal for a bowl of cereal, in addition to a cereal breakfast, in order to lose weight.



Kellogg's realises that, whilst cornflakes have been successful for more than 100 years, it needs to bring out new products all the time to meet the changing needs of its customers. For instance, in 2006, Kellogg's introduced Optivita, a cereal that contains ingredients that help to lower cholesterol levels.

Kellogg's can split its products into six groups, each targeting a different market sector.

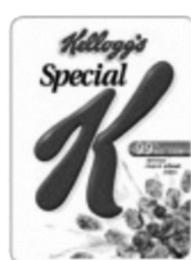
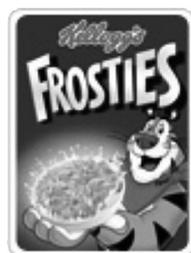
- **Tasty Start:** these are products designed to be eaten at breakfast (eg Cornflakes and Crunchy Nut)
- **Simply Wholesome:** these are the cereals that consumers believe are good for them (eg Fruit 'n' Fibre and Just Right)
- **Shape Management:** these are products designed for people who want to lose weight (eg Special K)
- **Mum Approved:** these are the products that parents/carers prefer to buy for their children (eg Rice Krispies)
- **Kids Preferred:** these are cereals designed to appeal mostly to the key children's market (eg Coco Pops and Frosties)
- **Inner Health:** these are products that people buy to make them healthier rather than purely for the taste (eg Optivita and All-Bran)

Kellogg's believes that advertising and packaging are the most important aspects of the marketing mix. Kellogg's uses bright packaging to distinguish its product from those of its competitors when on retailers' shelves. Often the packaging needs to be designed to appeal to both adults and children. Kellogg's will test new designs on consumers before new packages are introduced. It does this to check that the packaging does not confuse or put customers off.

Kellogg's welcomes comments from consumers, who are invited to contact the business on the free-phone number printed on every product wrapper. This service gives consumers confidence, knowing that the manufacturer is willing to listen to them.

## Brands

Kellogg's has developed many brands, which the company believes are the key to its success.



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## Stakeholders

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Kellogg's has a long-standing reputation for being an asset to the local communities and countries in which it operates. The charity WK Kellogg Foundation was established in 1930 'to help people help themselves and improve the quality of their lives'. In 2004, Kellogg's calculated that it donated more than £1.25 million to worthy causes in the UK alone.

Almost a third of the shares in Kellogg's is owned by the WK Kellogg Foundation. The dividends from these shares are used for charitable purposes around the world.

Amongst other things, the Charity has donated funds to improve deprived areas in Manchester and Wrexham, as well as setting up the Kellogg College, part of Oxford University, for part-time and mature students.

Many children come to school without having eaten. Kellogg's works with the charity ContinYou to promote breakfast clubs at schools. Having breakfast at school can help children to learn better.

Kellogg's has also supported the ASA, Amateur Swimming Association, since 1998.

## Employees

When Kellogg's started in 1906, Will Kellogg used to say: 'I'll invest my money in people.' Kellogg's continues to regard its employees as key to the success of the business.

Kellogg's operates a family-friendly approach to working. The Company has, for many years, offered employees flexible working hours. Childcare facilities and homeworking are also available. Kellogg's wants its employees to be comfortable at work, so operates a 'casual dress' policy in its offices. Additionally, Kellogg's offers a wide range of fringe benefits that include: incentive bonuses, on-site gym, private health and life insurance, and an employee share ownership scheme. Employees are also able to buy the company's products at a reduced rate.

Kellogg's believes that this approach to its staff gives the Company an advantage when attracting and retaining the best employees.

## Finance

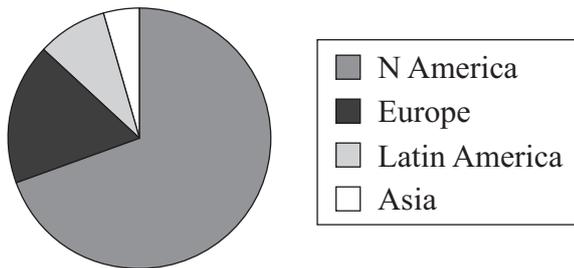
Figures taken from Kellogg Company accounts

	2006 US\$ m	2005 US\$ m
Total Revenue	10 907	10 177
Cost of Sales	6 082	5 612
Operating Profit	1 776	1 750

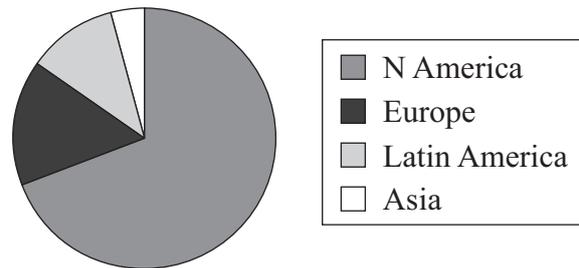
All figures are million US\$,  
rounded to the nearest  
million \$.  
10 177 means:  
10 billion, 177 million dollars  
– \$10 177 000 000.

Current Assets	2 427	2 197
Total Assets	10 714	10 575
Current Liabilities	4 020	3 163
Total Liabilities	8 645	8 291
Shareholders' Equity	2 069	2 284

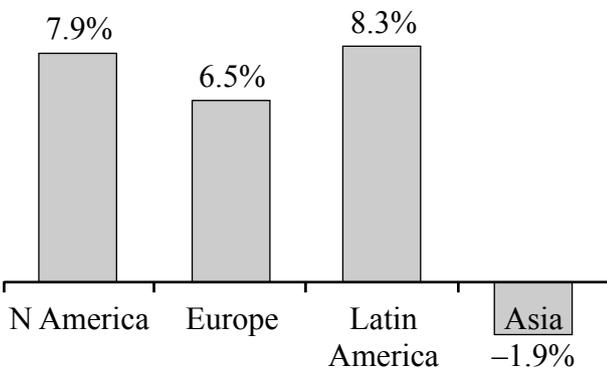
**Kellogg Company  
Sales by Region, 2006**



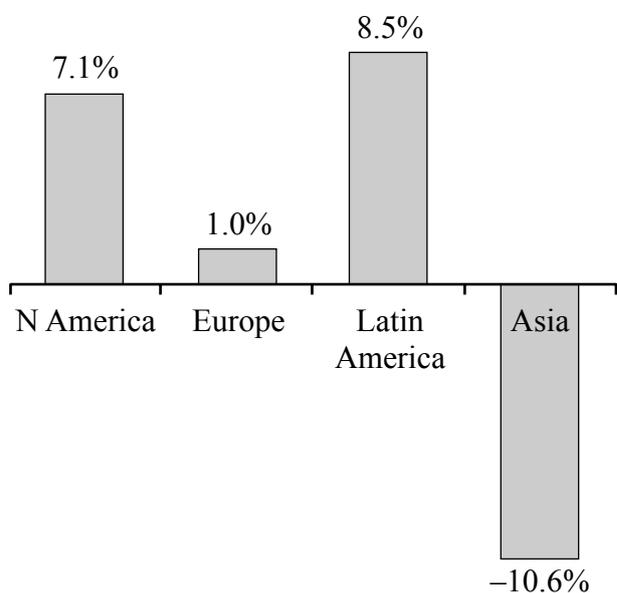
**Kellogg Company  
Operating Profit by Region, 2006**



**Kellogg Company Sales  
Percent change 2005 to 2006**



**Kellogg Company Operating Profit  
Percent change 2005 to 2006**



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### Issues for the future

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- Kellogg's needs to make sure that the Manchester plant increases the efficiency of UK production as new equipment is introduced.
- Kellogg's relies heavily on advertising to promote its brands and to gain customer loyalty. The increase in size of the EU market presents a great opportunity to Kellogg's. The company will need to promote its brands in new EU countries if it is to develop these markets.
- Changes in exchange rates can have a big impact on Kellogg's profits. The Company needs to consider ways of reducing the risks of big changes in these rates.
- The Company is trying to develop a global market for its products. Kellogg's must consider the cultural differences that exist throughout the world if the business is to succeed.

**END OF CASE STUDY**

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