

Introduction

Pemberton, a division of Candler Enterprises, aims to expand into the salty snack market through the launch of Krispy Natural, a premium, all-natural cracker line. The core issue is balancing executive pressure for rapid national expansion with the mixed test market results. While Columbus showed promising results with an 18% market share, the Southeast underperformed, indicating regional disparities. Moreover, Marne's expectations to double the original \$500M forecast raise strategic concerns. The decision requires careful evaluation of feasibility, competitive responses, and financial implications.

This case study evaluates:

- The feasibility of a national rollout based on test market results.
- Expected market share and revenue projections.
- Pricing strategy adjustments.
- Competitive reactions and strategic counteractions.

A1. Should Krispy go national?

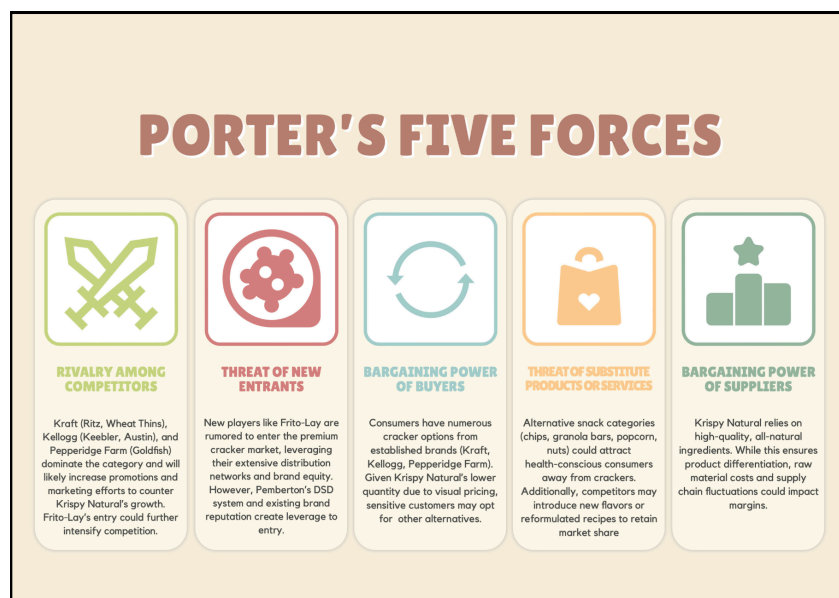
Assessing the Market Demand for Krispy Natural

To determine whether Krispy Natural should expand nationally, it is essential to evaluate the market potential and demand for the cracker industry. The U.S. cracker industry was valued at \$6.9 billion as of 2011, with an annual growth rate of 6-7%, indicating steady expansion. While concerns exist that crackers may be overshadowed by trendier snack options, data suggests otherwise. A significant 74% of U.S. consumers regularly eat crackers, and 53% prioritize health-conscious choices, reinforcing a strong consumer base for Krispy Natural's premium, all-natural positioning.

Competitive Landscape and Market Challenges

The cracker industry is highly competitive, with major players such as Kraft (Nabisco brands), Kellogg (Sunshine, Keebler, and Austin brands), and Pepperidge Farm (Goldfish brands) controlling a significant portion of the market. Notably, Krispy Natural's test market share gains in Columbus came at Kraft's expense, which saw a 7% decline. However, competition is intensifying, with reports suggesting that Frito-Lay is planning to enter the market, potentially launching a new cracker line on the same timeline as Krispy Natural's expansion. This development raises concerns about market saturation and potential price competition, which must be factored into Krispy Natural's expansion strategy.

Using Porter's five forces to analyze Krispy Natural's competitive positioning in the market



Pemberton's Strategic Strengths

Despite the competitive challenges, Pemberton, Krispy Natural's parent company, possesses several strategic advantages that support expansion efforts. First, Pemberton has a strong brand reputation, being a market leader in the sweet baked goods sector, which provides credibility and consumer trust. Second, its Direct Store Delivery (DSD) system ensures effective retail execution, allowing for efficient distribution and merchandising control. Third, Pemberton's robust infrastructure and development capabilities have enabled it to create a superior taste profile, evidenced by the 4-to-1 consumer preference for its White Cheddar cracker over competing products. These strengths provide Krispy Natural with a solid foundation to expand strategically while maintaining a competitive edge.

Operational Challenges and Risks

While Pemberton's strengths create favorable conditions for expansion, certain operational challenges and risks must be addressed before a national rollout. First, regional disparities in consumer reception pose a challenge, as test market results indicate underperformance in the Southeast. This suggests that not all regions may embrace Krispy Natural equally, requiring a targeted approach to expansion. Second, Columbus' market success may have been possibly

due to heavy promotional efforts, which may not be a sustainable long-term strategy. Pemberton's Direct Store Delivery (DSD) model has been a major factor in the company's growth, particularly for perishable goods. However, applying DSD to Krispy Natural crackers may not yield the same benefits. Unlike perishable items, crackers have a longer shelf life, making traditional warehouse distribution (WHD) a more cost-effective alternative. Additionally, DSD requires higher trade spend, reducing the price flexibility necessary to compete with entrenched brands like Kraft and Kellogg. Pemberton's DSD success does not necessarily translate to the cracker market, and this misalignment may hinder profitability rather than enhance it.

Strategic Recommendation: A Phased Regional Rollout

Given the market opportunities, competition, strengths, and risks, a gradual regional expansion, in my opinion, is the most judicious approach. High-performing regions such as the Midwest should be prioritized, as they have shown strong consumer demand and alignment with Krispy Natural's product positioning. Once these markets demonstrate sustainable success, further expansion can be considered. This regional rollout can also be strategically timed while taking into account the activity of dominant competitors like Frito-Lay. To counter competition, Krispy Natural secures exclusive retailer partnerships and implements customer retention initiatives such as loyalty rewards and referral incentives. This approach allows Krispy Natural to optimize its distribution strategy, mitigate financial risks, and refine its marketing efforts before committing to a full-scale national expansion.

A2. What share would you project, based on test results?

Evaluating Test Market Performance

To estimate Krispy Natural's potential market share at a national level, analyzing the results from test markets in Columbus, Ohio, and the Southeast provides valuable insights. These two test markets exhibited contrasting outcomes, highlighting both the growth potential and market challenges that Krispy Natural may face during expansion.

High Adoption Model (Columbus Market Success)

The Columbus test market significantly outperformed expectations, achieving an 18% market share in 16 weeks, which is double the original projections. This success may have been partly due to strong promotional efforts, consumer enthusiasm, and effective retail execution. If this high-adoption scenario were applied nationally, Krispy Natural could achieve Year 1 sales of approximately \$1 billion. However, this projection assumes sustained promotional support, high

consumer adoption, and minimal competitive pushback, which may not be feasible in a broader market.

Low Adoption Model (Southeast Market Performance)

In contrast, Krispy Natural's performance in the Southeast test market was underwhelming, achieving only a 10% market share despite existing brand familiarity. This result suggests regional variations in consumer preferences, price sensitivity, and stronger competitive resistance may affect the product's target market share. If this more moderate adoption pattern were to be extended nationally, projected Year 1 sales would be approximately \$550 million. This scenario implies slower growth and a greater need for targeted marketing efforts.

Realistic National Market Share Projection

Given the significant differences between the Columbus and Southeast test results, I believe a blended approach will provide a balanced and realistic projection. Test market data suggests an optimistic 18% share in Columbus but only 10% in the Southeast. However, Columbus benefited from aggressive promotions (e.g., Krispy Force reps and premium shelf placements in 14% of stores), skewing results. The Southeast's more organic sales performance likely represents a more realistic national scenario. A blended approach suggests a 9-12% national share, but further testing in a controlled market without promotions is necessary to refine projections. Furthermore, a control test market can be established without the promotions and customer incentives to solidify our explanation for our share in both Columbus and the Southeast.

Conclusion

Based on test market data and competitive dynamics, a 9%-12% national market share is the most realistic projection for Krispy Natural's Year 1 expansion. While the Columbus model provides an optimistic scenario, the Southeast's more modest performance suggests potential regional challenges.

A3. Would you change the price plan?

Current Pricing Strategy and Market Positioning

Krispy Natural currently follows a premium pricing strategy, setting its price 155% above the category average per ounce. This pricing model is designed to reinforce the brand's premium positioning by leveraging natural ingredients and superior quality. To maintain "visual price parity" with competitors, Krispy Natural sets its retail price at the same level as major brands like Kraft and Kellogg but offers a smaller package size. This strategy is intended to differentiate Krispy Natural as a higher-quality product, justifying its premium price point.

Challenges and Considerations in Pricing Strategy

Despite the benefits of premium pricing, several challenges must be considered when evaluating the effectiveness of this approach. One major concern is that premium pricing may limit consumer adoption beyond early adopters, making it difficult to gain mass-market penetration. Value perception is another critical issue. Consumers may feel they are receiving less quantity for the same price and this may potentially reduce repeat purchases which will in turn affect long term gain. Additionally, competitor response is a key risk, as major brands like Kraft and Kellogg could engage in aggressive discounting, making Krispy Natural's pricing appear even less competitive. To address these concerns, strategic adjustments are necessary to balance premium branding with perceived value and competitive positioning.

Recommended Adjustments to Pricing Strategy

Rather than lowering prices, Krispy Natural should enhance perceived value through premium packaging design rather than simply increasing package size. According to research, visual appeal, high-quality materials, and functional packaging play a critical role in justifying premium pricing and shaping consumer perception. By utilizing sleek, sustainable packaging and

functional enhancements (such as resealable closures), Krispy Natural can create a stronger sense of value without engaging in price reductions that could undermine its premium positioning. Maintaining this perception is essential, as direct price cuts could erode brand equity and trigger competitive price wars.

B. If Krispy does go national, it is highly likely that existing market competitors would react. Explain the likely competitive reaction. What would you do in response to this?

Likely Competitive Reactions

As Krispy Natural expands nationally, major competitors are expected to react aggressively to defend their market share. These competitors include established brands such as Kraft (Nabisco), Kellogg (Keebler, Sunshine, Carr's, Austin), and Pepperidge Farm, all of which dominate the U.S. cracker market. Thus any national rollout must anticipate these defensive moves and counteract them with **differentiated brand messaging rather than price wars**. Their responses will likely fall into three key areas:

Direct Competitors:

Kraft : With a track record of sustaining share losses over the past 3 years, it is likely that Kraft may need to increase spending on marketing, advertising, and product innovation. Economic downturns could drive consumers toward lower-cost alternatives, making it critical for Kraft to reinforce product differentiation and perceived quality.

Kelloggs: Kelloggs will most likely resort to innovation to maintain its competitive edge as evident in their previous expansion of the Cheez-It brand with innovations like Cheez-It Puff'd and Cheez-It Snap'd.

Pepperidge Farm: Pepperidge, known for its premium positioning, could focus on leveraging its quality and brand loyalty to retain customers. This strategy is evident in the launching of their digital loyalty programs to reward consumers and enhance engagement.

Retailers: Shelf Space Competition

Increased competition for shelf space may result in higher slotting fees and increased pressure on Krispy Natural to justify its premium pricing strategy.

Potential New Entrants: Larger Snack Companies Entering the Market

Mars Inc.: Expanding its presence in the snack food market, Mars Inc. plans a nearly \$30 billion acquisition of Kellanova, which includes chips and crackers. This move reflects a broader trend

of consolidation within the food industry, as companies seek growth amid changing consumer demands.

Lastly

My Strategic Response: Defending Krispy Natural's Market Position

To effectively counter competitive pressures, Krispy Natural should implement a comprehensive strategy that emphasizes brand differentiation, leverages influencer marketing, optimizes retail execution, and enhances perceived value through smart pricing.

Brand Differentiation: Emphasizing Whole Grains & Sustainability

A 2021 survey found that 59% of Americans choose whole grain options at least half the time, with this figure rising to 74% among health-conscious consumers. Similarly it has been recorded that sustainability influences food choices for 26% of younger consumers (Gen Z and Millennials). Thus it is advantageous for Krispy Natural to highlight the use of 100% whole wheat and sustainable practices to appeal to health-conscious and eco-friendly consumers of our crackers. This emphasis can be achieved by securing prominent shelf placements to attract discerning shoppers.

Marketing & Promotion: Leveraging Influencer Partnerships

Research indicates that Instagram influencer marketing in the food industry achieves an impressive engagement rate of 7.38%, significantly outperforming traditional advertising methods. To capitalize on this trend, Krispy Natural should collaborate with influencers to enhance brand visibility, build consumer trust, and effectively reach its target audience.

Conclusion: A Balanced Approach to Expansion

As Krispy Natural expands nationally, it will face aggressive price competition, retailer pushback, and potential new entrants. By reinforcing its brand differentiation, optimizing distribution, and implementing strategic marketing efforts, it can effectively counteract these competitive challenges.

Resources

<https://edit.org/edit/all/1hnwp8eyi>(Porters template)

https://www.larksuite.com/en_us/topics/food-and-beverage-glossary/market-penetration#significance-of-market-penetration-in-f&b

<https://hbsp.harvard.edu/coursepacks/1246080> (course pack detailing Krispy Natural's Journey)

[3 Levels of Customer Adoption Explained | TSIA](#)

<https://userpilot.com/blog/product-adoption-process/>

<https://fastercapital.com/topics/impact-of-packaging-on-perceived-value-and-price-sensitivity.html>

<https://www.sec.gov/Archives/edgar/data/1103982/000104746907001530/a2176027z10-k.htm>

<https://www.fooddive.com/news/cheez-it-growth-kellogg-snacking-company-split/636404/>

<https://www.pepperidgefarm.com/newsroom/pepperidge-farm-launches-first-ever-digital-loyalty-program/>

<https://www.supermarketperimeter.com/articles/831-selling-cookies-crackers-on-the-perimeter>

<https://www.wsj.com/business/retail/in-mars-megadeal-big-food-wants-to-get-bigger-6785489a>

https://wholegrainscouncil.org/sites/default/files/atoms/files/WGC-Survey2021_0721.pdf

<https://wholegrainscouncil.org/blog/2021/07/six-key-findings-2021-whole-grains-consumer-insights-survey>

<https://www.flaminjoy.com/blog/influencer-marketing-food-industry-roi/>

