
Heinz Ketchup: Pricing the Product Line (Abridged)

An Iconic Brand

Heinz Ketchup has long been a nostalgic piece of Americana. Millions of consumers in 140 countries from all walks of life have purchased and used what has become a symbol of American innovation and prosperity. In the United States, ketchup was ubiquitous, always served with American favorites such as hot dogs, hamburgers, and french fries. It has graced the tables of outdoor barbecues, church festivals, truck stops, and countless restaurants across the United States and around the world. It was distributed by all major grocery retailers in the United States and many outside the United States. At any given point in time, 95% of U.S. households had some ketchup in their pantries or refrigerators, and over half those households chose Heinz. It has even been immortalized by Andy Warhol's sculpture of the *Heinz Tomato Ketchup Box*, 1964. (Figure 1).

Figure 1. *Heinz Tomato Ketchup Box*, 1964 (synthetic polymer paint and silkscreen ink on wood).



Source: Andy Warhol Foundation for the Visual Arts/Artists Rights Society (ARS), New York. Used with permission.

Competition and Retail Pressures

Heinz Ketchup competed against other ketchup brands, most notably Hunt's. But in many respects, its primary competitors were retailers that had developed their own private-label products. In effect, Heinz's own channels of distribution competed against the Heinz brand. Retailers achieved far better margins by devoting shelf space to in-house products, so these labels were aggressively marketed on store shelves. Heinz was under constant pressure to offer trade deals to retailers and often cut its wholesale prices substantially on the most

popular sizes in exchange for marketing support at the retail level. Such frequent trade dealing had the effect of undercutting Heinz's margins and eroding profitability. Over the previous 20 years, however, this strategy enabled Heinz to block the growth of private-label ketchup and to significantly strengthen its market share position.

The Red Rocket

Heinz's Red Rocket 24-oz. ketchup bottle, designed to be reminiscent of the older glass bottles, was introduced in 2000. Although it was successful by some measures, it caused a complex marketing problem.

One of the key tactics Heinz had adopted in order to block its competitors' private-label growth was to run seven annual trade promotions discounting the Red Rocket to a 99-cent retail price point.¹ Therefore, when retailers ran promotions to lower the price of any of their items, they were in essence compressing their gross margin in hopes of driving higher-volume sales. Heinz and other manufacturers paid out trade allowances (discounts from the normal sales price) to retailers to help offset the margin compression during these promotional periods. Retailers across the country embraced this Heinz promotion strategy, giving it the highest level of support with front-page features in their weekly flyers and prominent in-store displays during each of the seven promotional periods.²

While the Red Rocket promotions resulted in temporary category expansion and strong retail support, they also produced several negative effects. The 99-cent price point trained consumers to wait to purchase ketchup until these periodic sales took place. This led to more than 50% of retail volume being sold during promotion periods. Retailers realized that the Red Rocket promotions were also great for blocking Wal-Mart's "Everyday Low Price" strategy, which kept prices so low that Heinz felt pressured to extend the Red Rocket's discount periods. (See **Exhibit 1** and **Exhibit 2** for a display of price points for Heinz Ketchup products).

Leveraging Consumer Habits

Marketing research conducted by Heinz uncovered an interesting consumer habit: A modest increase in ketchup consumption seemed to result when people purchased larger-size bottles (**Table 1**). This finding was not being driven by the simple fact that people who wanted to consume more ketchup typically purchased larger sizes. Rather, the researchers at Heinz captured what was described as "exogenous stockpiling...which triggers consumption," uncovering how customers' consumption behavior changed if they were convinced to purchase a package size that was larger than the size they typically bought.³

Table 1. Percentage increase in ketchup use when consumers switched from a 24-oz. (Red Rocket) bottle.

Consumers Switching from 24 oz. to...	32 oz.	36 oz.	46 oz.	64 oz.	Twin 50
Expandability Rate	27%	44%	78%	150%	330%

Source: Heinz. Used with permission.

¹ Marketing support could include lower prices for the promoted product at the retail level, premium or additional shelf space, and/or inclusion in the weekly feature flyer circulated by many grocery stores.

² Pam Demetrakakes, "Heinz and Hunt's Play Ketchup with Upside-Down Bottle Battle: Here's What Happens When Two Ketchup Giants Develop Similar Concepts at the Same Time," *Food & Drug Packaging*, August 2002.

³ Pierre Chandon and Brian Wansink, "When Are Stockpiled Products Consumed Faster? A Convenience-Salience Framework of Postpurchase Consumption Incidence and Quantity," *Journal of Marketing Research* 39, no. 3 (August 2002): 321–35.

Another noticeable theme discovered by the research was that because ketchup was a storable product, people in the tested focus groups were willing to purchase more ketchup at one time in anticipation of future need. Thus product freshness was noted as being a less critical value driver than price or the consistency of quality.

Given this information, the marketing team determined that Heinz would see sales and revenue growth if consumers could be persuaded to change their behavior by purchasing larger bottles of ketchup. The marketing team decided to first focus its efforts on the 46-oz. bottle.

Promoting the 46-oz. Size

Heinz management needed to come up with a case price discount for the 46-oz. size that would incentivize retailers. From conversations with the retailers Heinz management decided that if it promoted the 46-oz. size at all, retailers would like it to be priced at \$1.99 per bottle during the promotion. Then the Heinz pricing team convened a meeting and asked a key question: What case price discount would make money for Heinz and prompt retailers to drop the shelf price to \$1.99?

Exhibit 1

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Price Points for Heinz Ketchup Products

Retail Prices

	No Promo Price	Promo Price
14 oz.	\$1.49	Not Promoted
24 oz.	\$1.69	\$0.99
36 oz.	\$2.49	\$1.50
46 oz.	\$3.09	Not Promoted
64 oz.	\$4.19	Not Promoted
Twin 50 oz.	\$5.99	Not Promoted

Source: Heinz. Used with permission.

Exhibit 2

Heinz Ketchup: Pricing the Product Line (Abridged)

Price Points and Margin Information for Heinz Ketchup Products

	14 oz.	20 oz.	24 oz.	32 oz.	36 oz.	46 oz.	Twin 50	64 oz.
Units / Case	24	12	20	12	12	12	6	9
Price / Case	\$23.72	\$15.18	\$25.30	\$22.88	\$22.88	\$29.06	\$30.44	\$29.84
Trade Allowance			\$6.00		\$6.50			
Net Price	\$23.72	\$15.18	\$19.30	\$22.88	\$16.38	\$29.06	\$30.44	\$29.84
Cost of goods	\$15.65	\$11.44	\$18.74	\$15.41	\$16.14	\$20.51	\$25.01	\$21.02
Gross Margin	\$8.07	\$3.74	\$0.56	\$7.47	\$0.24	\$8.55	\$5.43	\$8.82
% gross margin	34%	25%	2%	33%	1%	29%	18%	30%

Source: Heinz. Used with permission.