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**KITKAT IN JAPAN (C): power of the postal service**

Philip Sugai wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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In the spring of 2009, Masafumi Ishibashi and Ryoji Maki were fresh from a successful marketing campaign targeting students. After reviewing recent figures however, they realized that they had a critical decision to make regarding the fate of the overall KITKAT brand portfolio: was KITKAT “too sweet” for some of their older customers? How could they address this issue of taste without undermining the overall brand that they had worked so hard to create? Before making their final decision, they agreed to walk through the events that had gotten them to this point on last time to make sure they hadn’t missed any important details.

INSPIRATION FROM HANDWRITTEN MESSAGES

Ishibashi, who was now serving as marketing manager of confectionery for Nestlé Japan Co. Ltd. (Nestlé Japan), thought back to the first planning meeting for 2008–2009’s exciting *juken* campaign. As the temperatures outside had begun to plunge with the onset of fall in Japan, the meeting room that afternoon in 2008 had seemed to defy the temperatures outside. Around the room, pictures of decorated boxes of *juken*-season KITKAT boxes demonstrated that an important new set of behaviors was being championed by Japanese consumers to support young test-takers around the country. Without any prompts or suggestions from the Nestlé Japan team, friends and family members around the country would do their best to decorate the already colorful KITKAT packages with messages, hand-drawn illustrations, and in some cases even stickers, glitter, and bows to help cheer up student test-takers.

After seeing that remote friends and family members—even grandparents—were writing such messages and then sending the decorated boxes through the mail, the team wondered if this could be the seeds of something much bigger. Ishibashi and his team wondered:

What if we could redesign the KITKAT box so that there was an open space for a message to be written, postage affixed, and the entire box of KITKAT would be sent through the mail, just as any standard small package, but without the need for an envelope? We knew that we could redesign the box and even the weight of the chocolate inside so that it would adhere to the Japan Post rules for small packages of this size. But what if the post office itself could actually sell these redesigned KITKAT boxes in post offices around Japan?

The Nestlé Japan team decided to explore this idea further, and the team divided up tasks, the most important of which was finding the right connection within Japan Post with whom to begin discussions about this possibility.

THE BIRTH OF KITKAT MAIL

From the end of 2007 through all of 2008, Ishibashi, KITKAT brand manager Yuji Takeuchi, and the entire Nestlé Japan confectionery team embarked on the long process of modifying the packaging and contents of the *juken*-campaign KITKAT so that KITKAT could be sent directly through the mail without the need for an outer envelope. Nestlé Japan called this idea “KITKAT Mail” and conducted multiple tests both internally and across Japan to make sure that this would be an attractive evolution of its *juken* campaign.

Critical to these efforts were meetings with Japan Post to ensure that KITKAT Mail would be allowed to be sold in post offices throughout Japan. Together with its advertising agency, J. Walter Thompson Japan, Nestlé Japan found ways to meet the key decision makers and after more than a year of negotiations and countless meetings (which made a 2008 launch of KITKAT Mail impossible), the Nestlé Japan team was able to garner the support of senior officials within Japan Post for the idea of KITKAT Mail.

After finalizing this landmark deal, in January 2009, KITKAT Mail launched in Japan (see Exhibit 1).

What was so notable about this launch was that, on the exact same day, all 20,000+ post offices around Japan began selling KITKAT. Aside from being the first branded chocolate to be sold through the post office, the campaign proved that the KITKAT brand had moved well beyond “the chocolate that mom bought” to become a symbol for expressing messages of hope and support to anyone fighting to overcome a difficult challenge. With the support of Japan Post, sales during the *juken* season from January to February continued to grow steadily.

THE HARSH REALITIES OF AN AGING AND DECLINING POPULATION

As the excitement subsided over the launch of KITKAT Mail and the significant seasonal boost it had on sales, Ishibashi and Takeuchi sat down to review the historical sales figures for the KITKAT brand and their projected future growth trajectory. Overall, KITKAT had continued to grow from 2003 to 2008, as both convenience stores and supermarkets were supportive of flavor variations of KITKAT and local communities proudly sold their area’s *meibutsu*-flavored KITKAT at rest stops, airports, and tourist areas across Japan. However, beginning in 2008 and in early 2009, Ishibashi, Takeuchi, and Maki, who was becoming increasingly involved in KITKAT’s overall business, noticed a clear trend. Maki said:

We had developed the ability to create multiple taste and color variations, to the delight of our retail partners and especially younger consumers who frequented convenience stores almost every day and appreciated some of the taste variations that many even considered to be strange. We also had successfully created expectations for regular as well as seasonal flavor variations across our different retail channels, and our *juken* campaign continued to bring us successful results each winter/spring season. But when we commissioned research to better understand some of the potential weaknesses of KITKAT, we found some unsettling insights.

Ishibashi continued:

What we learned was that while the sweetness of KITKAT was appealing to the majority of consumers and to some people specifically looking for a sweet snack, many older consumers actually found KITKAT to be too sweet. This wasn’t only for our traditional KITKAT but also for the many taste variations that we were launching each year as well.

These results were especially concerning, as Japan was the world’s most quickly aging country. As the population of Japan was concentrated in the biggest cities of Tokyo and Osaka, the cost of living coupled with a number of other factors led to a net decrease in the number of children born each year, and consequently a rapid aging of the overall population. Mapping this reality against the new research results that the Nestlé Japan team had commissioned painted a dark picture for the future growth of KITKAT beyond the levels that it had achieved up to 2008.

While the *juken* campaign led to an enormous deepening of the positive characteristics of the overall KITKAT brand as a good-luck charm and platform for good wishes and positive feelings, that same population of test-takers was also projected to decline each year going forward.

AVOIDING THE “NEW COKE” EFFECT

As Ishibashi and Maki continued their review, they focused on the implications that their decision would have on the overall brand. Maki explained:

As we looked at the data and began exploring ways to deal with the results, I couldn’t help remembering the case of New Coke from the mid-1980s. We definitely needed to take action based on these research results, but in doing so, I did not want to make the same mistake that the executives at Coca-Cola had made in misunderstanding the power of their flagship brand.

The harsh reality was that the market share data showed that overall KITKAT sales were flat, even with all of the incredible advancements that Nestlé Japan had made since its original efforts to revitalize the KITKAT brand. Worse yet, in its 2009 report on the Japanese confectionery market, research consultancy Datamonitor projected a meagre 1.2 per cent compound annual growth rate (CAGR) for the five years between 2009 and 2014 (see Exhibit 2), which meant Japan was far outpaced by other markets in Asia, like India and China:

Chocolate sales proved the most lucrative for the Japanese confectionery market in 2009, generating total revenues of US$5.1 billion,[[1]](#footnote-1) equivalent to 52 per cent of the market’s overall value. In comparison, sales of sugar confectionery generated revenues of $3.1 billion in 2009, equating to 32 per cent of the market’s aggregate revenues.

The performance of the market is forecast to accelerate slightly, with an anticipated CAGR of 1.2 per cent for the five-year period 2009–2014, which is expected to drive the market to a value of $10.4 billion by the end of 2014. Comparatively, the Chinese and Indian markets will grow with CAGRs of 5.6 per cent and 12.2 per cent, respectively, over the same period, to reach respective values of $8.6 billion and $2 billion in 2014.[[2]](#footnote-2)

While Nestlé Japan still lagged behind other major manufacturers within Japan’s confectionery market in terms of total market share, KITKAT itself was close to becoming the top-selling chocolate brand in the market, with only a few percentage points separating it from Ezaki Glico Co., Ltd’s top-selling Pocky brand.

As Maki and Ishibashi reviewed the details of the report data and the measures that had to be put in place to deal with them, it was clear that answering the following two questions was vital for sparking their efforts to reignite the growth of KITKAT going forward:

1. How could they maintain and grow the identity of the KITKAT brand while simultaneously addressing the issue of sweetness?
2. How could they further build upon the premiumization initiatives that they had so effectively championed over the past few years?

As overall confectionery sales in Japan were projected to have a CAGR of 1.2 per cent overall as a category, continuing to move the KITKAT brand into a more premium category would enable Nestlé Japan to continue to grow overall profitability. The question that needed to be answered now was how exactly to make this happen.

The entire KITKAT team recognized the hard challenges that lay ahead, and members were feeling that the KITKAT message of *kitto katsu* was even appropriate to their own efforts at work. They knew that there definitely was a way to succeed, but exactly how to create the path to the next level of success remained frustratingly unclear.

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**EXHIBIT 1: KITKAT MAIL—DISTRIBUTING KITKAT THROUGH POST OFFICES ACROSS JAPAN**



Source: Company documents.

EXHIBIT 2: Japan’s confectionEry sales by volume, 2005-2009

|  |  |
| --- | --- |
| Japan Confectionery Sales by Channel, 2009 | |
| Channel | **% Share** |
| Independent Retailers | 40.7 |
| Supermarkets/Hypermarkets | 23.3 |
| Convenience Stores | 20.5 |
| Others | 15.5 |
| TOTAL | **100** |

Source: “Confectionery Industry Profile: Japan,” Datamonitor, 2009, accessed April 7, 2017.

EXHIBIT 3: Confection industry profile

1. PROJECTED REVENUE GROWTH IN JAPAN’S CONFECTIONERY INDUSTRY

(B): Japan Confectionery Market Value (in $ Millions), 2005–2009

Source: “Confectionery Industry Profile: Japan,” Datamonitor, 2009, accessed April 7, 2017.

1. All currency amounts are in US$ unless otherwise stated; US$1 = JP¥97.44 on March 31, 2009. [↑](#footnote-ref-1)
2. “Confectionery Industry Profile: Japan,” Datamonitor, 2009, accessed April 7, 2017. [↑](#footnote-ref-2)