

## **Problem Statement**

A1 faced direct competition from the release of a new brand of steak sauce (Lawry's) being introduced at a high volume sales time. As a result, their senior team was faced with making a decision on how to defend themselves from the new competitor.

## **Situation Analysis**

As a part of one of the biggest food companies in America, A.1. has extreme brand loyalty and major market share. Its dollar share accounts for more than 50%, and the brand boasts that 9 out of 10 steakhouses use A.1. as their primary sauce. From this we can gather that the consumer base for A.1. is extensive and widespread. Its primary markets may be areas such as the midwest, where there is major beef consumption, especially cuts such as steak. In these specific regions the demographics will not be overly discriminatory, rather there will be a large range of potential target markets, both male and female, and ages from 3-65+, given the large cultural trend of beef/steak consumption.

The steak sauce category up to this point has been relatively monopolized by A.1. Of competitors before the entrance of Lawry's, it was boiled down to Heinz, Private Label, and a mixture of smaller brands. Heinz and Private Label are relatively uncompetitive in the category, posting volume shares of 13% and 19% respectively, while A.1. boasts a 46% stock. However, Unilever is now attempting to break into the market with Lawry's, which previously was a big player in spices and seasonings, as well as marinades.

A.1. as a brand is owned by the well known Kraft, being just one of the many successful offerings for the larger overall brand. Kraft is the second largest food company in the world, holding 67 major brands. Kraft had revenues of about \$150 million in 2002, with an operating profit of close to \$60 million. They also have attempted to move the A.1. brand outside of only steak sauce. Their attempted broadening came in the form of launching a line of steak marinades, which originally disappointed, but bounced back after successful relaunch at the end of 2002, ending with the marinade line owning a 10% share of the category.

One of the primary reasons that A.1. finds itself in their current situation of needing to retaliate to Lawry's is that their collaborators, grocery chains, gave them a call asking if A.1. would match the sales prices Lawry's was offering to the retail stores. Since A.1. does not own their own retail stores, they rely on grocery stores and steak houses to sell their product. These partnerships are the key to their business model, and the relationships between them can impact A.1. revenues.

Adding on to the situation is the fact that Kraft set revenue standards for each of their major brands to hit. As a result of these benchmarks, A.1. is unable to discount their units to directly match their competitors. This puts a pressure on the team at A.1. when paired with the timing and discounts of Lawry's entrance into the market. Lawry's plans to enter the market with major discounts at the times of major steak holidays, holidays where A.1. would normally make almost 10% of their annual revenues.

## **Alternatives**

In this difficult situation, there are a number of alternatives that the A.1. team can choose to employ. The first of these options would be to offer a promotional deal of two bottles for \$4, as discussed in the case. Lawry's goal was to steal the Memorial Day promotion slot that Publix would normally offer to A.1. Since Publix is inclined to give Lawry's the deal, A.1. needs to retaliate, using their 2-for-4 promotion would be a way to do this, and maintain their slot as Publix Memorial Day special for steak sauce. While this would keep A.1. above Lawry's for promotion pricing, it would come at a serious hit to annual revenues.

- Pros
  - Overthrow Lawry's attempt to steal the promotional spot in Memorial Day ad
  - Potential increase to overall sales due to promotion
- Cons
  - Major hit to margins when sold for \$2 a bottle
  - Discount comes at a time when 10% of annual revenues are made

Another alternative for A.1. to explore, is to offer Publix a payment to keep A.1. as the promotional item in their Memorial Day and other key holiday advertisements, without actually putting promotional pricing on bottles of A.1. steak sauce. This method allows A.1. to keep their spot as the primary advertised steak sauce around these high revenue periods, while also giving Publix a monetary incentive to stick with them. This way Publix is guaranteed bonus revenue from the deal, which is likely a reason why they were willing to give Lawry's a chance in the first place. However, in this scenario, Publix may weigh the benefits and based on their own revenue projections, may decline A.1.'s offer because they feel they can generate higher profits with Lawry's.

- Pros
  - Allows A.1. to keep their ad spot, original pricing points and projected revenues
  - Publix gets a guaranteed income from the ad spot by taking A.1.'s offer
- Cons
  - Publix may decline based on their revenue projections
  - A.1. may have to offer similar deals to other grocery chains, which may cost more than initially projected

## **Recommendation**

Despite the above alternatives, my recommendation for A.1. is to retaliate by not doing anything. As a product, A.1. steak sauce has been around for more than 100 years, and holds almost 50% market share. With the brand loyalty and recognition that A.1. possesses, as well as being a part of the food giant company Kraft, A.1. does not need to retaliate to the entry of a new competitor such as Lawry's. While it may be a similar product in taste and texture, it does not have the same prestige that A.1. carries. This can be seen even in the way A.1. is presented in its heavy glass bottles, meanwhile, Lawry's can be found packaged in cheap plastic. Since A.1. has decades of experience as the number one steak sauce it should instead focus on maintaining that image. They can achieve this by rolling out smaller advertising campaigns focused on that brand identity as a top shelf sauce, that is the first choice for 90% of all steak

houses. These small ad promotions will cost a fraction of what the losses would be should they run the aforementioned 2 for 4 promotional pricing in stores. While A.1. may take a small hit because of the entry of this new competitor, the market share and dollar shares held by the brand will remain relatively untouched, as Lawry's enters the market as an indirect competitor, more in line with that of Heinz. Lawry's is a cheaper alternative that does not compete with the high end segment that A.1. finds its positioning as.

- Pros
  - Small advertising campaigns may actually boost revenues without lowering price
  - A.1. maintains their status as a top level sauce
  - Price point for bottles of sauce does not change
- Cons
  - Lawry's could take away more market share than predicted
  - Other grocery chains besides Publix may advertise Lawry's over A.1.
  - May lose important holiday revenues

### **Implementation**

Creating and running small advertising campaigns focused around the prestige and length of A.1. steak sauce will be the best bet for A.1. moving forward. These campaigns will remain low cost, and be simple and direct. Running advertisements could include taglines such as, 'America's number one steak sauce for over 100 years', 'With 100 years of history, why change a good thing,' or perhaps even a simple, 'If it isn't broken, don't fix it.' Regardless of the main line used, each advertisement is getting across the notion that A.1. has been the go to steak sauce for millions of people longer than almost everyone today has been alive. Advertisements can play on the emotional appeal by using settings such as family barbecues, important family dinners, or veteran celebrations. Costs could range anywhere from \$200,000 to \$1 million, depending on the amount of channels A.1. decides to employ.

An ideal timeframe for rolling out the ads would be about one month before each of the major holiday seasons in which A.1. generates 10% of their annual revenue. This will allow those planning events for these holidays ample time to view the ad campaigns, and have the idea solidified in their head that A.1. is the condiment to have at their events. Given that these ads will roll out two to three weeks before the print ads showing the Lawry's steak sauce promotion, A.1. will have a competitive advantage of being the first mover in terms of advertising their product. Consumers who plan ahead may have already purchased their bottles of A.1. for their events before the holiday spreads have even been released. Should this be the case, Publix and other grocery chains may see their increased revenues from A.1. and decide to ensure that A.1. will be promoted in the future, regardless of competitors, due to the higher revenues that A.1. can generate over lesser known brands.

All of this will happen with a price tag of \$1 million or less, which will be less than the losses would have been should A.1. have run a promotional pricing of selling bottles for only \$2 a piece, or simply not reacting at all. In the long term, A.1. will maintain their image as the top steak sauce in the country, while keeping their margins, and potentially even increasing market and dollar share through well aimed ad promotions.