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Hovis

4.1 Packaging: Branded - Food

Premier Foods plc

Jones Knowles Ritchie

June 2010

Executive Summary

Turnaround at a critical moment

The packaged bread market is large but mature, with modest volume growth and the leading brands locked in a vicious battle for share.

In mid 2008, Hovis was in serious trouble, having lost leadership to Warburtons 18 months earlier. So grave was the rate of decline, if the trend were to continue for another year, Hovis would hold less than half of Warburtons' share.

By the end of 2009, Hovis had pulled off a remarkable turnaround, with sales up 14% and a 5% recovery in market share.

This £57m increase in grocery sales made Hovis Britain's fastest growing FMCG brand in 2009.

The recovery began with new packaging design which provided a 30:1 ROI, credited by the company with 'stopping the rot and laying the foundations of a glorious turnaround'.

30:1

Est. ROI

+£57m

Sales

+5%

Gain in share



The Brief

Dramatise the brand truth, force re-appraisal

Arriving to Hovis' continuing decline, new Marketing Director Jon Goldstone undertook an urgent strategic review. Research revealed that consumers were questioning the relative goodness of Hovis – perceiving it as 'factory bread from a mass-manufacturer' in contrast with Warburtons' 'real bread from traditional family bakers'.

The gulf called for a fundamental packaging overhaul, to change the way consumers perceived the brand before its share slide turned into freefall.

With no time to lose, we were tasked with getting our designs into store within six months.

Our brief was simple – dramatise the proposition of 'naturally healthy and tasty bread from a real baker' to rebuild confidence in Hovis for the workforce, trade and consumer.

Description

Founded 125 years ago, Hovis bread is currently Britain's fourth largest grocery brand¹ with almost 3/4 of households buying it at least once every month².

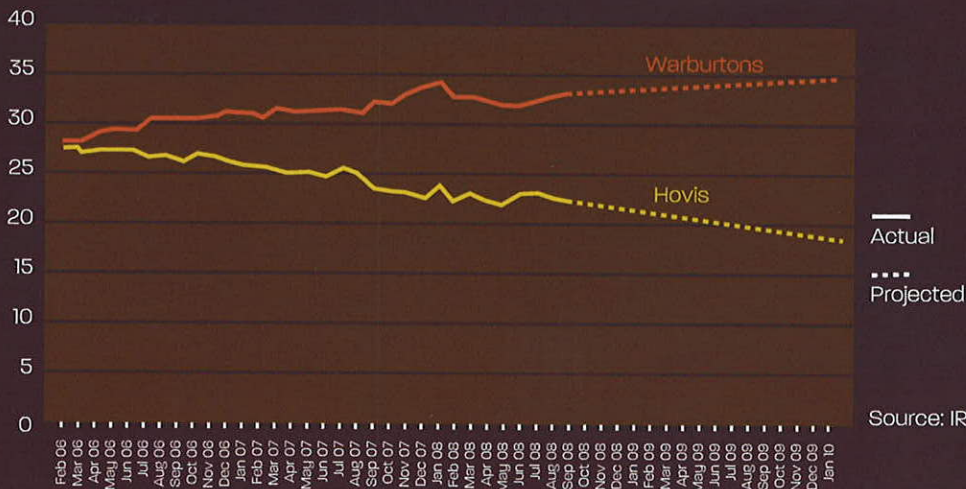
Overview of the market

Bread is an everyday staple in Britain, one of the largest food categories, worth almost £2 billion per annum¹. Its very ubiquity tempts retailers to heavily price-promote, to attract customers into their stores. Despite the top three brands sharing 72% of the market, they have a difficult task to create brand preference when consumers have been taught to be promiscuous.

Since 2006, Hovis had been in distress. In preparation for sale, its previous owners cut marketing investment and quality as Warburtons upped their spend on advertising and opened new state of the art bakeries to extend their availability in Hovis' Southern heartland.

In February 2006 Hovis ceded leadership to Warburtons at 28% value share. By May 2008, Hovis had slipped below 23% of the market, with Warburtons fully 10% points ahead². If things continued for another year Hovis would hold just 17% and Warburtons 37%, a difference worth £380 million in sales.

Value Brand Share (%)



Source: IRI

Project launch date

May '08

Wave 1

(white bread only)

Aug '08

Wave 2

(full relaunch)

Design budget

£200,000

Outline of Design Solution

We needed to renew confidence at a glance, so we placed a traditional Hovis logotype and a cameo of the boy with his delivery bike inside a silhouette of the 'little brown loaf' to draw upon the rich visual equity of the brand.

People don't start to shop for bread by brand, they first search for the product they want – white or brown, thick or thin, bits or not – so for most of the range we left half of the bags clear, so people could select intuitively and judge the quality for themselves. Bright colours help to catch the eye and facilitate subconscious, habitual selection, once an association has been learned.

We created a clean, retro-progressive look to imply quality and authority in an aisle of frenzy.

Word Count: 416



Summary of Results

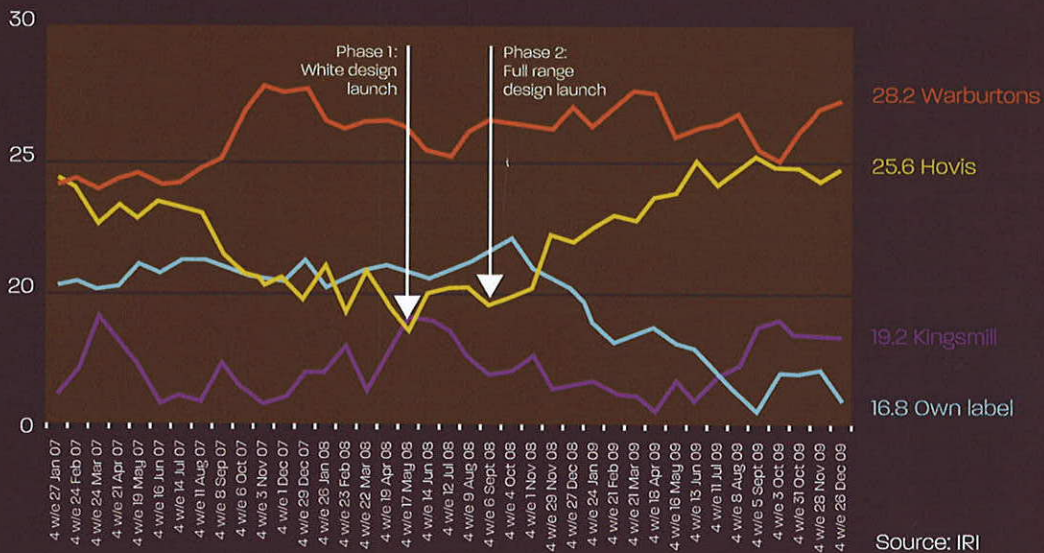
Sales and Market Share recovery

In May 2008, with its value share slipping to a new low of 22.9%, the Hovis soft white design was introduced. The slide was immediately halted and Hovis steadily returned to growth, gathering pace when the main range joined it in mid-August, to create a strong shelf block.

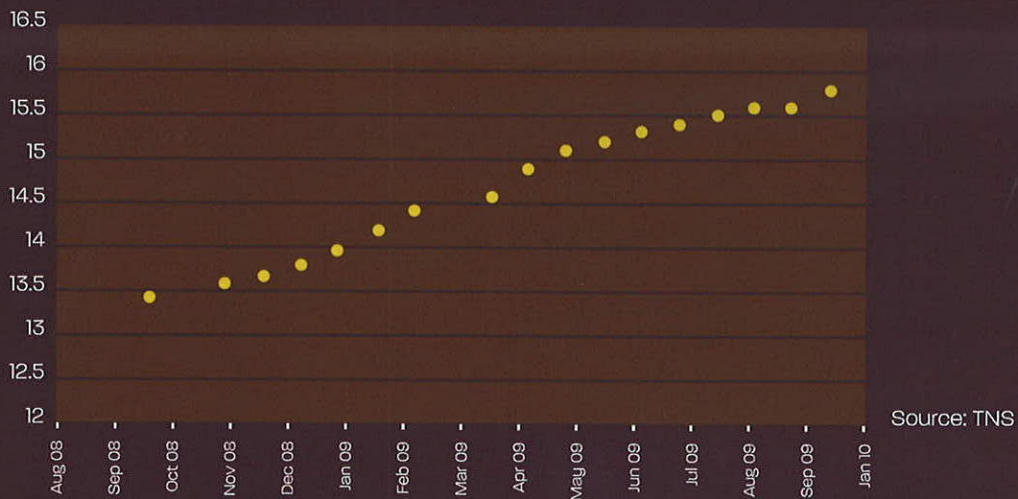
In mid September, new advertising and PR activity began. Although competitors quickly responded with price-promotions, Hovis responded in kind and average weight of purchase, penetration and frequency began to recover, with share gains recorded month after month.

By the end of 2009, Hovis had regained almost all the market share that it had recently lost. Average monthly household penetration had grown from 31% to 35%, average weight of purchase was up from £3.40 to £4.00 and frequency of purchase rose from 13.5 to 15.5 times per year.³

Volume Brand Share

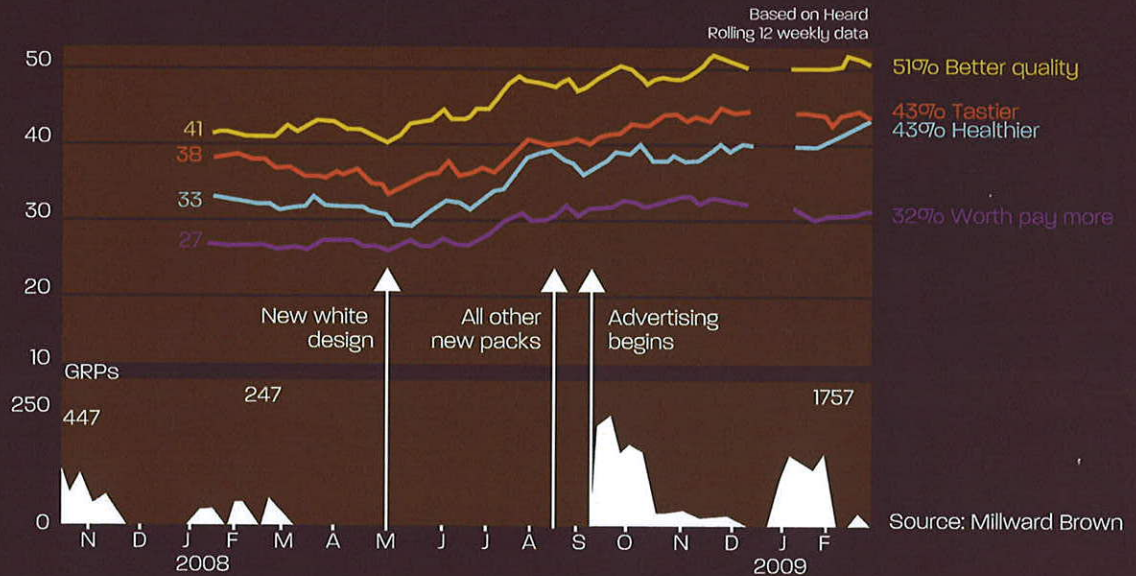


Hovis Average Annual Frequency of Purchase



Consumer attitudes

Perceptions on quality, health and taste dimensions clearly improved before the main TV advertising began and together with better recipe loaves, contributed to the improved score of worth paying more for.



Trade attitudes

Major brands are akin to a super-tanker. Once they have momentum, it takes enormous effort to change direction. Gaining retail buyer support is a critical first step. Credibility in the eyes of the buying team is all important and requires confidence building activity.

As the only element available at a crucial relaunch presentation to Tesco in May 2008, the mocked up designs were presented at a tense moment. A conversation about sku de-lists and additional discounts for display turned to:

'Now, that's more like it. How soon can we have the bread in the new design? Can you make it exclusively for us for the first three months?'

'The designs tipped the balance at a critical moment'⁶



An immediate ROI from design

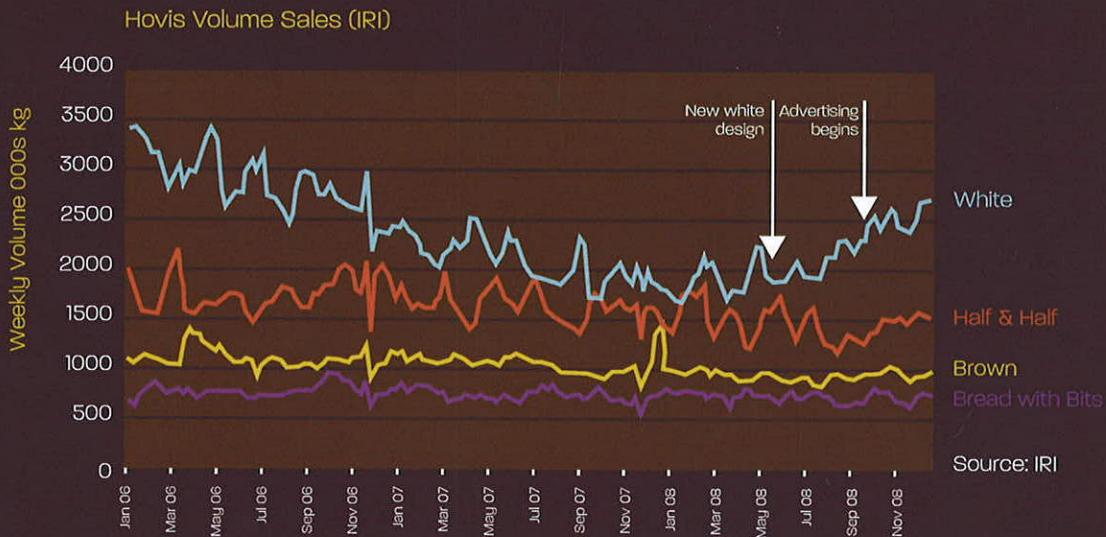
While we fully acknowledge the contribution from an integrated campaign involving product reformulation, packaging design, PR and advertising, for the purposes of this paper the question is how to isolate the value that design has provided to Hovis.

One important piece of evidence for the impact of the design is the recovery of Hovis White sales following the introduction of new packaging, before the main activity began.

The new White packaging was introduced in May 2008, simply supported by an investment of £1.5m in posters, a 'get a free loaf with the Sun' tie-in and some sampling. This period was therefore heavily dependent on the new design to drive purchase, particularly once the introductory activity wore off in June. Sales of Hovis White bread grew fast following its introduction while none of the other products saw any change in trend during this period, as recorded in the graph below.

In fact, so fast did the brand grow during this period that it halted the decline in share for the entire brand until the main brand relaunch could be made ready, in August and September.

50m
extra loaves
in 20
weeks
= 30:1 ROI
Hovis White design



During this 20 week period, 50 million extra loaves of Hovis White were sold, even though their average price rose from £1.08 to £1.15 each².

Taking an average price of £1.11 over the period, this produced an additional £55.5m in sales. Profitability data published to investors suggests the gross profit of Hovis is in the region of 30%⁴. This equates to an extra £16.65m in profit margin. Deducting the £1.5m in tactical support leaves a £15.15m incremental profit for an investment in design of £50,000, a return of 30:1.

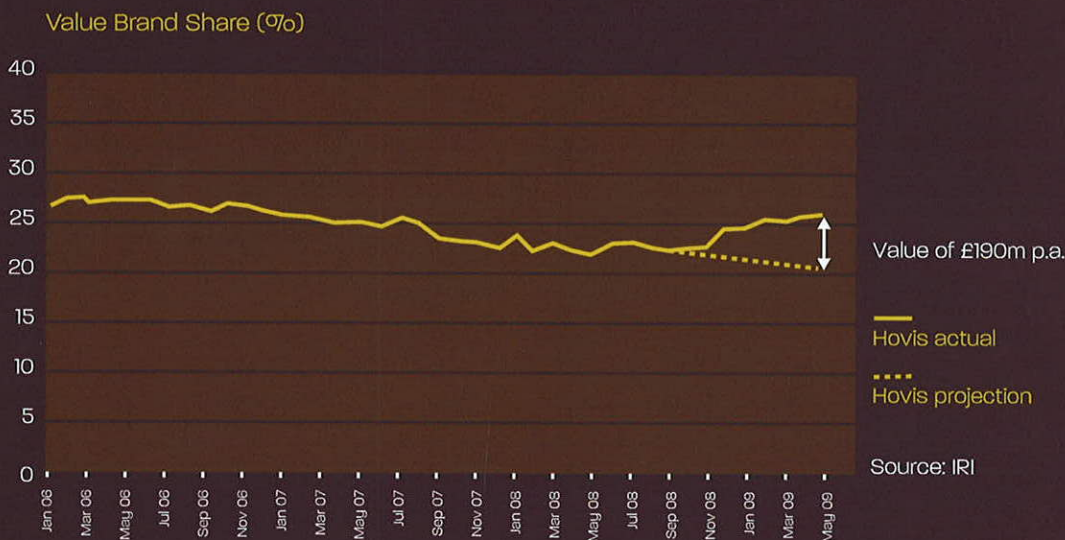
A long-term payback from design and other activity

Impressive though the recovery was, it is all the more remarkable when one considers that during 2007 and 2009 Warburtons opened 2 new state of the art bakeries in the South of England, substantially increasing their capabilities in areas that were formerly a Hovis stronghold.

If the design had not been changed and the relaunch had not taken place and Hovis had simply continued to drift downwards at the same rate, it was projected to take a value share of just 17% by December 2009.

17%
Projected share

27%
Actual share



Hovis share by May 2009 was 10% above projection, worth £190 million at retail.

Due to the high investment in advertising, PR and promotions at the time, it is not possible to identify the contribution made by design in isolation of other factors *after* the September relaunch. What we can calculate, however, is the return on marketing investment for the relaunch as a whole. The incremental share provided an additional £57m gross margin which equates to a 3.8-fold return on the combined marketing investment of £15 million.

And this is just in the first year. To calculate the long-term return on marketing investment, we would need to factor in the longer-term payback of the recovery. After detailed analysis of the history of IPA effectiveness winners, Binet and Field concluded that a general FMCG industry ratio of 2.5 times greater the first year payback will apply over the long term⁵. If true in this case, that would suggest a payback of £10 for every £1 invested.

Although we cannot clearly isolate the individual contribution of design to this figure, with the total redesign cost having been only £0.2m of the £15m marketing spend, we confidently contend that a similarly high return on design investment was achieved by the roll-out of the whole range.

Separating the effect of price and other factors from the impact of the new design

Did bread as a whole simply become more popular?

Bread sales did indeed rise by c.2% in volume over the period². This slight market increase is thought to be due to recession-hit Britons increasingly making their own sandwiches. We have accounted for market growth by generally citing share data in our analysis.

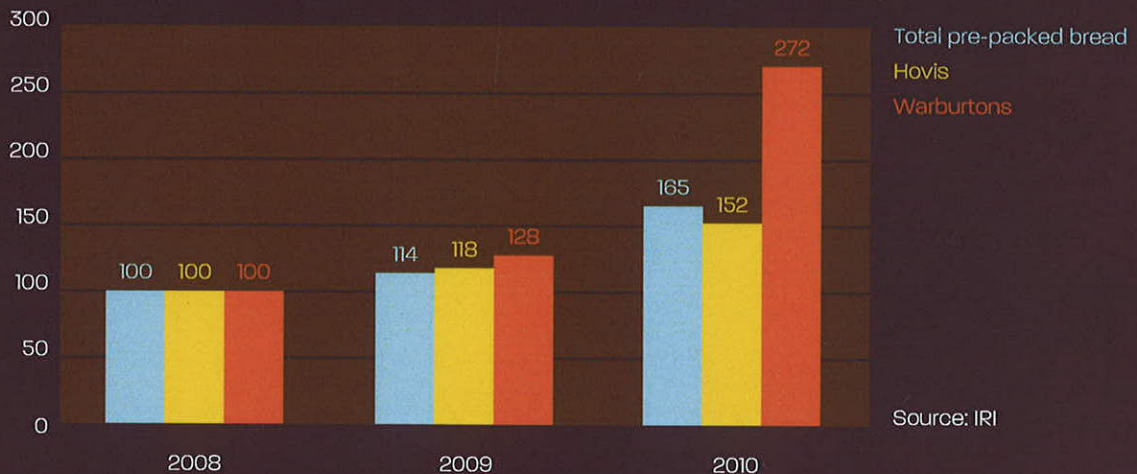
Did Hovis simply slash prices?

No, the average price of a Hovis loaf actually rose by 11% over the period 2008-2009, because of increases in the cost of raw materials. Warburtons also raised their prices over the period, meaning that the relative gap between the two brands remained virtually static².

Did Hovis increase its use of price promotions?

All bread brands (and indeed most FMCG brands) have increased their use of promotions over the last 2 years, due to the recession. The proportion of sales 'on deal' rose significantly for all the brands – from c.30% to c.40% of volume sold.

Indexed Increase in Promotional Activity



As can be seen, Hovis increased its use of promotions slightly less than the market as a whole, and its relative increase was actually far less than for Warburtons, who have been forced into defensive tactics for the first time².

Certainly, the analysts at Dresdner Kleinwort noted that 'Hovis' strong performance isn't simply being achieved by a ramp up of promotions⁷.

Although all this price activity will have made short term impacts on the level of sales, an econometric analysis conducted by independent experts on behalf of Hovis concluded that the overall outcome was neutral. The counterbalancing effect of different promotions in different retailers in different regions and with different individual sku's meant that the relative levels of activity and their impact overall and upon the different brands was a stalemate.⁸

Did Hovis benefit from distribution gains?

No, there were some gains on 400g loaves and in the convenience sector, but these were cancelled out by losses elsewhere.²

Research sources

1. Nielsen, The Grocer, 2009
2. IRI Data 2010
3. TNS Data
4. Premier Foods Annual Report, 2009
5. Broadbent, Admap, Nov 2001
6. Premier Foods, Jon Goldstone, Marketing Director, 2008
7. Dresdner Kleinwort, 'Supermarket Sweep', 2009
8. Ninah Consulting Ltd Econometric Analysis, 'What's driving Hovis sales?' May 2009