



慶應義塾大学ビジネス・スクール

AJINOMOTO KNORR CUP SOUP

In 1988, Ajinomoto Co., Inc. set up the Committee on Logistics of New Food (LON) Businesses, led by the director in charge of food operations, to embark on total logistics efforts. In August of the following year, President Kaoru Toba summoned the Manager of the Marketing Planning Department, Mr. Ikuo Kondo, and told him to come up with a narrowed-down product lineup and report on its likely impact. The department conducted an ABC analysis of the company's products, all 4000 or so of them, and identified 800 that were contributing little to sales (300 consumer products and 500 business products). It turned out that dropping those products would only result in a 0.4% loss in sales. It was also discovered that the impact of getting rid of another 1200 products on sales would be a mere 4% decline. Upon receiving this report, President Toba ordered a wholesale review of the company's product range and narrowing down of it. No product was sacrosanct in the review process, not even the core products, and the Knorr brand, which boasted a top market share in the processed soup market, was no exception.

Ajinomoto's Approach to Processed Soup Market

Ajinomoto Co., Inc. made a full-scale entry into the processed soup market in 1962, when it began marketing Nippon-brand consommé soup cubes and potage soup powder manufactured by Nippon Consomme Co., Ltd., after their makeover as Ajinomoto Consommé Soup and Ajinomoto Cream Potage. Those Ajinomoto-brand soup products became a smash hit, and helped propel the combined sales of the Japanese food industry from 440 million yen in 1962 to 520 million yen in 1963.

When introducing the new products, an aggressive advertising and promotional campaign was mounted, including product demonstrations at department stores. The consommé soup sold particularly well, with its production volume reaching 564 tons in 1963. However, the potage soup fell short of expectations due to its lack of versatility compared to consommé in terms of food-flavoring use and lack of variety in its product line, which tended to make consumers grow tired of it.

The original version of this case was prepared by Yutaka Kaketa (former student, graduate school of business administration, Keio university), under supervision of Mitsuo Wada (former professor, graduate school of business administration, Keio university), as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The authors thank for the support from Ajinomoto Co. The English version was edited by Mototaka Sakashita (associate professor, graduate school of business administration, Keio University).

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The success of Ajinomoto Co., Inc.'s processed soup business owed much to the launch of a joint venture with Corn Products Company (CPC), currently known as CPC International¹. The business partnership between Ajinomoto and CPC dates back to the pre-WWII period, when Ajinomoto purchased corn gluten from Japan Cereal Industries Co., Ltd., which was CPC's subsidiary set up in Korea. After the war, the two companies often talked of setting up a joint venture, as it was an attractive proposition for both parties. Namely, CPC's vast experience and advanced technical expertise was irresistible for Ajinomoto, while Ajinomoto's marketing know-how was an essential element for CPC's entry into the Japanese food market. Against this background, the two companies signed an agreement on Knorr Soup and other matters in March 1963. The joint venture took the form of a 50% equity investment in Nippon Consomme Co., Ltd. by Best Foods Co., Ltd., CPC's Japanese subsidiary, through the purchase of 60 million yen worth of the company's shares issued to double its capital stock. Under this arrangement, Nippon Consomme Co., Ltd., now a joint venture company called "Nippon Food Industries Co., Ltd.", took on manufacturing, while Ajinomoto took care of marketing. Nippon Food Industries Co., Ltd. subsequently changed its name to Knorr Foods Co., Ltd., and became Ajinomoto's fully owned subsidiary in 1988.

In the lead up to the launch of Knorr Soup in Japan, a product commercialization plan and marketing plan were systematically drawn up. Though well established in the West, Knorr Soup would not be readily accepted in Japan, where people had culturally different tastes and eating habits. It was therefore considered essential to develop recipes that would appeal to Japanese tastes in the commercialization stage.

This process began with delineating Japanese tastes and clarifying the images that the Japanese people had about soup, with the sorts of soup they would not like eliminated. Next, the place that soup had in the dietary life of the Japanese was revealed by region and income bracket, and the psychological responses to soup (particularly processed soup) of housewives as its users and purchase decision-makers were surveyed. On the basis of this basic survey, trial products were produced and subjected to taste tests involving taste testers and leading consumer groups (panel tests), with repeated changes made to the recipes. During this process, CPC's chef, Mr. Obrist, arrived in Japan and took part in the modification of recipes according to Japanese tastes. When the basic recipes were more or less finalized, housewives were enlisted to make a comprehensive assessment of candidate products in terms of cooking time, quantity, packaging, price, etc., with packaging materials and designs selected/developed at the same time. As a result of these efforts, final Knorr Soup products were developed. Called "dry soup base", those products comprised dry soup powder designed to be dissolved in water or milk and boiled in a saucepan.

¹ Corn Products Company was an American company founded in 1906 that manufactured/marketed edible/industrial starch, corn syrup, corn oil, and other products. In 1957, it acquired Knorr, a world-renowned German soup manufacturer.

Meticulous planning also went into the marketing framework and market development activities, such as advertising and sales promotion. Various surveys revealed that soups were a main part of the traditional Japanese diet, and this soup eating habit underwent diversification and Westernization after WWII. Because of this and Japanese housewives' strong desire to cut cooking time, the potential demand for Knorr Soup was considered huge, with "a quick and easy way to enjoy authentic Western-style soup" identified as the key selling point. With regard to the marketing framework, mass-display volume-sales outlets, centering on supermarkets, which were experiencing a growth spurt at the time, were targeted, with preparations made for organized sales promotion activities. The fact that, unlike Ajinomoto, Knorr Soup products had a limited shelf life² made thorough quality preservation and stock management necessary, and, for this reason, a team of sales representatives who would specialize in point-of-sale product management was organized by enlisting factory employees.

After those preparatory steps, five soup products, consisting of Beef Noodle, Chicken Noodle, Chicken Cream, Onion Cream and Mushroom finally went on sale in the Tokyo area in January 1964, followed by a nationwide expansion in September. The recommended retail price was 80 yen for Beef Noodle and 70 yen for other products, which was a little higher than the prices of other existing products. Despite this, the new products sold well, thanks to the advertising and demonstration sale activities, which emphasized product quality. From October 1964 to September of the following year, over 10 million packages were sold, and the sales of Nippon Food Industries Co., Ltd. doubled to 1.05 billion yen in 1964 compared to the previous year.

Growth of Knorr Soup

Japan's dry soup base market, which had been about 7 million packages in size in 1963, exploded in 1964 in the wake of the launch of Knorr Soup, and kept growing rapidly in subsequent years, reaching 25 million packages in 1965 and 38 million in 1967. During this period, Knorr Soup cemented its status as the top brand with an approx. 85% share of the dry soup base market, while promoting the formation of a full-fledged soup market in the process.

Knorr Soup, which started out in 1964 with five products, added a series of new products to its product line in subsequent years, and, by the end of 1969, developed a wide product variation, with 14 products in total, as a result of the addition of 11 new products and discontinuation of two (see Appendix 2). Of these, Corn Cream Soup, introduced in January 1966, proved to be particularly popular, due partly to consumer familiarity with sweet corn soup eaten as part of a home meal, either Chinese or Western style, and became the key product in the Knorr Soup product line three years after its introduction.

An Ajinomoto employee who worked with Knorr Soup during this period comments on its success as follows:

² Shelf life: The period over which the quality of a product can be guaranteed if displayed on a store shelf. The launch of Knorr Soup resulted in the discontinuation of Ajinomoto Cream Potage.

“It goes without saying that the first and foremost reason for the success of Knorr Soup was its groundbreaking superior quality and amenability to Japanese tastes. However, one must not forget that the release of a string of new products was another factor. Wide product variety not only made it possible to cater to diverse consumer tastes but also kept consumers interested and encouraged them to keep buying by offering “the fun of choosing”. I think the introduction of new products was effective in fending off competing products by constantly stimulating the market.”

As well as gaining an overwhelming market share for consumer products, Ajinomoto Co., Inc. entered the business products market during this period. It was kicked off in January 1965 with the marketing of five kinds of Knorr Soup in 1 kg boxes, followed by the introduction of other 1 kg-box products as follows: Potage Base for school lunches in October 1966 and Corn Cream Soup, the key business product, in February 1967.

The processed soup market, which had grown steadily since the launch of Knorr Soup, began showing signs of slowing down in the early 1970s, when the market size hit the 5 billion yen mark. In those days, the dominant image of soup consumers had was still something you would eat in a restaurant as part of a course of dishes, so the demand for processed soup was also largely limited to dinner. Besides, the processed soup market only offered dry soup base products, like Knorr Soup, and canned soup products, and there was a need for the development of a new type of processed soup if the percentage of soup purchasing households and frequency of their purchase were to increase.

The product development wing of Knorr Foods Co., Ltd. had been working on the development of an instant-type processed soup that could be eaten by just adding hot water, and this enabled Ajinomoto Co., Inc. to market Knorr Cup Soup, a line of instant soup consisting of four products - Corn Cream, Chicken Cream, Curry Cream and Chicken Consommé, each containing four packets - in October 1973. In 1974, the first year of product release, Knorr Cup Soup did very well, even outselling traditional Knorr Soup, but sales rapidly declined in 1975 and subsequent years due to its inferior taste compared to its dry soup base counterpart and a product flaw it had in the form of some undissolved lumps of powder left in the soup after hot water was added. As a result, the instant soup market contracted and some companies dropped out. However, Ajinomoto Co., Inc. persisted, and constantly worked on improvements to come up with products that were tasty and easier to dissolve in hot water, as well as introducing new products, such as Mushroom and Potage.

In 1976, family restaurants introduced combination meals containing soup as part of their menus, and this increased the overall number of people exposed to soup. In 1977, the processed soup market saw a flurry of activity as some companies joined in with new types of products, such as retort-pouch-packaged soup, frozen soup and chilled soup. Against this background, the sales of Knorr Cup Soup began rising again in 1978. In 1986, an active marketing campaign based on a TV commercial in which a young celebrity calls out to viewers “Have you eaten your morning soup?” was launched for Knorr Cup Soup, and the release of a series of new products followed. In 1984, the product line expanded from seven products to ten. In 1988, vegetable-based products, such as Carrot, Pumpkin and Green Pea, were added to emphasize the healthy image of breakfast. By that time, Knorr Cup Soup had grown into a large family of products containing 15 members (see Appendix 3).

Trends in Processed Soup Market

The overall size of the processed soup market topped 10 billion yen in 1974, and kept growing in subsequent years, reaching 23 billion yen in 1980 and an estimated 41.4 billion in 1989. The 1989 figure represents a 6.7% increase over the previous year, which is a relatively high growth rate in the mature Japanese processed food market. The 52% of the sales were accounted for by instant soup, followed by dry soup base, 27%, and chilled soup, 11%. Two prominent market trends were a diversification of the market and shift in demand from dry soup base to instant soup.

Table 1 Size of Processed Soup Market

(Unit: 100 million yen, %)

	1987	1988	1989	1989/1988
Western-style dry soup base	61	51	41	-19.6
Chinese-style dry soup base	27	49	59	20.4
Instant soup	169	179	195	8.9
Seaweed soup	24	29	33	13.8
Chilled soup	46	46	14	-4.3
Retort-pouch-packaged soup	14	15	14	-6.7
Canned soup	9	10	9	-10.0
Frozen soup	8	10	9	-10.0
Total	358	389	414	6.7

Note: The above table does not include ready-to-eat canned soup (i.e. condensed canned soup only).

Source: Marketing Intelligence Corporation

Table 2 Sales Breakdown of Processed Soup Market by Product Category

(Unit: %)

	'74	'75	'76	'77	'78	'79	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89
Dry soup base	41	44	55	57	51	48	45	39	33	33	32	29	27	26	28	29
Instant soup	38	30	17	11	12	11	21	29	36	39	40	44	46	51	50	52
Canned soup	21	26	28	24	14	13	9	6	5	5	5	3	2	3	3	2
Retort-pouch-packaged soup	-	-	-	8	12	11	6	6	4	5	5	5	5	4	4	3
Frozen soup	-	-	-	-	11	13	9	6	6	4	4	4	2	2	3	2
Chilled soup	-	-	-	-	-	4	10	14	16	14	14	15	18	14	13	12

Note: The above table excludes seaweed soup.

Source: Marketing Intelligence Corporation, with additional estimation

Appendix 6 shows the product characteristics of main product categories of processed soup. Western-style soup mostly consists of potage soup, with corn cream soup positioned as the key product by various companies. Seaweed soup, a Japanese-style instant soup, and Chinese-style dry soup base show high growth and are therefore regarded as promising market segments.

Competition

Ajinomoto Co., Inc., which has a wide range of soup products covering each market segment all under the Knorr brand and boasts a long history as a market player, is a clear standout, but the number of

companies in the market has been increasing steadily, reaching 18 by 1983 and 25 by 1989, as a result of an entry rush in the 1980s. Of all competitors, Pokka Corporation, which entered the market in 1981, has been increasing its market share through innovative moves, such as the marketing of crouton soup as an industry first. Like Ajinomoto, it is pursuing a full product lineup approach in the processed soup market. Pokka makes its soup products under three brand names, “Pokka Ma’am-Made Soup” for dry soup base and “Healthy Good Morning” and “Chunky Corn Soup” for instant soup, and is particularly aggressive in the development of instant chunky soup products.

The overall market shares of top companies in 1989 were roughly Ajinomoto 55% (compared to 59% in 1983), thanks to its overwhelming strength in the Western-style dry soup base and instant soup segments, followed by Pokka 10% and Riken 5%. The table below shows market share breakdowns in key market segments.

Table 3 Market Share Breakdown for Main Product Categories

Western-style dry soup base			Chinese-style dry soup base			Instant soup		
	1988	1989		1988	1989		1988	1989
Ajinomoto	85.2	85.4	Ajinomoto	49.6	51.9	Ajinomoto	72.5	68.4
Others	14.8	14.6	Maggi	31.1	27.1	Pokka	14.6	15.5
			Mitsukan	19.3	16.1	Others	12.9	16.1
			Others	–	4.9			

Marketing Channels

Ajinomoto Co., Inc. sells its soup products to secondary wholesalers and retailers through its exclusive distributors, and this arrangement is the same as that for other processed food products. More than 60% of retail channels are accounted for by supermarkets, with general merchandise stores claiming another 30%. Despite their share being still low at 6%, convenience stores look promising as about 80% of all male customers buy processed soup products at those outlets.

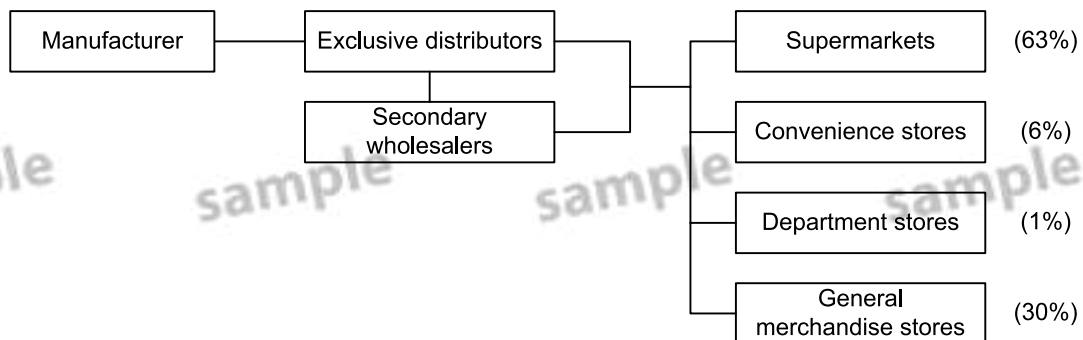
Although this applies to all food manufacturers, the changes that have occurred to the distribution environment in recent years have had a major impact on the overall marketing strategy, including market channel policy. In the mid-1980s, retail stores began introducing point of sale (POS) systems and electronic ordering systems (EOS), and such systems are making their shelf management and inventory control more sophisticated. In fact, these developments have led to the so-called retail revolution, and retailers, centering on large-scale ones, are moving to eliminate dead stock and demanding high-frequency low-volume deliveries. Item-by-item inventory control based on a POS system has accelerated a narrowing down of the product range in the retail industry. In an interview with the Nikkei Business magazine, Mr. Nobuaki Asahane, Divisional Merchandising Manager of Daiei, Inc.’s Foods Line Products Division, states: “We retailers have never said that a high-mix low-volume product lineup benefits consumers. Rather, to really satisfy consumer needs, stores should tailor their product lines to their size. Manufacturers’ high-mix low-volume production has dragged down retailers’ product turnover rate and undermined their business efficiency. If as many as 8000 lines of processed foods were stocked as has been the case before, it would cover almost all the

products that are available to consumers. However, it would also result in a “tiring store” where consumers would have a hard time finding what they want.”

Demands for high-frequency low-volume deliveries have pushed up distribution costs, due partly to high labor costs resulting from labor shortages. For example, the packing, transportation and storage costs of 86 listed food manufacturers, which rose by a relatively modest annual rate of 5.5% in the fiscal year ending March 1988, blew out to a double-digit increase (10.6%) in the following fiscal year. According to industry estimates, the combined transport and storage cost of all food companies was 150 in 1989 in index terms, where the 1980 figure was set to 100. The index values of the combined factory fixed cost and sales, on the other hand, were 163 and 133, respectively. Meanwhile, 1985 commercial statistics show a plunge in the number of general merchandise stores and remarkable growth in the convenience store share of the distribution of convenience goods. These are two factors that are prompting manufacturers to rethink their channel policies.

For food manufacturers, the growth in the sales shares of supermarkets, convenience stores and other self-serve retail outlets makes it important to secure a sufficient amount of shelf space, as well as expanding store coverage. Partly because of the market dominance of Ajinomoto, food sections of retail stores are undergoing standardization, and GMS-type stores usually use a pair of three-foot shelves, with Knorr Cup Soup products taking up three (three to five) rows.

Figure 1 Ajinomoto’s Market Channels



Expansion of Product Mix

Amid a diversification of the processed soup market, Ajinomoto Co., Inc. has been pursuing product development designed to expand its product mix. As part of this effort, it has introduced new product lines, such as Knorr Canned Soup and Knorr Chinese Soup, while expanding its existing product lines, such as Knorr Soup and Knorr Cup Soup. It also marketed Knorr Roux Potage, a high-class dry soup base brand consisting of four products, each containing four serves and priced at 230 yen, and Chunk, a chunky instant soup brand also consisting of four products, each containing two packets and priced at 170 yen, in September 1986 and August 1988, respectively. As a result, the company was carrying as many as 81 different products just in its soup business by the end of 1988.

At Ajinomoto Co., Inc., product development takes place in this manner. First, a product coordinator in the company’s Food Products Division engages in development planning and concept development and decides on a product specification in a joint operation with the Research & Development Center

of Knorr Foods, Co., Ltd., followed by a final check by the Food Products Division. When developing a new product within an existing product line, only taste tests, etc. are undertaken, and, unlike the development of a new market segment or new brand, elaborate test marketing does not take place. For this reason, the product mix tends to be shaped through an expansion of existing product lines, rather than the development of products conducive to creating a greater depth in the product mix.

Food Products Division staff provide a detailed explanation as follows: “When a product coordinator feels that any of the products he/she is looking after is under attack in an increasingly competitive marketplace or is strongly requested to come up with market revitalization measures by the marketing wing of the company, he/she becomes tempted to expand existing product lines. Also, when setting marketing targets for a fiscal year, a product coordinator tends to draw up a plan that revolves around an expansion of existing product lines. This is because sales from existing products can be fairly accurately estimated, so an expansion of existing product lines is a low-risk short-development-time approach to making up for any shortfalls in projected sales.”

Until now, therefore, the dominant way of product development at Ajinomoto Co., Inc. has been an expansion of existing product lines and boosting of their product densities. As a result, sales have been highly concentrated in specific products, while, at the other end of the scale, some products make little contribution to overall sales. Take Knorr Cup Soup for example. Of all 15 products, Corn Cream, the No. 1 seller, accounts for 42.4% of sales, followed by Potage, 22.5%, Chicken Cream, 6.9%, Honey Corn, 6.5%, and Corn Mix, 5.2%, with these top five products generating more than 80% of sales. Further down the list, three middle-tier products claim a combined 4% or so share of sales, with another two making just a 1.5% contribution. The combined sales share of the bottom five products is only 2.3%. In addition, there is a huge gap between the top two and the rest.

Table 4 In-Store Stocking Rates of Knorr Cup Soup Line of Products (Second Half of 1988)

	Rate of sales growth from previous six months (%)	In-store stocking rate (%)
Corn Cream	100.4	97
Potage	106.0	96
Chicken Cream	88.6	87
Honey Corn	102.6	79
Corn Mix	96.5	84
Pumpkin	89.0	70
Chicken Consommé	107.3	69
Vegetable Cream	83.0	82
Beef Consommé	84.0	51
Cream Soup	67.3	50
Mushroom	73.4	40
Cream Potato	63.2	40
Corn Cream Herb	53.2	24
Green Pea	44.2	25
Carrot	35.6	37

President Toba's marketing policy to narrow down the product range sent shockwaves through the company. There was a huge backlash from its sales wing. The deputy manager of a sales office expresses his discontent this way: "Amongst loss-making products, there are strategic products that will support the company's sales growth in the near future. If those products are dropped now, we will lose the store space we have been defending so fiercely. Lost ground can never be retaken." Because of the intensifying competition and steadily falling market shares, there was also strong resistance to a simplistic culling of products within the Food Products Division. Nevertheless, given the various cost pressures pointed out by the LON Committee, there was a need to come up with an answer to President Toba's policy. For this reason, the departmental manager in charge of the Soup Business ordered his staff to conduct market research into Knorr Cup Soup, the key product line, and check the feasibility of product consolidation within this product line by finding the optimum number of products. The research centered on questionnaire surveys targeted at instant soup users and POS tests at supermarkets.

Consumer Surveys

In the early 1990s, Ajinomoto Co., Inc. conducted a consumer survey of its 30 or so instant soup products, targeting three consumer groups, all from the Tokyo Metropolitan Area, as follows: housewives as heavy users of soup, office women, and female high school students. The survey revealed that female high school students only recognized two types of soup, one that simply looks delicious and one that does not. Office women, on the other hand, recognized four types, while housewives classified soup products into seven categories. Figure 2 shows the perceptual structure of housewives. In the survey, housewives identified seven factors: (i) sweet, (ii) nutritious, (iii) peculiar taste or texture, (iv) common, (v) light taste, (vi) high-quality, and (vii) novel. The perceptual structures of the three consumer groups were not all that different. Rather, office women's perceptual

structure was a more sophisticated version of female high school students'. Likewise, housewives' perceptual structure was a more sophisticated version of office women's. This shows that the younger generation had more limited involvement in purchase decision-making than previously thought, leading to the conclusion that, to arrive at the optimum number of products, the behavior of housewives as highly interested users needed to be further analyzed.

Figure 2 Perceptual Structure of Housewives

Potage family

	For children		For children and adults			For adults	
	Sweet	Nutritious	Peculiar taste or texture	Common	Nutritious	Light taste	High-quality
Ajinomoto	Honey Corn	—	Corn Cream H	Corn Cream Potage Corn Mix Cream Soup	Chicken Cream	Cream Potato Vegetable Cream	Pumpkin Mushroom Carrot Green Pea
Pokka	Chunky Honey Corn HGM Vermont Corn	HGM Corn Cheese Chunky Corn Cheese	—	HGM Corn HGM Corn Milk HGM Potage Chunky Corn	HGM Chicken Cream	HGM Vegetable Cream	—

HGM stands for Healthy Good Morning (Pokka brand name).

Consommé family

	Common	Novel
Ajinomoto	Beef Consommé Chicken Consommé	—
Pokka	—	Consommé Onion Consommé Scallop Consommé Littleneck Clam

For this reason, it was decided to conduct a second, more detailed survey targeting housewives alone. Taking into consideration the likely difference in the desire for great product variety between heavy users and light users, survey subjects were split into those two groups. Figure 3 shows the perceptual map of housewives as derived from the survey. The map was prepared in accordance with the following procedure: (i) a factor analysis was conducted based on the identified attributes of instant soup, (ii) a multiple regression analysis was run, using the factor scores of each brand as explanatory variables, and the brand preference scores as explained variables, (iii) the following two factors, "for children" and "familiar", were identified as the key dimensions, and (iv) a final version of the perceptual map was obtained based on the factor scores of the two key dimensions.

Figure 3 Perceptual Map of Housewives

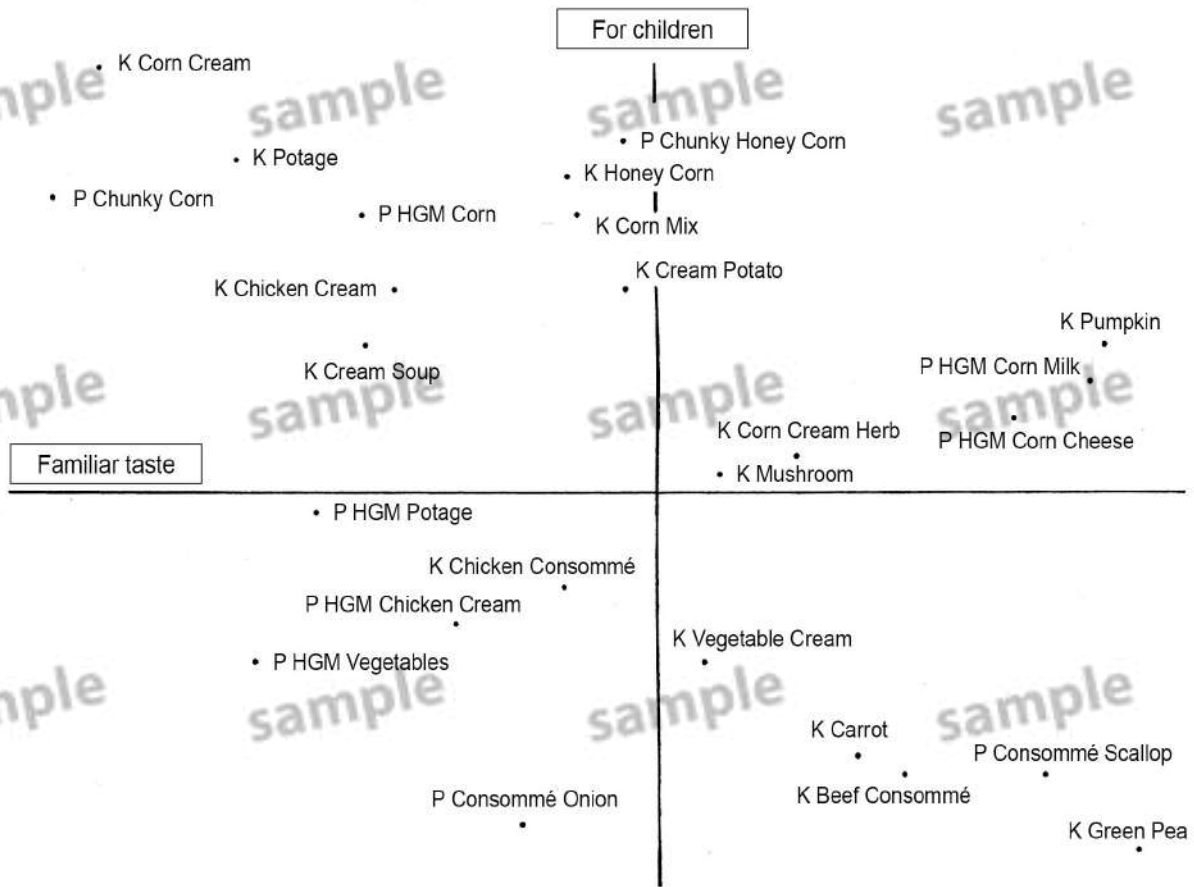
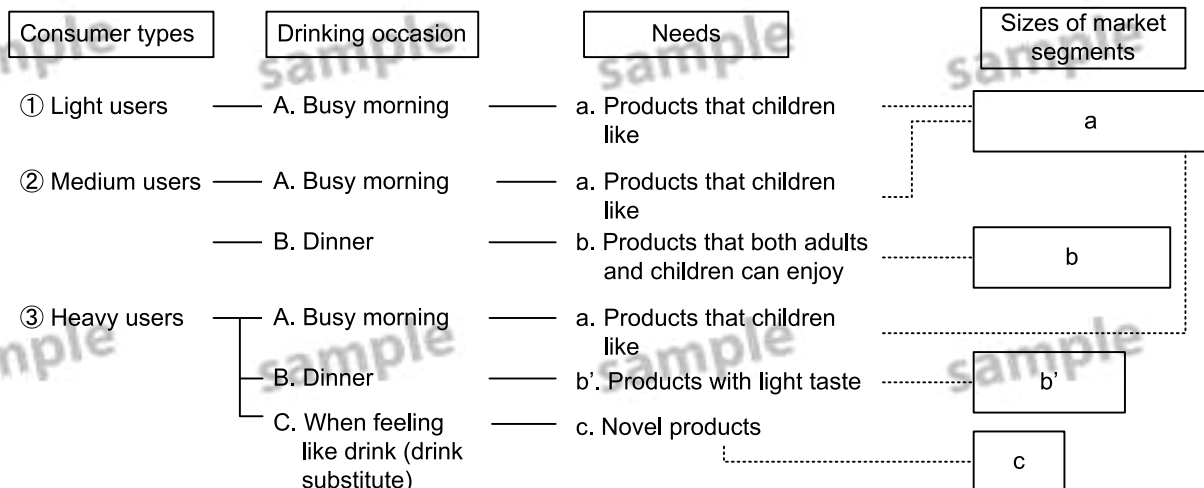


Figure 4 summarizes survey results. Situations in which heavy users eat soup are diverse, and this has resulted in variability in the kinds of benefits they seek. The situation in which soup was most frequently eaten was breakfast, and product selection basically centered on children, with Knorr Cup Soup enjoying strong support in this market segment.

Figure 4 Results of Survey Targeting Housewives



The survey also investigated the reactions housewives would likely exhibit when they found out the particular products they were looking for were out of stock.

Table 5 Product Switching Intentions

	Honey Corn	Cream Potato	Pumpkin	Corn cream	Mushroom	Vegetable Cream	Carrot	Green Pea	Chicken Consommé	Beef Consommé
To high-grade Knorr product	⊙	⊙	△	⊙	⊙	⊙	△	×	○	△
To medium/low-grade Knorr product	△	△	⊙ *1	×	○	⊙	⊙ *2	⊙ *3	⊙ *4	⊙ *5
To other company's product	○	△	△	△	△	△	△	△	○	△
Discontinuation of purchase	△	△	○	○	△	△	△	△	△	○

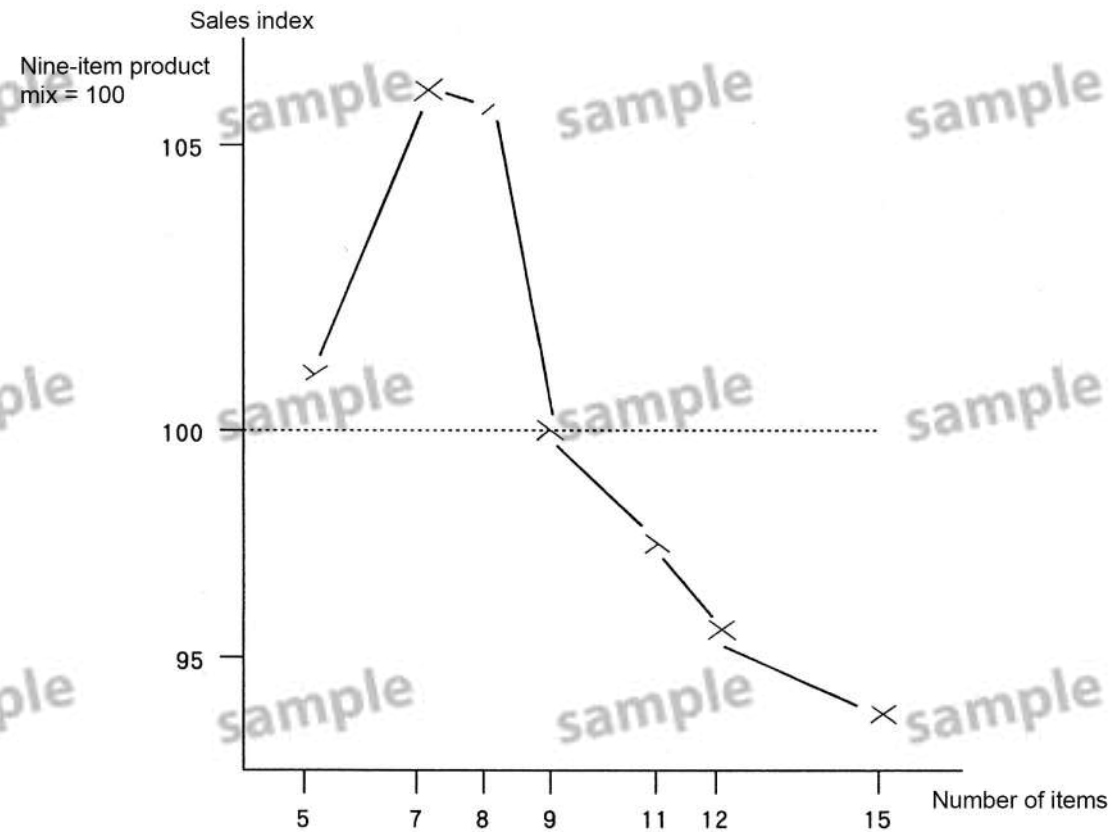
⊙: 50% or more ○:49-30% △:29-1% ×:0%

- *1 To Carrot
- *2 To Pumpkin
- *3 To Pumpkin Carrot
- *4 To Beef Consommé
- *5 To Chicken Consommé

In-store Tests

To elucidate the impact the size of product mix would have on retail stores' sales, a simulation experiment based on planogram software and point of sale tests were conducted. In the simulation, sales per store for the first half of 1988 were fed into the planogram system, and sales under optimum shelving allocation were calculated by fixing the size of shelf space at three (three to five) rows in three-foot shelves and changing the size of product mix. Figure 5 shows how estimated maximum sales change as the size of product mix is changed. Next, in-store tests were conducted at eight stores of a GMS company, all located in the Tokyo Metropolitan Area, over a month-long period. Like the simulation, the size of shelf space was fixed at three rows in three-foot shelves. As the company was using a nine-item product mix at that time, the product mix was set to nine items at two stores and seven and five items at three stores each, and sales were monitored for any changes. Sales performance was measured in terms of growth in the number of products sold on non-discount days compared to those recorded over the three month period preceding the tests and converted to index values where the growth figure recorded by stores with a nine-item product mix was set to 100. The results were 141 for seven-item product-mix stores and 118 for five-item product-mix stores. This clearly shows that sales increase when the product range is narrowed down to seven to give more shelf space to popular products under constant shelf space conditions.

Figure 5 Result of Simulation Based on Planogram Software



Those survey results set a review of the Knorr Cup Soup product line in motion. In the course of identifying products that were possible candidates for discontinuation, issues like the capturing of a further market share in the children’s breakfast market segment and development of new product categories that would differ from breakfast soup were discussed. This was prompted by the fact that Pokka was increasing its shares on the strength of two brands, “Healthy Good Morning” and “Chunky Corn Soup”, and that the purchase volume per purchasing household was not growing very much. The review of the Knorr Cup Soup product line, which began as a product-range narrowing-down exercise, ended up presenting the company with a new challenge of reestablishing its product lines according to product lifecycles.

Appendix 1
Ajinomoto's Sales Trends

(Unit: 100 million yen)

	1985	1986	1987	1988	1989
5 Condiments	1,013	999	988	995	999
Processed foods	1,757	1,829	1,926	2,084	2,185
Oil and fat products	856	660	623	687	686
Pharmaceuticals and chemical products	653	566	582	612	675
10 Others	220	203	205	220	227
Total	4,501	4,260	4,325	4,600	4,772

Note: Rounded down to nearest 100 million yen

Appendix 2
Knorr Soup Product Line (as of End of 1969)

20	January 1964	Beef Noodle Chicken Noodle Chicken Cream Onion Cream Mushroom
	January 1965	Vegetable Cream
	September	Pork Curry Soup (discontinued in October 1967)
25	January 1966	Corn Cream Soup
	September	Asparagus Soup
	January 1967	Potage Soup
	September	Veal Cream Soup
30	January 1968	Potato Cream Soup
	September	Italian Vegetable Soup Swiss-style Corn Chicken Soup
	January 1969	Danish-style Ham Cream Soup
35	March	Tomato Cream Soup (discontinued in September 1969)

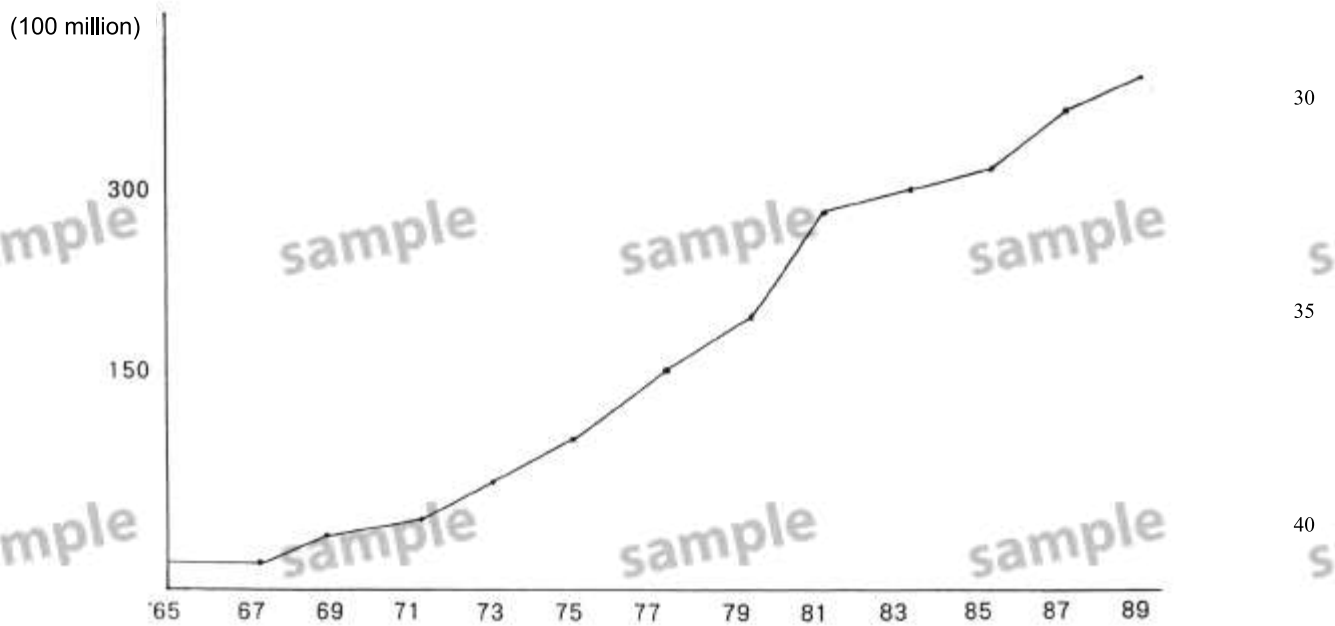
Appendix 3

Knorr Cup Soup Product Line (as of End of 1989)

October 1973	Corn Cream Chicken Cream Curry Cream (discontinued in November 1976) Chicken Consommé	5
April 1974	Vegetable Cream Mushroom	
November 1976	Potage	10
January 1981	Corn Mix	
September 1984	Cream Soup Beef Consommé Cream Potato	15
January 1985	Honey Corn Chinese-style Corn (discontinued in September 1986) Chinese-style Chicken (ditto) Seaweed (ditto)	20
January 1988	Pumpkin Green Pea Carrot Corn Herb	25

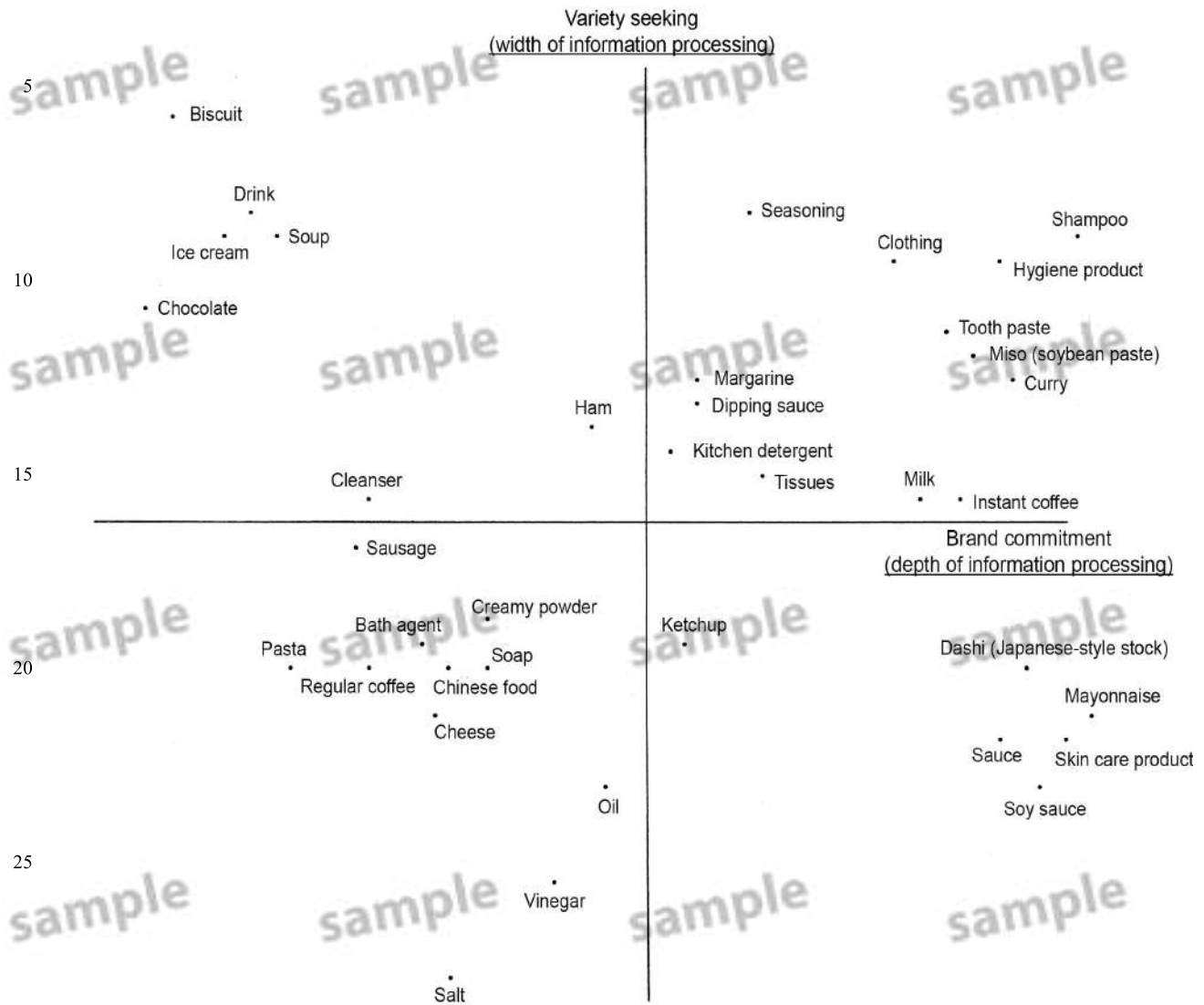
Appendix 4

Long-term Trend of Processed Soup Market Size



Appendix 5

Classification of Products by Consumer Information Processing Characteristics



30 Source: Moriguchi Takeshi and Onzo Naoto, Qualitative Effects of Promotion, Marketing Science, p. 34, 1989

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Appendix 6

Classification of Main Processed Soup Products

	Main brands	Price	Characteristics
Western-style dry soup base	Knorr Cup Soup Pokka Healthy Good Morning	200–220 yen (4 serves)	<ul style="list-style-type: none"> • Dried powder soup • Just need to add hot water to drink • Corn cream is popular
Chinese-style dry soup base	Knorr Soup Pokka Ma'am-Made Soup	180–230 yen (4 serves)	<ul style="list-style-type: none"> • Dried powder soup • Popular product with long history • Cooked with water, milk, etc.
Seaweed soup (instant soup)	Knorr Chinese Soup Maggi Chinese Soup Nichirei Chinese Soup	180–230 yen (4 serves)	<ul style="list-style-type: none"> • Dried powder soup • Usually cooked with eggs • Shark fin soup is popular
Chilled soup	Riken Seaweed Soup	150–200 yen (3 to 4 serves)	<ul style="list-style-type: none"> • Dried powder soup • Goes well with grilled meat
Canned soup	Sujahta Toraku Aohata	200–300 yen (4 serves)	<ul style="list-style-type: none"> • Sold in paper containers, refrigeration required
Retort-pouch-packaged soup	Knorr Campbell's Aohata		
	House Nichiro Asakuma		

Nikkei Inc., Distribution Handbook, p. 157, with some alterations

Appendix 7

Breakdown of Retail Stores – Trend

(stores, %)

	1982	1985	1988	1988/1985
Department stores	461	438	433	-1.1
General merchandise supermarkets	1,507	1,634	1,851	13.2
Clothing supermarkets	606	520	571	9.8
Food supermarkets	4,358	4,707	4,877	3.6
Home product supermarkets	531	646	949	46.9
Convenience stores	13,235	29,236	34,550	18.2
Other supermarkets	58,777	59,643	53,834	-9.7
General merchandise stores	1,630,625	1,529,768	1,521,094	-0.6
(General goods)	–	1,416	1,663	17.4
(Clothes)	–	223,478	229,978	2.9
(Foods)	–	562,382	546,555	-2.8
(Home products)	–	742,492	742,898	0.1
Others	1,455	2,052	1,593	-22.4

Note: A specialist supermarket is a supermarket that has a floor area of 500 m² or more with at least 70% of its product lines coming from a single product category. A convenience store is 50 m² to 500 m² in size and operates at least 12 hours a day. Other supermarkets include all supermarkets that are not a general merchandise supermarket, specialist supermarket or convenience store.

Source: Tabulated Commercial Statistics (Edition Compiled By Type of Business), with additional processing

Appendix 8

Income Statement of Ajinomoto Co., Inc.

(million yen)

	FY 1987	FY 1988	FY 1989
5 Sales	432,524	460,049	477,178
Cost of goods sold	316,767	336,275	332,659
Gross income	115,757	123,774	144,519
Marketing expenses and general administration expenses	96,754	104,262	126,772
10 Marketing expenses	44,566	48,832	66,639
Transportation expenses	14,525	15,613	17,767
Advertising expenses	17,219	18,843	26,368
Miscellaneous expenses	12,821	14,348	22,503
General administration expenses	52,188	55,430	60,133
15 Operating income	19,002	19,511	17,746
Non-operating income	16,842	20,216	21,161
Non-operating expenses	4,128	6,597	4,959
Ordinary income	31,715	33,130	33,948
Extraordinary income	1,873	2,319	4,391
20 Extraordinary expenses	6,540	9,366	13,763
Net income before tax	27,049	26,083	24,576

Appendix 9

Instant Soup Purchasing Households and Purchase Volume Per Purchasing Household

(% , products)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
25 Percentage of instant soup purchasing households	14.8	19.9	27.3	30.5	30.8	30.3	29.3	34.3	37.4	37.7
30 Purchase volume per purchasing household	3.9	4.4	4.4	4.7	4.3	4.1	4.6	4.8	4.8	5.1

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