AGB 318: HW #1

Due Thursday April 26, on Polylearn

You may work in groups of up to 5

For this homework assignment you will evaluate the potential success of Krispy Kreme's entry into China. To do this you will begin by researching Krispy Kreme's operations, as well as their history of expansion into new regions, both domestic and international. After learning about current Chinese trends you will be ready to give your final assessment. In addition to the assigned sources you will need to find external information on your own to fully complete the homework.

First, read these three articles. Then answer the following questions.
https://www.bostonmagazine.com/2006/05/15/the-doughnut-war/
http://www.patriotledger.com/x1202733749
http://www.abc.net.au/news/2010-11-05/the_holes_in_the_krispy_kreme_market/40808

1) Give a brief history of donuts as a breakfast food in Australia and in the U.S. Cite your sources.
2) How do Boston and Australia differ when it comes to entry conditions? How would this impact marketing decisions?
3) Look at the 2003 Krispy Kreme 10-k.
   a. What was their "proven concept"? How does that relate to what happened in Boston and Australia? Discuss their grocery store strategy, and assess it.
4) Using 10-k's from 2003-2011 create a table that shows the number of factory stores, and the percentage of factory stores that were located outside the U.S. What trends do you notice? What is a factory store? Why does looking at solely factory stores give an incomplete view of Krispy Kreme's growth strategy?
5) Briefly summarize how Krispy Kreme's strategy in regards to "off-premise sales", "brand elements" and "international stores" has changed over the 2003-2011 period, using information from the 10-k's.

6) What does the 2011 10-k say about Australia? How does that correspond with what you read in the articles?
7) Look up Krispy Kreme on Hoovers. Make a pie chart of 2015 sales across the globe, separating U.S. and other North American sales. Next make a pie chart of just international sales. Make sure both charts are well-labelled.
8) Go to GMID and search “donut”. The first result is a report titled “Doughnut Time Pty Ltd in Consumer Foodservice (Australia)”. What does this report say? Now research the current success of the company. How does that relate to the 2017 forecasts? Assess their current position.
9) You now have a lot of information on the donut industry in general, and Krispy Kreme specifically! The second result in GMID is “Can the Coffee and Donuts Model Succeed in China?” Using this report, and your previously gathered information, should Krispy Kreme enter China? Why or why not? What would be your market strategy for entry? Why?

AGB 318: HW #2

Due Thursday May 24 on Polylearn

You may work in groups of up to 5

For this assignment you will look at marketing in developing countries. After completing the readings and watching the video you must fully answer the following questions using concepts and terms from class. Do not base the answers on your own thoughts, but *use the information in the articles*. The key to this assignment is to *not* just cite the information in the article. Use your own words to express your answers and be *specific.* Use as much detail as possible and all of the information provided in the articles to support your answers. Please cite all of your references, if you use additional sources.

1. Describe the success of Danone in developing countries. What is the future plan of the company with regard to their target market? Why? What other companies are using similar strategies? What are some obstacles that companies might encounter? Give an example.

2. Compare the company's marketing strategy in 1996 vs. 2006. How is Danone adapting its product and price?

3. The Senegalese spend approximately 46% of their income on food. What is the implication of that value (use specific terms from class)? Using the information provided in the article, what might you estimate is the average per capita income? Compare this to the World Factbook's 2015 value. Why do you think they differ?

4. For the example of Bangladesh, explain the adaptation of the marketing mix. What problem did Grameen Danone run into and what was the resulting consequence?

5. Make a bar chart of U.S. and Bangladesh Hofstede indices (IDV, PDI, UAI). What inferences can you make about the Bangladeshi population?

6. Research the 5 elements of culture for Bangladesh. What sort of ad campaign would you design for Shokti Doi, taking into account each of the elements? Cite your sources.

7. Focus on Senegal and provide background on la Laiterie du Berger – add information from the video. What changes in their marketing mix have led the company to break even within two years? Please provide facts and details about their specific adaptations.

8. Explain how Danone's *La Laiterie* followed the 7 steps of the Global Advertising Communications Process, using specific examples from the article/video and proper terms from class.

HW #2 Reading

1. Marketing in Developing Countries

Economic development: An increase in national production (GDP or GNP)

As countries prosper, their people are exposed to new ideas. This means old traditions and habits may be tossed aside, while new consumption patterns emerge.

The U.N. characterizes countries into three main stages of economic development:

- **Developed economies**. These are industrialized countries with high per capita income.
- **Economies in transition/Emerging Markets.** These are industrially developing countries just entering world trade.
- **Developing economies/Least Developed Countries.** These are primarily agrarian countries with low per capita income.

Industrialization tends to be the main objective of most developing nations. **Infrastructure,** which are capital goods that serve many industries, are a good indicator of economic development. The quality of a country's infrastructure directly impacts economic growth potential; countries where infrastructure does not support an expanding population and economy will not be able to fully develop. A country's investment in **information technology** (IT) is also an important key to economic growth (think of the importance of the internet and cell phones to business transactions)!

Economic planners tend to be more **production oriented** rather than **marketing oriented**. This means that they are concerned with maximizing production, but don't think about how to get these products to consumers. However, it is marketing that connects productive capacity and consumer demand. When entering a developing countries the 4 P's must often be updated.

- *Promotion*: Promotional elements must take into consideration literacy levels and technology availability.
- *Product*: Rural areas often do not have the storage and refrigeration capabilities to handle perishable products.
- *Place*: Infrastructure may be nonexistent, and an underdeveloped supply chain can make it difficult to connect with wholesalers or middlemen.
- *Price*: It is important to properly price for subsistence markets

It can be tough to estimate market demand in developing countries, and there are three types of markets to consider:

1. Traditional rural/agricultural sector
2. Modern urban/high-income sector
3. Large transitional sectors represented by low-income urban slums

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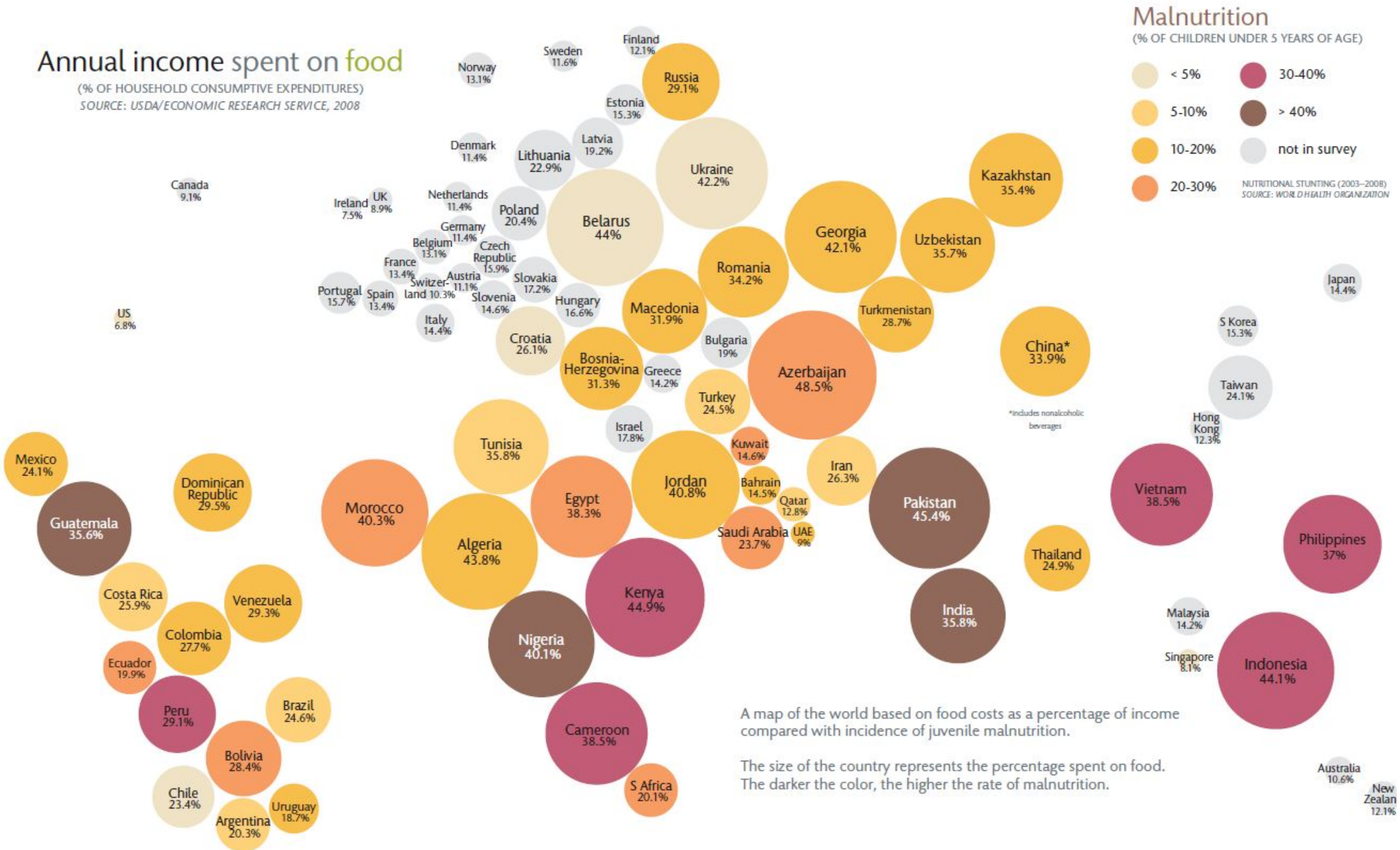
HW #2 Reading

2. Food Marketing and Developing Countries

Economists have long studied the impact of an increase in income on food expenditures. In general, a doubling of income doesn't mean a doubling of pounds consumed. Instead, low-income consumers tend to *upgrade* their diet by substituting more expensive foods (meat) for bland staples. Two economists found evidence of this behavior in a randomized experiment in China. Randomly chosen rural Chinese households were given vouchers to subsidize rice (a staple good in southern households) and wheat (a staple good in northern provinces). This was essentially an increase in income as consumers now had additional fund to substitute toward other food options. If subsistence consumers were solely concerned about calories they could have used these savings to buy greater quantities of the staple good. However, households instead increased their purchase of meat, leading to fewer overall calories consumed in some case. Looking at how per capita meat consumption changes by region, there is a direct relationship between the level of development and the total amount of meat consumed.

You may recall discussions of **income elasticity** from AGB 212 and AGB 301. **Engel's Law** states that as a consumer's income increase the proportion of their total expenditures that they spend on food goes down. Essentially, the wealthier you are, a smaller relative portion of your budget is spent on food. However, as noted above, the attributes of food consumed tend to be more complex.

The following map, from Washington State University, shows international differences in the total percent of expenditures that are spent on food. What trends do you notice?



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WALL STREET JOURNAL, June 25, 2010
Danone Expands Its Pantry To Woo the World's Poor

By CHRISTINA PASSARIELLO

Franck Riboud, chief executive of Danone, is feted by villagers in Casamance, southern Senegal, for his company's program to replant the mangrove forest.

RICHARD TOLL, Senegal—Twice a week after work, Senegalese webmaster Demba Gueye treats himself to a snack: a 10-cent tube of Dolima drinkable yogurt. It's a splurge considering his two-dollar-a-day food budget, and the 50-gram sachets are "teeny."

But the 25 year-old says they're delicious. "I'm crazy about it," he says.

The yogurt is an attempt by French food company Danone SA to fill a worrying gap in its business. Danone has become one of the world's fastest-growing food companies thanks to its high-end healthy products, such as Dannon yogurt, Badoit and Evian water and Bledina baby food. But momentum is slowing in the company's traditional, rich-world markets in North America and Western Europe.

So, Danone is among a vanguard of Western multinationals staking much of their future on the world's poor. Last year, 42% of its sales were from emerging markets—up from just 6% 10 years ago. Danone aims to reach one billion customers a month by 2013, up from 700 million today.

Digging deeper, the company is now trying to target customers who live on dollar-a-day food budgets. Dolima, launched last November, sells at a rate of more than 30,000 tubes per month, with sales rising at an average monthly rate of 10%. In Indonesia, Danone is targeting 10-cent drinkable yogurts at the poor; in Mexico, it has 15-cent cups of water.

"The objective is to do business, not just with the top of the pyramid," says chief executive Franck Riboud.

Other giants of consumer goods, from cell phones to shampoo, are pursuing variations of this strategy. German sportswear maker Adidas AG is experimenting with a one-Euro sneaker for barefoot Bangladeshis. L'Oréal SA sells sample-sized sachets of shampoo and face cream in India for a few cents. Unilever developed Cubitos, small cubes of flavoring that cost as little as two cents apiece, for developing markets in particular.

These companies tread on delicate territory. They must grapple with the fact that their potential customers, while legion, have extremely limited budgets. A decision to sell goods that consumers can't easily afford can yield duds.

"The biggest problem is that prices are too high," says Aneel Karnani, associate professor at the University of Michigan's Ross School of Business. "Companies overestimate the size of the market and end up selling to the middle class, not the poor."

Other challenges include shaky distribution networks and the difficulty of containing costs. Adidas, for instance, isn't sure it can meet its price target after paying for its shoes' rubber and canvas.

Danone believes its yogurt is a good match in Senegal because it is meant as an on-the-go snack—well adapted for Senegalese consumers who have three or four snacks during a day and only one main meal.

Danone says its emerging-market bottled-water business is already more lucrative than its water operations in developed markets, which includes the pricey Evian brand. The company strives for "satisfactory and durable profits, but not to maximize profits," says Danone deputy general manager Emmanuel Faber.

In his first decade in charge, after taking the helm of Danone in 1996, Mr. Riboud marketed to the rich.

In particular, he cultivated two highly-profitable innovations: digestive-health yogurt Activia and Actimel, a yogurt drink that claims to strengthen the immune system. Each sells for twice the price of basic yogurt. By 2006, both were pulling in more than 1 billion euros in sales. Last year, Activia sales were more than $3.6 billion. Danone as a whole posted revenues of $20.9 billion.

This small Dakar corner shop is the kind of store where most Senegalese buy groceries, including Dolima yogurt.

Mr. Riboud began to see he was missing out on the huge untapped market of products for the poor. In 2004 in Indonesia, Danone's local managers presented Mr. Riboud with a pyramid diagram showing that out of the country's population of 240 million, just the 20 million at the tip of the pyramid could afford Danone's food.

So he decided to develop a cheap, on-the-go drinkable yogurt for poor consumers and children. "Why shouldn't I be doing business with them, too?" Mr. Riboud recalls thinking.

The first such yogurt debuted in Indonesia at the end of 2004, selling at 10 cents for a 70-gram plastic bottle. The yogurt was an instant hit with lower-income consumers and children in particular, selling 10 million bottles in its first three months on the market. It is still one of Danone's most popular products in Indonesia, where the average per-capita income is about $11 a day.

Profit Potential | A glance at Danone's emerging-market food sales

COUNTRY	BRAND AND PRODUCT	PRICE (● =1 CENT)	AVG. DAILY INCOME*	COST AS PCT. OF DAILY INCOME
Indonesia	Aqua cup of water (8.5 oz.)	●●●●●	$6.13	0.8%
Mexico	Dany Xprime pouch of jelly (1.4 oz.)	●●●●●●	27.99	0.2
Bangladesh	Shotki Doi pot of yogurt (2.1 oz.)	●●●●●●●●	1.43†	5.6
Algeria	Danone Mini Prix pot of yogurt (2.8 oz.)	●●●●●●●●●●●●	13.53	0.9
South Africa	Nutriday Snax pot of yogurt (2.6 oz.)	●●●●●●●●●●●●●●	15.57	0.9
Hungary	Nap Nap pot of yogurt (3.9 oz.)	●●●●●●●●●●●●●●●●●	42.40	0.4
Czech Republic	Dobra Cena pot of yogurt (4.4 oz.)	●●●●●●●●●●●●●●●●●●●	56.81	0.3
Poland	Milky Start milk porridge sachet (2.1 oz.)	●●●●●●●●●●●●●●●●●●●●	37.97	0.5

*Per capita for 2008 †Estimate

Sources: Danone; IMF

Two-and-a-half years later, Danone teamed up with Muhammad Yunus, the Bangladeshi who later won the Nobel Peace Prize for his microcredit program that lends money to poor entrepreneurs. Mr. Riboud and Mr. Yunus, having met over lunch, set up a joint venture called Grameen Danone Foods Ltd.

The idea was to sell an affordable seven-cent yogurt product called Shokti Doi—which means "strong yogurt." Fortified with vitamins and minerals, it was to be sold through local women who would peddle it door to door on commission.

For the 54-year old Danone boss, who eschews ties and gets around by scooter, the Shokti Doi initiative was something of a personal mission. His father Antoine, who preceded him as chief executive, had instilled in him an interest in ventures that had a chance to both make money and give a lift to the poor—the "double project", as he called it.

Danone stresses that none of its low-income consumer efforts are charity. "Danone is not an NGO," Mr. Riboud says. "Learning to make a nutritious product that can be sold for eight cents without a loss helps us when we put in place a volume strategy, even in mature markets."

Danone stuck with the project in Bangladesh, which it says provided valuable lessons for other parts of its business. In January it built a new factory in Thailand modeled off the Bangladesh facility, at a fraction of the cost of a new site.

Profit Potential

These are labs for us to learn from," says Bernard Giraud, Danone's vice-president for sustainability. "We couldn't make a classic investment in a business like this because the return isn't immediate and the risk is high."

In 2008, Mr. Giraud suggested the company try a second such initiative. A Danone unit acquired a 26% stake in a Senegalese dairy startup called La Laiterie du Berger, French for The Herder's Dairy.

Almost all dairy product in Senegal is made with inexpensive imported powdered milk. La Laiterie uses fresh milk bought from dairy farmers in northern Senegal, near the sugar-plantation city of Richard Toll. Bagoré Bathily, a 36-year-old Senegalese entrepreneur who studied in Europe, launched the company in 2006 to give nomadic cowherds a market for their milk.

Mr. Bathily's yogurt, made in a local factory, appealed to better-off Senegalese and expats in the capital of Dakar, as did his cartons of fresh milk.

Yet fresh milk is costly in Senegal—30 cents a kilo, the same price Danone pays farmers in France—because the country's bony, white cows yield a maximum of just three liters a day, compared with as much as 50 liters for French cows.

By last July, sales at La Laiterie had leveled off and the venture was failing to live up to Mr. Riboud's expectations. During an outdoor briefing in January by the river in Richard Toll, Mr. Riboud teased Mr. Bathily about La Laiterie's 826,000 euros in sales ($1.15 million) last year. "You have to add another zero to your sales," he said. "At Danone, our accounting is in millions." The only way to do this, said Mr. Bathily, was to sell to Senegalese who spend as little as a dollar a day on food. "Fifty grams of yogurt isn't as filling as 50 grams of rice, which is cheaper."

In fall 2008, Mr. Riboud had dispatched Danone senior product manager Isabelle Sultan to Senegal to help Mr. Bathily put La Laiterie's products within reach of low-income Senegalese. Ms. Sultan, who worked on the marketing team for the premium Activia line, had been involved in the Bangladesh yogurt project. Ms. Sultan proposed selling yogurt in a new way: a small 50-gram pouch that consumers could tear open to squeeze out the yogurt. Mr. Bathily set the price at 50 CFA, or 10 cents, a common coin denomination. A coin logo advertises the price on the bright green pouch, which bears no Danone branding.

Next, they gave La Laiterie's yogurts a local image, naming them "Dolima," or "Give me more" in Wolof, the local language. They splashed the red, yellow and green of Senegal's flag on the packaging to help illiterate customers identify it. Finally, Dolima got a new recipe. Consumers had said La Laiterie's old formula was too acidic, too liquid and not sweet enough. So La Laterie added vanilla flavor to the existing "plain" and "sugar" lineup and thickened the yogurt for a creamier consistency.

With the smaller packages, Mr. Bathily was able to get his yogurt into corner shops for the first time. These cramped stores are often no bigger than a closet and stock the yogurt in a cooler behind the counter. He expanded his distribution from 500 stores in June 2009 to 3,500 stores by the end of the year. Every morning, dozens of women stop by La Laiterie's Dakar office to fill their portable coolers with yogurts to sell in school yards during morning recess.

Sales of La Laiterie's yogurts and milk doubled to more than 105 tons in December from 47 tons in July. Mr. Bathily and Danone expect the company to break even within two years.

Mr. Riboud believes the Dolima concept can become a significant business. He has discussed deploying yogurt sachets with the heads of Danone's dairy businesses in other countries, and says it is possible it could become a "land" product at Danone, one that is sold worldwide. With the recession crunching grocery budgets in Danone's home market of France, Mr. Riboud suspects there might be a market for cheap yogurt sachets at home.

"I think one day we'll put the Danone name on [Dolima]," Mr. Riboud says, sipping a glass of vanilla yogurt, "once the product has taken off." **Write to** Christina Passariello at christina.passariello@wsj.com