

**The Challenges and the Opportunities of introducing Organic KitKat Chocolate by Nestle
(A Study Case: NESTLE)**

**Sherleen Vernice Djarum¹, Daisy Mui Hung Kee², Nurul Nabilah Binti Azmin³, Ramado
Dipradelana Isdianto⁴, Abdurrahman Omar Elghoul⁵, Shantanu Somnath Pandit⁶**

Universiti Sains Malaysia¹

Correspondence Email: sherleenvernicedjarum@gmail.com

Universiti Sains Malaysia²

daisy.kee@gmail.com

Universiti Sains Malaysia³

bellaazmin8@gmail.com

University of Brawijaya⁴

ramadoisd@gmail.com

Universiti Sains Malaysia⁵

abdurrahmanelghoul@gmail.com

Amity University Mumbai⁶

sunnypandit773@gmail.com

ABSTRACT

The issue that we are going to discuss in this report is the accusations that the company is facing regarding the violation of the Ethical marketing codes and manipulating customers with harmful ingredients inside its products. Also, we will introduce a new organic kitkat chocolate in the market and we will analysis the all strategies risks and opportunity of introducing this chocolate in the international market.

CHAPTER 1

1.0 INTRODUCTION

A) About Nestle

Nestle was established in 1866 by Henri Nestle in Vevey, Switzerland. Since then, Nestle have been the leading company in the food and beverage industry in the whole world. The products of Nestlé include snacks, coffee, tea, baby food, breakfast cereals, bottled water and medical food, pet food, ice cream dairy products, Nespresso, Nescafé, Kit Kat, Vittel, Maggi, and frozen food. Nestlé's brands have annual sales of more than 1 billion CHF (about 1.1 USD billion). Nestle have adopted international business strategies ranges from pricing to distribution that allows it to expand dramatically and flourish in the business world, with more than 400 factories that operate in around 189 countries. Also, it has maintained a good level of growth and profitability in the last years being one of the main shareholders of L'Oreal, the world's largest cosmetics company.

Huge companies in the food and beverages industry often considered by economists and governments as reliable and trustworthy especially in financial unpredictability and crisis. However, Nestle's history is rich with what writers' call "frequent scandals" regarding what they call unethical practices that the company approach. For example, many still remember what happened last year when the company violated the advertising codes and misled the consumer with nutritional claims regarding the babies' milk formula. In the recent years, there is an unstoppable growing trend in healthy food. Being the largest food and beverage company in the world, there are always many threats and challenges requiring Nestle to take serious steps and respect the consumers demand for healthier alternatives.

CHAPTER 2

A) Background

All the successes that have been achieved by the company, the company still has some weakness and threats. Nestle had a history of confrontation over a range of issues from child labor, slavery, rainforest destruction, water extraction, debt perpetuation, unethical promotion, manipulating uneducated mothers, pollution, price fixing, obesity to mislabeling. History of Nestle's public relations issues began in the late 90's, when Nestle targeting the poor to replace mother's milk with its breastfeeding formula which is highly unethical. In October 2008, Taiwan Health ministry announced that six types of milk powders produced by Nestle contained melamine and were removed from market according to the Reuters. To the most recent issue of child laboring in Nestle's cocoa supply chain.

Nestle is by far the largest food company in the world. Nestle's goal is to redefine itself as "a scientifically driven nutrition, health and wellness company." However, what Nestle did turned out to be the opposite. In Nestlé Healthy Kids programme 2014, Nestle highlighted Nestlé KoKo Krunch and Cookie Crisp cereals which aimed to promote healthy breakfast for children despite its high sugar content. This seems to be misleading. Not to add that 40% of Milo is made up of pure sugar.

Being boycotted for 40 years, it is time for Nestle to take a step forward to build up its reputation. Ranking number 3 in the U.S, number 1 in the U.K, KitKat generates one of the highest sales among Nestle's products. However, hydrogenated vegetable fats in KitKat makes it unhealthy. Hydrogenated vegetable fats are a source of trans-fat which increase the likelihood of heart disease, stroke, and cancer. Kit-kat also famous for its high sugar content.

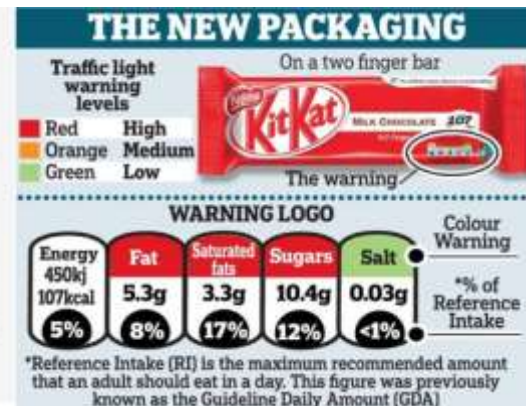
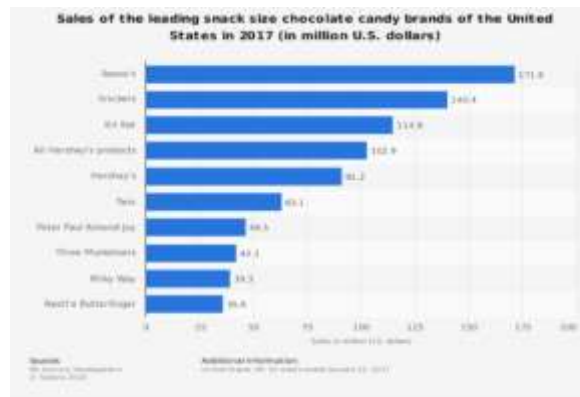
The rise in popularity of healthy lifestyle have changed the consumer trend on picking their foods. This year, the global market for healthy foods is expected to reach \$1 trillion and will be the year in which veganism goes mainstream. Consumers are opting for healthier options and are willing to pay a premium. Many giant's industry is struggling to catch up, this is a good opportunity for Nestle to serve this niche market by producing an "100% Organic Vegan KitKat". Selling in over 70 countries, KitKat is a great strategy to reach all the consumers around the world. This "100% Organic Vegan KitKat" not only will be able to build back Nestle's reputation but also generates substantial revenues for Nestle.

B) About KitKat

KitKat was founded in 1935, KitKat was first known as Rowntree Chocolate Crisp. Two years later, the name was changed to KitKat. In 1988 KitKat became a part of the Nestle's range of confectionery products. It grew to be the No.1 chocolate brand in Malaysia, enjoyed by both young and old as a light snack. Today, it is exported to more than 11 countries in Asia.

Kit Kat can be considered as a snack between a chocolate bar and a biscuit. It has around 3 layers of wafer, chocolate cream and a milk chocolate coating, it gives the consumer of the chocolate a sense of satisfying crispness when broken or bitten into. Its form of fourfinger format makes the chocolate easily divided for eating, sharing and makes it last longer.

This graph below illustrates the revenue of the leading snack size chocolate candy brands in the United States in 2017. Reese's, which is owned by Hershey Company, ranked as the best in terms of sales in United States with about 171.6 million USD worth of sales in 2017. KitKat has ranked the 3rd with 114.8 million USD.



Nestlé has taken serious steps to modify the recipe

of KitKat chocolate. This change was by reducing the sugar by 0.7 mg and calories by 4 calories which will make it healthier from the original version. However, many food scientists still doubt that it is still not totally guilt-free. The change of the KitKat recipe came after the Government's anti-obesity strategy. However, according to the scientists, these reformulations are not enough and more still need to be done reduce the sugar amount in products. Moreover, the consumers of the chocolate have taken social media to express their anger regarding the changes in their chocolates, saying that the company has no right to force people to change their diet.

CHAPTER 3

A) 100% Organic Vegan KitKat

The new product that we will introduce is "100% Organic Vegan KitKat" chocolate which will be one of the new KitKat flavors. The chocolate will be made in such a healthy way to capture not only the consumers with healthy lifestyle but also the vegans.

Behind every chocolate are two key agriculture products which is cocoa and sugar. Organic chocolate. However, means that cocoa and sugar are produced without the use of harmful chemical. Organic chocolate is made from cocoa and sugar that is grown without these synthetic chemicals, In farms that use natural, organic and biodynamic tools to cultivate these crops. Organic methods are good for biodiversity,ecosystems and the environment.

One of the main differences is that organic chocolate is created using cocoa beans which have not been treated with synthetic fertilizers, herbicides or pesticides. This chemical has been linked to numerous negative health effects, and most consumer lacks the kind of protective gear that would help mitigate some risk of exposure. True organic chocolate should not stop at the cocoa bean - any other ingredients included in the blend (sugar, milk, nuts, fruit, spices, etc.) should be organic as well. If the label reads organic, it does not mean that it is totally organic, other chocolate's organic percentages could be anywhere from 70% to 90%. The organic vegan KitKat is 100% chocolate's organic. In choosing organic chocolate, you are choosing to eat a food that is made without synthetic pesticides, fertilizers, herbicides and other chemicals. The new nestle Kitkat with 4 Finger Milk Chocolate Bar contains 4 wafer fingers covered with smooth organic vegan chocolate.

B) Pricing strategy

Nestle Kitkat has a very strong image of its brand name and in this competitive market this image allows the company some flexibility in executing its pricing policy. However, in order to increase the volume and maintain its loyal customers Nestle Kitkat has resolved to maintain a low and fair pricing policy.

The starting prices of the Kitkat product remain unchanged at INR5. Along with its quality, even if the quantity has been reduced, the customers then do not feel very unhappy with the company as they also realize the effects of rising economy. The stability in the pricing policy has been a major factor in the maintenance of sales of this brand. The company's policy has proved to be a boon for them.

1) Psychology Pricing

By setting the price slightly lower than rounded numbers, it believes that customers do not round up the prices, and so will treat them as lower prices than they really are. A normal price of kitkat is \$1.99USD, but with a 100% of organic chocolate included, the price will be \$2.99USD rather than \$3.00USD.

This strategy works well with a new brand, which place side by side with similar quality but different prices, to make customers picks the more expensive one which is the desired purchase and contains more healthy ingredients.

2) Penetration Pricing

To quickly gain a market share, we must set an initial low price to entice customers to purchase from the company. It is common for a new entrant to use a penetration pricing strategy to compete effectively in the marketplace. Price is one of the easiest ways to differentiate new entrants among existing market players.

For example, with a new brand of organic chocolate KitKat, it can be set the price at \$2.99USD same as a normal kitkat. After the new product has enter the marketplace or has a nice position in the market, then only the price will be increase slowly.

The situations where penetration pricing works effectively is when there is little product differentiation, demand is price-elastic and where the product suitable for a mass market (utilizing economies of scale).

C) Advertising strategy

Marketing has to be done for certain area or for certain class of people but at times it is necessary for the business to address entire market because the image of the brand has to be transformed. The segmentation of organic Kit Kat products must be based on mix of demographics, behavioural and psychographic factors; like on the basis of income & occasions. Product offerings should be mostly based on the production capacity, pricing of the various packs, packaging designs, and storage facilities at the outlets, occasional & situational demands, celebrity endorsements and many other factors. Although KitKat has targeted people from all age groups being a delicious chocolate bar, this organic KitKat has to distinguish its product offerings to specific class of consumer groups specifically higher-class people because of its quality and price. KitKat has already a well-established market with the position of 6th largest selling chocolate in worldwide and Nestle in 3rd rank, so it has already a huge market share, but organic KitKat is a new product so it will go through stage of product development which might have risk of success. Because of which certain aspects like attractive packaging, endorsement, social media marketing etc has to be done in proper and accurate manner.

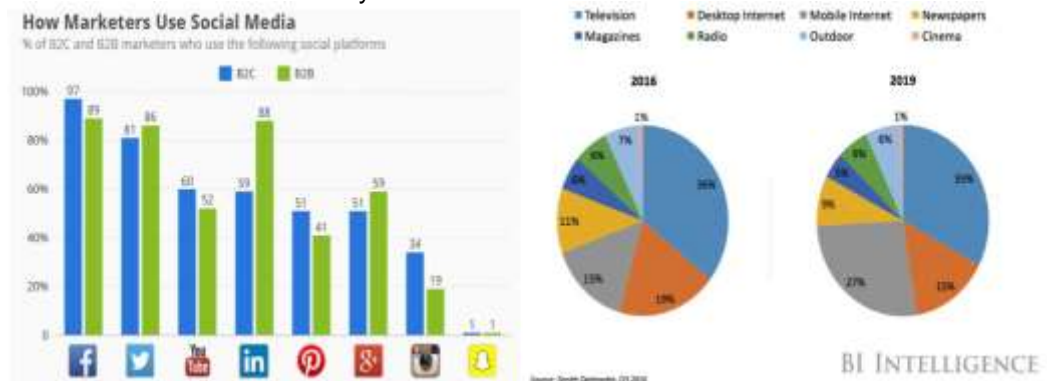
For the promotion, tools for marketing campaign have evolved to electronic media and digital sources. KitKat marketing campaign has been planned quite comprehensively that is why several marketing tools have been used in the entire process.

- In **Publicity marketing** through new range of product gives a new life to business. The aim of launching new products is to apply publicity, in addition to this business will aim at generating more sale and to give something new to customers and business of KitKat will generally get benefit of it.
- In **Sales Promotion** the marketing campaign of the product will also present a new refreshing touch to the product by giving a new face to its product. It is one of the most common tools for marketing and it does help in increasing sales as well as attraction of product, because colour of the packaging plays an important role in increasing the sales. The packaging colour of the product all so determines which

gender group will be more attracted towards it because psychologically colour choice are also determine the gender.



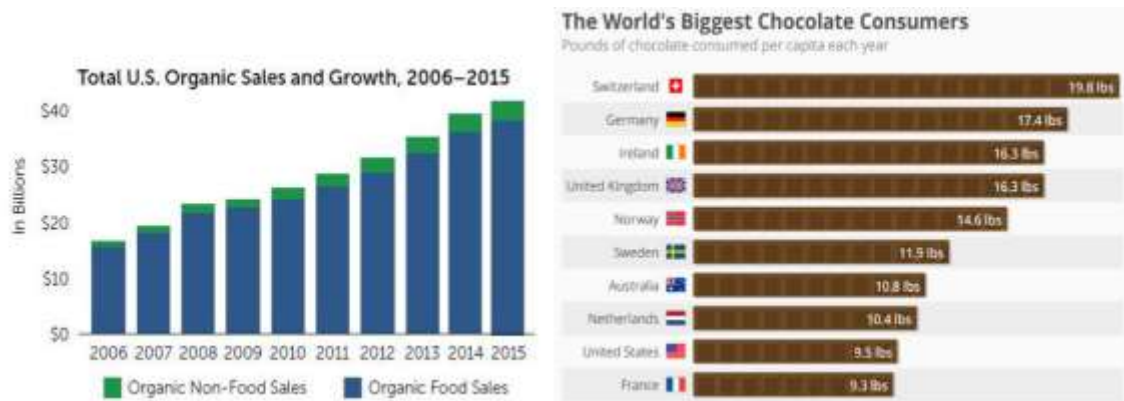
- Social Media** has been used as a base medium for marketing many kinds of products. In this case with, social media advertisement we have to relate the snap adds with benefits because of the change by creating an organic KitKat and address the viewer of the add with the story behind it .



The Global organic chocolate market is segmented into North America, Europe, Asia Pacific, and rest of the world. North America is dominating the organic chocolate market followed by Europe. U.S. The North America region is experiencing a high demand for organic chocolate owing to rising health concerns associated with the consumption of chemical-containing food commodities, so we can estimate that these countries can become our potential consumers as well as customers for the sales of organic KitKat.

In the whole campaign of marketing our job will be to focus on” why Organic chocolate is better for you? Difference between organic chocolates and conventional chocolates. How preservative chemicals have been linked to numerous negative health effects. The chemicals involved in the cacao and sugar production for conventional chocolate have a negative effect on the environment.

Likewise letting them to choose an organic chocolate means giving the consumer the purchase power to a system that values their health, the health of farmers and the environment.



CHAPTER 4

A) SWOT analysis Strengths

- **Healthy chocolate;** One of the most critical strength in the organic kit-kat is that it will attracts customers, because in fact, it is healthy. The organic chocolate that is low in sugar can be very beneficial for those who follow healthy lifestyle and Diet, so they can have the organic kit-kat as snack to provide them with the amount of fibers, protein and sugar needed for their muscles to grow.
- **The brand name;** Kit-kat is very well- known company in chocolate industry since 1988. Therefore, this is a strength point within the company since many people will be aware of the organic chocolate once it introduced in the market under the same product line of kitkat chocolate.
- **Kit-kat has a lot of different market area** because of the increase in global trade.
- **Kit-kat has strong customer loyalty.**



By introducing this new Kit Kat Organic Chocolate, it could move Kit Kat position towards premium chocolate while still maintaining its prize. This is a huge advantage for Kit Kat since Kit Kat is the first one to make a move to serve the current consumer trend of living a healthy life.

Weaknesses

- **Price consideration;**

The price of the organic kit-kat chocolate will be relatively high which as a result will cause a reduction in the sales and lose of price-conscious customers. Also, most of consumers of chain stores usually prefer the low-price chocolates. Therefore, our organic chocolate will not be very affordable for all consumers in comparison to other chocolate brands, TWIX, kinder, Galaxy, etc..

Opportunities

- **Healthy chocolates:** The consumers in the recent years are more conscious about health and this resulted in a huge need to manufacture low calories, healthy and sugar-free chocolates. Dark chocolate is also a very common option for customers. Moreover, The confectionery market has a market potential of more than of \$180,000 million in 2015, and with a Compound annual growth rate of 3.4 % and the growth is estimated to reach to \$232,085 million by 2022. Companies can capitalize on this
- Rise of sales co-operatives able to ensure a sufficient volume of supply.

Threats

- The confectionery market has limited barriers to enter it, which can result in countless players entering that market. In addition, there is a huge market for homemade chocolates today which expected to pose a threat for the branded chocolates.

B) Competitors analysis

Competitor analysis is an assessment the position of potential competitors. It is common market research activity that is performed to identify opportunities and risk associated with strategies such as new product. Competitor analysis is crucial to the success of a company because it helps the company to quickly identify industry trends and adapt to competitor campaigns or strategies in order to maintain foothold or out-compete the entirely. Kitkat have 4 main competitors, namely Lindt, Ferrero Rocher, Cadbury, and M&M.

Features	Kit Kat	Cadbury	Mars	Ferrero Rocher	Lindt
About the Company	Kit Kat was launched in 1958, the classic tagline has been one of the most successful brand slogans in history. There are more than 200 different flavors.	Cadbury is the second largest confectionary brand in the world after Mars. Their dairy milk chocolate is liked by all age groups. The company has high brand equity and a strong brand value.	Mars is a top producer of confectionary products established in 1911. The company has a strong supply chain. They focus on quality and taste and is available at affordable rates.	An Italian company built in 1982. Its chocolate is famous for its hazelnut that is fully roasted in a thin wafer shell and filled with hazelnut chocolate.	A top producer of quality chocolate headquartered in Switzerland. They focus on high quality ingredients and their unique way of taste and texture.
Product					

C) consumer analysis

The 100% Organic Vegan KitKat can consume by all different age categories. The healthy chocolate is prioritized to target all people regardless of their cultures and ethnicities. Also, we will make sure that the chocolate has the halal certificate to include the market in muslims majority countries like middle east and Indonesia. However, those whom their ages vary from 14 to 60 are mainly targeted more than other age categories.

Regarding Maslow's triangle, the motivating force for consuming KitKat is only for "Social Need". this is frequently as a consequence of chocolate isn't one thing which may provide for one security and not one thing that is center needs of life nor is it that furnish you with a standing picture in light of the fact that it isn't a different fragment item and thereupon the social would like is the thing that drives it deal (Sharp, 2009).

Following the original Kit Kat product, the product distribution will not far different. In cultural view, the 100% Organic Vegan Kit Kat will be widely accepted by any nations, as the company need to adapt with the nation's cultures. We believe that the consumers will buy the chocolates by its taste which make them as loyal consumers.

In Addition to the above, the chocolate target those with middle- and high-income rate since it is more expensive than other chocolate and it is expected to not be affordable to everyone

Chapter 5

Recommendations and Results

The obesity levels in western societies is keep getting higher every year, the new organic kit-kat is estimated to target not only the people who follow healthy lifestyle, but also those who want to avoid sugar as much as possible. The organic chocolate will be available all stores around the world.

in recent years , there is a high consumption of chocolate as snacks, this increasing demand for organic chocolates between consumers, and the growing desire in the production of healthy chocolate, will back up the growth of the organic chocolate market in this world. Moreover, the increasing worry about the existence of artificial ingredients in most of chocolates in the market has encouraged consumers to look for organic chocolates. This will further push the markets growth in the world. Therefore, nestle should be the initial company to start manufacturing the organic chocolates to increase the market share before other companies start taking these steps.

Nestle is the biggest food and beverage company in the world, facing humongous challenges is while operating at an international level is a must. Nestle has an ethical responsibility to operate in a sustainable way by satisfying the needs of today's generations while maintaining and enhancing the potentials of future generations. This thing cannot happen by modifying and manipulating with the recipes of current products ,it will only happen when the company take serious procedures to provide the new generations with food that has moderate amounts of sugar and fat.

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