Campbell Soup – 5 pages including the cover (February 25, 2003)

Case Discussion Questions: **1-page SWOT analysis due**

- Examine the underlying logic concerning management’s decision to enter the health-food product-market.
- Who were Campbell’s customers? Who should have been Campbell’s customers?
- Evaluate the marketing research underlying Campbell’s decision to develop the Intelligent Quisine line. What did they do well? What did they do poorly?
- Should additional research have been conducted? What additional research should have been done?
- Was Campbell’s failure with the IQ product line the result of faulty targeting and positioning strategy formulation, or poor implementation?
- Evaluate management’s decision to exit the health food product-market.
Despite that mea culpa, Knight shrugs off any suggestions that the struggles of the past two years have transformed him personally. But he acknowledges that he has had to swallow some pride. "Where's the fine line between being a certain size and being a bully. And we don't want to be a bully," he says. He acknowledges that creating a big-company culture is not as much fun, but he thinks it's part of the evolution you've got to go through.

Knight hasn't given up hope that his company can regain its old stride. "I don't think we're middle-aged, I think we're in our twenties. I think there's great opportunity for growth," he says gamely. But putting Nike back on track will require a delicate balancing act—taming the company's brash, in-your-face style while injecting a new sense of vigor. Nike's CEO likes to point out that he has weathered other rough patches. "This is the fourth downturn in 18 years as a public company. I said going into the 1990s that if we can get through it with only two downturns, we'll have a great decade. And I'll look forward to 2000 through 2010 coming up with the same statement." That may be the only good thing about slowing down as you get older—it gives you a chance to put things in perspective.


Case 2-3

Campbell Soup Co.

CAMDEN, N.J.—When R. David C. Macnam, Campbell Soup Co.'s chief technical officer, summoned doctors and nutritionists for a preview of the company's promising new product, he wasn't prepared for the gasps as he unveiled a helping of mashed potatoes.

Unexpectedly, they were glowing bright green.

The fluorescent spuds might have been a harbinger for Campbell back in 1992, as the soup company pursued its most ambitious and secretive product in a century: a regimen of nutrient-fortified meals promising therapeutic benefits and called Intelligent Cuisine.

IQ would go beyond the increasingly popular low-fat products of the time, and Campbell backed its therapeutic claims with clinical trials at eight universities. Several medical experts and groups heralded the IQ line as a breakthrough: the first foods scientifically proven to lower high levels of cholesterol, blood sugar and blood pressure.

The testimonials were one reward for the seven years and $55 million Campbell would eventually invest in developing IQ, but a bigger payoff was expected in the marketplace. As the company began selling 41 breakfasts, lunches, dinners and snacks in a market test in Ohio in January 1997, then-Chief Executive David W. Johnson told analysts that Campbell foresaw $200 million in annual sales when the brand went nationwide.

But after 15 months in Ohio, Campbell yanked the line last March, surrendering to problems outside and within the company. While many test subjects enjoyed the meals and added their testimonials to those of the experts, others found the IQ line too expensive or lacking in variety. In the end, sales fell far short of expectations. Inside Campbell, Mr. Johnson's enthusiasm collided with the skepticism of his eventual successor, Dale Morrison. And in hindsight, some observers suggest that Campbell may have pulled out too soon, noting that IQ's therapeutic side made it analogous to a new drug, which can take more than two years to garner the support it needs from the medical establishment.

Campbell's own postmortem suggests the company may have bitten off more than it could chew. Spokesman Michael Kilpatrick says, "Business results in Ohio didn't meet expectations and would have required more health-care resources, and that is not a core competency of Campbell." After its bold plunge into innovation, the big conservative company, built on one main product, went back to its breadwinner. Mr. Kilpatrick says Campbell made a decision to exit the frozen-food business and "put our resources behind soup."
Did Campbell quit too soon? Other companies continue to regard so-called functional foods—snacks and meals with medical benefits—as the next blockbuster to snap stagnant sales in the $650 billion food industry, which has been suffering from a shortage of innovative hits. Kellogg Co., which spent $75 million to open a functional-food lab, is expected to launch new products early next year. ConAgra Inc. and Nestle SA are also developing what the industry has dubbed “nutraceuticals.” By some estimates, sales of functional foods could reach $24 billion a year by 2001, as the huge baby-boomer population enters old age.

Campbell began casting about for a cutting-edge health food in 1990. At the time, the company was still king of soup, with more than three-quarters of the American market. But soup consumption had stalled, leaving the company worried about where future growth would come from just as rivals were digging into a hot new market. ConAgra’s Healthy Choice and H. J. Heinz & Co.’s Weight Watchers frozen meals were taking off as Americans became more aware of the link between diet and disease.

So Campbell researchers began working to push the envelope, with foods that could help people manage or prevent ailments such as diabetes and cardiovascular disease. Campbell saw a demographic gold mine. About 58 million Americans have high-blood pressure and other forms of cardiovascular disease, America’s No. 1 killer. An additional 16 million Americans have diabetes, the seventh leading cause of death.

In 1991, Dr. Macnair, who has a Ph.D. in biochemistry, assembled a medical advisory board comprising specialists in nutrition, heart disease and diabetes to help Campbell run its foods through the scientific gauntlet. It would be an expensive undertaking, but it had a lot of support at the top from Mr. Johnson, IQ’s biggest champion.

Plucked from the chief executive’s job at Novartis AG’s Gerber Products, Mr. Johnson arrived at Campbell in 1990 with orders to boost sagging earnings and soup sales. He soon resurrected an early version of the healthful food product, which had been referred to internally as Project Apple. He was drawn to the “explosive potential,” as he now puts it, of “something that tastes great, is good for you, and is therapeutically as effective as a drug.”

Soon he was drooping in on the medical advisory board, sitting through technical discussions on systolic and diastolic blood pressures. “Wouldn’t you be dumbfounded by the opportunity to take a quantum leap and develop a product that could help improve the health and nutrition of the world?” asks Mr. Johnson, now 66 years old and Campbell’s chairman.

Few inside Campbell knew anything about the development work, which was initially code-named Project Nightingale (as in Florence). Campbell kept IQ researchers away from the rest of the company, and organized some of them into small, segregated groups that focused on snacks or desserts. Mr. Johnson and Dr. Macnair were so fearful of a leak that many top Campbell executives were kept in the dark. Marketing tasks were farmed out with demands for total confidentiality.

Developing a menu of meals packed with vitamins and minerals pushed Campbell’s food-technology skills to the limit, and not just on mashed potatoes. (Dr. Macnair says he never figured what caused the green glow; he suspects it had something to do with oxidation or heating of the nutrients added.) Of the early entrees, Mary Winston, a retired science consultant at the American Heart Association, says, “The best analogy would be airline meals.” An early fiber-enriched dinner roll “could have been marketed as a hockey puck,” Dr. Macnair recalls.

By late 1994, Campbell had developed what it considered 24 palatable meals, or about a week’s worth, and the medical advisory board began conducting clinical trials at the eight universities where the board members worked. Of the 560 subjects who ate the meals for a 10-week period, 73% lowered their blood cholesterol from what were considered high levels, 75% reduced their blood pressure and 62% reduced their blood sugar. None of the
testers experienced any side effects that can accompany medications, Campbell says, though some reported having a little gas.

"I've never had so much blood drawn before in my life," says Mary Ann Haitsch, 57, a trial participant from Vancouver, Wash. She was provided with free chow for 10 weeks. In return, she had to check into a clinic regularly, have four samples of blood taken and answer questions about her well-being, including her sex life. Her cholesterol dropped to 200 milligrams a deciliter from 240, and she lost 13 pounds. And the food? "Best raisin bran I ate in my life," she says. But the dinner roll, speckled with nutrients, she says, tasted like a grainy "energy bar."

With the clinical trials going well, Campbell turned to marketing issues, preparing for a yearlong market test. Up to this point, trial subjects had gotten their meals in plain, white boxes. But Campbell's marketing department and consultants began conjuring up a name for the food and flashy packaging. It chose "Intelligent Cuisine" and designed medicinal-looking blue boxes and cans for dishes such as French toast with sausage, New England clam chowder and sirloin beef tips. Each week, 21 meals, most of them frozen, would be delivered to a buyer's door by United Parcel Service.

By early 1995, at Dr. Macnair's suggestion, Mr. Johnson created a new division called the Center for Nutrition and Wellness, with the nutritionists' "food pyramid" as its logo. It employed more than 30 nutrition scientists, dietitians and others, and was based at the Camden, N.J., headquarters in Building 81, known for its wide open offices and occasional squirrel infestations.

Two years later, in January 1997, IQ was ready to stride into Ohio with fanfare. "Introducing the first and only meal program clinically proven to help people reduce high cholesterol, blood pressure and blood sugar," blared a print ad in Ladies' Home Journal. A 10-minute infomercial showed men and women in lab coats, inspecting tomatoes, cauliflower and spices.

All the ads featured trial participants. "When I was first diagnosed with high cholesterol, I got scared... Now I get the food I love and my cholesterol went down 36 points," one testified. Another proclaimed: "I ate cheesecake on the meal program and my cholesterol went down 15 points."

At Campbell's phone bank in Salt Lake City, the toll-free switchboard lit up, but when the callers were told that IQ's one-week "sample pack" cost $80 and that the recommended 10-week plans went for $700, many hung up. The price was just too high for many older people who live on Social Security and other sources of fixed income. Etta Saltos, a nutritionist at the U.S. Department of Agriculture, ordered a week's worth of meals for her father, a diabetic who lived alone in Ohio. "When he found out what they cost," she says, he "put them in the freezer for a rainy day."

Campbell also tapped the medical community for marketing help. The company sought what it called the "implicit endorsement" of hospitals, health-maintenance organizations and insurers, which could then target their thousands of members in direct mailings. The IQ team quickly persuaded the Cleveland Clinic, for one, to distribute meals and promotional material to its heart patients.

In addition, Campbell hired 24 part-time pharmaceutical salespeople to storm doctors offices around Ohio. May Ann DiStasi of Cincinnati met with 25 physicians a week, zapping IQ meals in their office microwaves, and serving them for lunch or a snack. After her pitch, she left behind IQ's "scratch pads" resembling prescription pads.

IQ wasn't always warmly received. In January 1997, at a lunch at the American Heart Association's Columbus, Ohio, office, about 40 dietitians and other professionals noshed on salad with IQ dressing, and chicken divan with rice, as Campbell touted IQ's clinical-trial results. But in the back of the room, some dietitians grossed that IQ offered nothing more than a motivated person could whip up on his own, recalls Yvonne Sebastian, a program manager with the American Diabetes Association who attended the meeting.
Meanwhile, Mr. Johnson was working the Wall Street crowd, bragging to analysts at a food-industry convention in Florida of the healing power of IQ. Most had paid little attention to the embryonic product. The headline for one analyst's report in late 1996 reflected the skepticism: "UPS T.V. Dinners Drive Top Line?"

By March 1997, the doubts had surfaced in-house: Several division presidents at Campbell had begun questioning the costly project they knew so little about. To appease them, Mr. Johnson called for a review, and a team of consultants from the Boston Consulting Group swept into Building 81 to size up the business prospects for IQ. Mr. Morrison, Campbell's new head of international and specialty foods and a leading contender to succeed Mr. Johnson, thought IQ's $20 million budget was excessive, slashed it to $13 million, and poured the savings into Campbell's overseas expansion.

Two months later, with the consultants still hovering, sales results in Ohio were looking bad. Fewer than 2,500 people had ordered slightly more than six weeks' worth of food on average—far short of the yearlong target of 40,000 orders. Desperate to rev up sales, Campbell had its salespeople cold-call those who had previously ordered IQ meals, offering discounts.

Some IQ diners did notice dramatic changes in their health and lifestyle. Yvonne Holsinger, 72, saw her blood sugar dip to between 110 and 135 milligrams a deciliter from more than 300 after 10 weeks. So dedicated was she that she was able to quit taking the medication Glyburide for her adult-onset diabetes.

Others, however, found the IQ meal program tedious. Patricia Bowers, a 68-year-old diabetic, got tired of the same eight or nine dinners over about 40 weeks. She called the IQ 800 number to complain and was happy to hear there was a pizza on the drawing board.

In June, the consultants recommended to Mr. Morrison that Campbell quit trying to drum up grass-roots support from consumers and individual doctors and instead set up storefronts near medical clinics where the infirm could pick up their meals and receive dietary counseling.

But by July 1997, the tide was turning against IQ within Campbell. Mr. Johnson relinquished his position as chief executive officer, and Mr. Morrison, as expected, became president and CEO. The former executive of PepsiCo Inc.'s Frito-Lay unit had a specific game plan: to focus on key brands and expand overseas. He spun off Campbell's huge Swanson and Vlasic businesses and smaller lines, representing $1.4 billion of Campbell's $7.9 billion in sales for the fiscal year ended July 1997.

And he began the death watch for IQ by putting it on the corporate back burner. With no marketing budget for the project, Campbell stopped promoting IQ, although it continued funding new clinical trials and working with the Cleveland Clinic. Researchers at the Center for Nutrition and Wellness were reassigned to other Campbell divisions. Finally, last fall, Campbell made plans to sell IQ, at a price tag that has varied from as much as $15 million to as little as $3 million.

Campbell certainly had gathered some important market intelligence on functional foods. IQ showed that many Americans resist a long-term eating plan; they want a quick fix, a magic bullet. The project's fate also may reflect the impatience of food companies.

Dr. Macnair and some marketing people began making IQ presentations at companies including Bristol-Myers Squibb Co. and Monsanto Co. And the team prepared for IQ's sale by creating a "due-diligence room" at Building 81, with all of the marketing material, clinical-trial results and packaging on display. No prospects showed, and today that room in Building 81 is empty and dark.