Research and Considerations For Entering the Czech Republic

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Management Summary
This report comprises of information regarding Kellogg’s, a multi-national cereal production company and brand. The goal of this report is to provide research information and recommendations as to whether Kellogg’s should consider setting up operations in the Czech Republic

The report offers a brief introduction to Kellogg’s, bringing into perspective the size of the company and it’s level of activity around the globe. The introduction also outlines the different segments the company operates under. These segments separate the products by category and geography. Information regarding the current financial position of the company is also included.

The report begins its research on the Czech Republic in the form of a PESTLE analysis. This is a detailed look into the political, economical, socio-cultural, technological, and legal position of the country under research. This is followed by a look into the current market leaders of the cereal production industry in the Czech Republic, which is compared to Kellogg’s later on in the report. A detailed comparison of Kellogg’s home market, the US, to the Czech Republic is next in the report, and is done in the form of a PESTLE analysis. After this analysis, research on the company’s internal and external positions is presented in the form of a SWOT analysis, which analyses the strengths and weaknesses of the company (internal), and the opportunity and threats faced by the company (external). Once the SWOT analysis has concluded, the report continues with a look into the different market segments that Kellogg’s target. This is coupled with information regarding the availability of the target segments within the Czech Republic. The report ends with recommendations made by the researchers of the report as to whether Kellogg’s should consider operating in the Czech Republic.

The research indicates that it is recommended for Kellogg’s to operate in the Czech Republic. In the first PESTLE analysis on the emerging market, several advantages are made clear that the Czech Republic has positive operating conditions, such as cheap labor, cheap movement of goods around the EU, and a trend of increased purchases for cereal products. The comparison between the US and the Czech Republic show more advantages. Currently in the US, cereal purchases are decreasing as substitutes are taking over. The conditions for operating in the US are more favorable than to operate in the Czech Republic, but being in the EU, which has its trade benefits, the Czech Republic shows potential as an easily accessible emerging market, and it is also the leader of technological developments in Eastern Europe.

The SWOT analysis shows that Kellogg’s is in a great position in terms of brand recognition and global market share. These strengths can be used to ease the implementation into the Czech market. With strengths comes weaknesses, and Kellogg’s will have to overcome weaknesses such as avoiding product recalls if they are to enter the Czech market. The opportunities for Kellogg’s are in regards to the healthy eating trends, and the local focus to drive sales in developing and emerging markets. The threats that Kellogg’s must be aware of are the increase of private label penetration, changing global retail scenario, and the fluctuation of prices for raw materials. The results regarding the market segmentations
research shows that each consumer segment exists in the Czech Republic and are available for Kellogg’s to target.

The report then concludes with a number of recommendations pro entering the Czech Republic. Kellogg’s will need to focus on winning over the Czech consumers against the main market share holders and private label companies. This can be achieved through product differentiation. Kellogg’s must also be aware of the threats outlined in the SWOT and take advantage of the opportunities outlined also, such as focusing on the rising trend of health conscious consumers. Targeting these consumers can increase their market share in the new market if they can overcome the competitors.
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Chapter 1 | Company Overview

The Kellogg's company was created by two brothers: Will Keith Kellogg and John Harvey Kellogg, and first started business in Michigan in the US in 1906. They quickly gained popularity upon entering the market, and over 100 years changed the way we eat breakfast (Kellogg’s, 2014). Now, Kellogg’s manufacture their products in 18 different countries, and sell their products in over 180 countries (MarketLineAdvantage, 2013). Kellogg's manufacture and market ready-to-eat cereals and convenience foods, such as crackers, cookies, cereal bars, fruit flavored snacks, savory snacks, toasted pastries, and veggie foods (MarketLineAdvantage, 2013). They currently sell 246 products under 29 brands, and continue to introduce new and innovative products every year (Kelloggs, 2014).

The company operates under seven business segments. These segments are based on product category or geographic location: US morning foods and Kashi, US snacks, US specialty, North America other, Europe, Latin America, and Asia Pacific (MarketLineAdvantage, 2013). The company made $14.2 billion in Net Sales in 2012, an increase of 7.6% compared to their figure in 2011 (Kellogg’s, 2012) (MarketLineAdvantage, 2013). Their highest income sources are their business segments in the US, their home market. Their US morning foods and Kashi accounted for 26.1% of their total revenue earned in 2012, and US snacks accounted for 22.7%. Outside their home market, they are still market leaders in most of the regions they sell to, and are continuing to grow incrementally in developed markets. They also have great opportunities in emerging markets, such as in Eastern Europe, where cereal is growing in consumption (Kelloggs, 2012).
Chapter 2 | Going abroad to the Czech Republic (PESTLE)
In 2012, Kellogg’s made approximately $2 billion in fast growing economies, an increase of 140% compared to the figure in 2011. This was achieved through organic growth, joint ventures, and cross selling opportunities created by the acquisition of Pringles (Kellogg’s, 2012). Kellogg’s are extremely optimistic in expanding to countries with favorable demographics, such as the Czech Republic.

The Czech Republic has been chosen as the perfect candidate for expanding into. It is one of the most successful CEE (Central and Eastern Europe) countries in terms of attaining foreign direct investment, recording a net total of €77.8 billion of FDI since 1993. Over 173,000 firms in the Czech Republic across all sectors are being supported by foreign capital (CzechInvest, 2014). The following is a PESTLE analysis on the Czech Republic that will outline different conditions within the country for the consideration of Kellogg’s:

2:1 | Political
The Czech Republic is considered as highly democratic and liberal country but there still remains a piece of old conservatism. Also, there is a high level of corruption, especially in political parties. This could bring forth unfair advantages and uncompetitive practices in the business environment (Irish Government, 2014). It is also important to mention that the Czech Republic is part of the EU but is not part of the monetary union, which means they have not accepted the euro currency yet. Therefore, during the economic crisis in 2008, people were not affected that much compared to rest of the EU and USA (MarketLineAdvantage, 2013).

2:2 | Economical
According to statistics, the average salary in the Czech Republic is €750 per month. The minimum wage is 8,500 Czech koruna per month, which is €293 (Kurzy, 2014). The population spends 15% of their annual income on food, and the majority of the people are price oriented, regularly seeking the best value through advertised discounts and special offers. In fact, this year the Czech Republic recorded the highest number of leaflets being printed in the EU, as it is a popular means of advertising (Klička, 2014). Currently the unemployment rate stands at 7.8%, and the country has low labor costs in comparison with the countries of Western Europe, which is good for foreign investors (MarketLineAdvantage, 2013).

2:3 | Socio-cultural (Breakfast Habits)
For most of the Czech people breakfast consists of bread, butter, ham, cheese and vegetable. Some people even eat only butter and jam together with coffee or tea. Nowadays, healthy eating is becoming more and more popular. This is evident through the replacement of white bread with wholegrain bread. Regarding breakfast cereals, such as cornflakes or muesli, the spokesperson of the most popular discount store of the country, Kaufland, said that in the recent years, the demand for the muesli and oatmeal has risen about 8.6% in 2012 comparing to 2011. Breakfast cereals for children had also increased in popularity with an increase of 11% being purchased in 2012 (Adámková, 2013). Currently, there isn’t a broad range of morning cereals in the Czech market. Supermarkets mostly
offer sweet cereals for children and muesli, but healthy wholegrain cereals are accessible in specialized stores. As for snacks, a popular food in the Czech Republic is dry biscuits with no topping (Winklerová, 2013).

2:4 | Technological
The Czech Republic's infrastructure is ranked no.19 in quality in the EU (IHNED, 2010). This ranking is due to the low quality secondary roads throughout the country, but improvements have been made. In 2014, a motorway was made in the country with a distance of 283km, making more regions within the country more accessible. This has led to major improvements in the transportation of goods across the Czech Republic. The country also has a large international airport located in the capital, Prague, and has one of the densest train networks in Europe, meaning for easy accessibility to the country and transportation throughout the country (Sprinx Systems, 2014).

2:5 | Legal
As a member of the EU, the Czech Republic have certain advantages regarding trade. For example, there are no regulations or restrictions for importing and exporting foods to and from the Czech Republic from countries within the EU thanks to the free movement of goods. Certain rules apply when trading, such as ensuring the safety of food products and properly tagging all traded items (Mikulasova, 2011). These are to ensure for the smooth transfer of goods.

2:6 | Environmental
The government takes responsibility for improving environmental sustainability. The Czech population were not used to being environmentally friendly but in recent years attitudes began to change. People have started separating waste for recycling, and several campaigns for environmentally friendly behavior were run in the country. With this, recycling within the country increased form 1% to 16% over a decade and is still steadily increasing, and landfill taxes have been implemented (Aleksic, 2013). With this shift in attitude, environmentally friendly products increased in popularity.
Chapter 3 | Competition within the Czech Republic

There are 4 main competitors in the Czech market: EMCO, Bona Vita, Nestlé, and private labels.

EMCO is pure a Czech company which operates just within the Czech Republic. They focus on products made from oats, such as instant oatmeal, muesli, muesli snacks, etc. Oats are considered to be very healthy across the Czech population (EMCO, 2014). Excluding Nestlé, whose range of oat products is very small, there are no other cereal companies that use oats. However, EMCO’s product range for children’s cereals is very limited, which dampers their performance when targeting families with young children (EMCO, 2014).

Bona Vita offers a broad range of cereals products, many aimed towards children. Their product range also includes cereals for people with diabetes, BIO products (whole grain cereals), pasta, puffed products, cereal drinks, and many more. Bona Vita’s products can be purchased in all supermarkets in the Czech Republic, making them a large potential competitor with a large portion of the market share for cereal products (BonaVita, 2014).

Compared to Nestlé, Bona Vita products do not present themselves as being premium quality products. Bona Vita products are affordable for broad range of consumers. Bona Vita products are cheaper compared to Nestlé, which is considered as more of a luxury brand. Except for two of Bona Vita’s Bio products, there are no products made using whole grain. Nestlé offers a variety of breakfast cereals catered for mature consumers, such as fitness enthusiasts and the busy worker.

Private labels, as in those knock-off brands produced and sold by chain supermarkets, are a major competitor for Kellogg’s in the cereals market. These private labels are sold for a lower price to Kellogg’s products, making them more attractive to price sensitive consumers. They are usually of lower quality, but pose as a perfect substitute.
Chapter 4 | PESTLE analysis in comparison with USA

The following is a PESTLE analysis comparing the conditions between the emerging market, the Czech Republic, with the home market, the United States of America:

4:1 | Political

Unlike the Czech Republic, the USA has a great influence on other countries, along with China and Russia. In regards to trade, the United States is not part of any international zone of the free movement of goods. Since the Czech Republic is part of the EU, they do not incur any import taxes within the EU, which can be an advantage if Kellogg’s are to move into the Czech market for they’ll be able to import materials and ingredients for production at a lower price. A similarity between the two countries are that they are both very liberal with democratic systems, meaning that there are few differences in how the countries are run in terms of enterprise. However, the level of corruption in the Czech Republic can harbor some unfavorable elements to business. This can be seen as a minor threat to Kellogg’s for they are a wealthy multinational corporation, and the real threat of corruption has greater affects on smaller businesses.

4:2 | Economical

The average salary within the USA is 5,000 US Dollars per month. Minimum wage is 600 US Dollars (SalaryExplorer, 2014). This means that the cost of labor in the Czech Republic is lower than in the US, which is favorable for foreign companies entering the country. A surprising comparison is that in the USA, the population spends 6.9% of their annual income on food, which is 8.1% less compared to the Czech Republic (WashingtonStateMagazine, 2011). If the Czech are more open to spending their income on food, companies such as Kellogg’s can make high sales by entering the country. The unemployment rate in the US is slightly lower than in the Czech Republic, standing at 6.3% (TradingEconomics, 2014). This means that there are job seekers in the Czech Republic who may be interested in working for a multi-national company such as Kellogg’s.

4:3 | Socio-cultural

Currently, the volume of sales for cold cereals has declined in the US by 7%, whereas demand for cold cereals in the Czech Republic have risen as aforementioned (Wells, 2013). In American culture, morning cereals are a common and popular choice for breakfast. Corn flakes were first invented in USA, and then later introduced to the rest of the world. Cold cereals are within the top 10 most purchased grocery items bought by Americans, especially children’s breakfast cereals (Dove, 2014). American consumers look at cereals as a regular daily commodity, whereas Czech people see morning cereals more as a luxury product. Nevertheless, cereals are top selling items in both countries, but recent health trends show a tendency for American consumers to replace breakfast cereals with yoghurt or on-go-breakfast products, which are easier to consume for the busy American (Wells, 2013). This can mean for Kellogg’s major changes in their marketing. While cereals slowly decline in popularity in the US, they are growing in popularity in the Czech Republic, which is a potentially great opportunity for Kellogg’s.
4:4 | Technological
The US are global leaders in innovations and technological development. Compared to the US, the Czech Republic are very behind in innovation and technological developments due to a 40 year duration of communist regime, in which technological progress was drastically slowed down in favor of parity in wealth (MarketLineAdvantage, 2013). However, the Czech Republic is now an emerging market with great potential in leading technological developments in Eastern Europe.

4:5 | Legal
The USA is ranked as one of the top countries for ease in doing business. Economic policies are generally pro-business, and have a very well-developed financial regulatory system, with financial markets being open to competition (MarketLineAdvantage, 2013). Another factor making business easy in the US is their purchasing power, which is much higher than in the Czech Republic.
Chapter 5 | SWOT Analysis

The following is a SWOT analysis, focusing on the internal strengths and weaknesses of Kellogg’s, and their external opportunities and threats. The purpose of the SWOT analysis is to gain a further insight of Kellogg’s current position in their home market and the international market, and to outline any advantages of bringing the company to the Czech Republic.

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5:1 | Strengths

5:1:1 | Strong brand portfolio
Kellogg is the world’s largest cereal company and the second largest savory snacks producer in the world. They have a large portfolio of well recognized brands, such as Kellogg's, Keebler, Special K, Pop-Tarts, Eggo, Cheez-It, Nutri-Grain, Mother's, Morningstar Farms, Club, Kashi and Bear Naked, among others (MarketLineAdvantage, 2013). Their brand equity has been recognized by several international organizations, appearing in lists such as “top 100 global brands”, “UK’s top 20 consumer super-brands” and “Most trusted brands in Canada” (MarketLineAdvantage, 2013). Through advertising and consumer promotions, Kellogg’s have put a strong focus on strengthening their brands. The company has invested nearly 8% of its net sales on advertising (more than $1.1 billion) (MarketLineAdvantage, 2013). All of these facts suggest that Kellogg’s are a globally recognizable brand, and are perhaps already recognizable by the Czech population through the media.

5:1:2 | Strong market position
“The company has strong market position globally in the salty snacks category. Kellogg's hold the number one position in Korea and Germany with value shares of 29% and 11%, respectively. It is ranked second in the UK, France, Italy and Japan with value shares of 7%, 9%, 9% and 3%, respectively. In China, Brazil and the US, Kellogg holds fourth, seventh and eighth position with value shares of 1%, 2% and 4%, respectively. By leveraging its strong market position across various geographies, the company can cater to a greater customer base and increase its revenues” (MarketLineAdvantage, 2013).
5:2 | Weaknesses

5:2:1 | Product recalls
“Kellogg’s have had several instances of product recalls in the recent past, the impact of which has been quite bearing on the company. The latest in the series is the recall of 36,000 boxes of Special K Red Berries cereal in February 2013 that could possibly be contaminated with potentially dangerous fragments of glass” (MarketLineAdvantage, 2013). Kellogg’s have made mistakes in the past when implementing their products into a new region, resulting in product recalls. The protection of the brand is severely important in a scenario such as a product recall, plus recovering the costs related to the recall. The former becomes even more imperative and essential when the brand of the recalled product and the name of the company are the same (MarketLineAdvantage, 2013). Consumer confidence in a brand is at risk after a product recall, and depending on the scale of the recall, a major recall may affect not just the recalled product, but the whole product line of a brand, jeopardizing future sales of the company’s products. Such product recalls are due to poor quality control, which Kellogg’s may have faced in the past. This can raise doubts regarding the efficiency of the quality control mechanisms of the company (MarketLineAdvantage, 2013).

5:2:2 | Geographic and customer concentration
Kellogg’s generate the majority of its revenues from the USA, its largest geographic market (approximately 60%). A substantial portion of their revenue is derived from Wal-Mart, their largest retail customer. Being overly dependent on one geographic region and on one large customer could impact the company’s profit margins, especially during economic downturns.

5:3 | Opportunities

5:3:1 | Emerging health consciousness
Over the past few years, there has been an emphasis on healthier eating. People are becoming more aware of the negative effects of unhealthy eating habits, such as in the Czech Republic. This is leading to a higher demand for functional foods and food products that are made from whole grains (whole foods). Kellogg’s ready-to-eat cereal brands are well positioned to meet the demands developing from growing wellness and health trends. One of the company’s most popular brands, Special K (a low-fat cereal brand), is one of the largest weight management brands in the world (Kelloggs, 2014).

Kellogg’s have launched several products in response to consumers’ nutrition needs and they are focusing on reformulating their products to meet the newer consumer needs of health and wellness. More than the 97% of the company’s products now consist of offerings with zero grams of trans fats per serving (Kelloggs, 2014) (MarketLineAdvantage, 2013). Kellogg’s responsiveness to the recently emerging consumer trends will help the company to sustain its market position as the cereal category continues to be in trend with demographic shifts around the world.
**5:3:2 | Local focus of emerging markets (Czech Republic)**

In order to respond to the changing tastes and lifestyle needs of consumers around the world, Kellogg’s constantly develop their products to become more differentiated in the marketplace. The company’s core philosophy of growth is to drive growth through innovation. Kellogg invests 1.5% of total revenues in research and development activities. Strong focus on innovation and new product launches enables the company to expand its presence and strengthen the depth of its portfolio (MarketLineAdvantage, 2013). Entering emerging markets such as the Czech Republic can bring opportunities of further innovation, though adapting to the local market, and using local knowledge to adjust the brand to local habits.

Attempts for entering emerging markets are already underway through a focus on customizing marketing communication and creating cereal consumption occasions within the limits of local tastes and preferences. By reformulating their products to coincide with the local breakfast habits of the emerging markets, Kellogg’s are in a good position of taking advantage of future growth opportunities in the regions (MarketLineAdvantage, 2013). With the rising income levels in developing and emerging markets, as well as an increase in disposable income, urbanization, and the need for convenience and nutrition, Kellogg’s undoubtedly have an advantage in expanding outwards to these markets (MarketLineAdvantage, 2013).

**5:4 | Threats**

**5:4:1 | Increasing private label penetration**

Recent trends of customer purchases show that consumers are cutting down on their grocery expenditure due to the current economic climate. Therefore, consumers are seeking lower-priced alternatives for food and drink choices. This spawned a number of private labels in several consumer product categories, particularly in the food and drink markets, which has a low engagement from consumers (MarketLineAdvantage, 2013). These private labels, such as Wegmans, Kroger, and H-E-B, have been seeking methods for drawing more consumers, such as investing in brand management, innovation in new tastes and concepts, and adopting various consumer analytics for assortment, pricing, and promotion (MarketLineAdvantage, 2013). As these private label brands gain popularity, the difference in quality between their products and Kellogg’s products become narrow, leading to a possible increase in private label purchases. It is natural for consumers to shift their purchases to more private labels during times of economic uncertainty, which means that companies with strong national brands, such as Kellogg’s, are at risk of losing market share and sales volume. This could compel companies to adjust their product mix from higher margin products to lower margin offerings (MarketLineAdvantage, 2013).

**5:4:2 | Intense competition and changing global retail scenario**

Kellogg’s face numerous competitors across their product line, in the domestic US market and in international markets. Their main competitors include the Hillshire Brands (formerly Sara Lee), Mondelez International (formerly Kraft...
Foods), and PepsiCo. These companies are competing in a marketplace that is experiencing an increase in trade concentration and the growth of large retailers and discounters, particularly in emerging markets (MarketLineAdvantage, 2013). With the growing trend towards retail trade consolidation, the companies in competition are increasingly becoming dependent on key retailers. Some of these retailers even have greater bargaining strengths than Kellogg’s. This can be used by the retailer to gain higher trade discounts, allowances or slotting fees, which could lead to reduced sales or profitability for Kellogg’s (MarketLineAdvantage, 2013).

5:4:3 | Corruption in the Czech Republic
The Czech Republic has a ranking of 57 out of 177 countries on the Corruptions Perceptions Index, meaning that the country is suffering from corruption. Public polls conducted in the Czech Republic show that the public agree with this, with 60% of the population feeling that the government efforts to fight corruption are ineffective, and 44% of the population feel that corruption has increased since 2007 (Transparecy, 2014). Kellogg’s may not face any difficulties in regards to the corruption within the country, but if the country’s level of corruption increases and gets out of hand, it may affect the business environment, making the country difficult to operate in due to unfair advantages and uncompetitive practices (Irish Government, 2014).
Chapter 6 | MARKET SEGMENTATION

All of the brands under Kellogg’s cater to different groups of consumers. Kellogg’s have segmented all of their brands into different categories that each cater to a consumer group. These segmented consumer groups exist in their home market, and also in emerging markets such as the Czech Republic. The brand categories are:

- **Tasty Start**: these are the cereals that most people will eat to start their day. Kellogg’s Corn Flakes are included in this category, as well as different variations. The target consumer for this category is very broad and vague, catering to all ages and demographics (BusinessCaseStudies, 2014).

- **Simply Wholesome**: these are brands described as “good for you”, for example Kellogg’s Fruit ‘n’ Fibre. These are aimed towards the health conscious consumer (BusinessCaseStudies, 2014). As aforementioned, Czech consumers are beginning to consume more foods made from whole wheat as part of a recent healthy eating trend.

- **Shape Management**: these brands enable consumers to manage their shape or weight, such as Kellogg’s Special K. These are aimed particularly towards women (BusinessCaseStudies, 2014).

- **Mum Approved**: products that mothers consider as being good for their children, such as Kellogg’s Rice Krispies. These are aimed towards families with young children (BusinessCaseStudies, 2014). 13.4% of the Czech population are below the age of 14, which is a sizeable market for Kellogg’s to target (IndexMundi, 2013).

- **Kid Preferred**: children’s favorite brands, such as Kellogg’s Coco Pops. These are aimed towards families with children of all ages and young adults (BusinessCaseStudies, 2014). 11.1% of the Czech population are between the ages of 15-24, which is included in this consumer group (IndexMundi, 2013).

- **Inner Health**: brands that help people with problems of digestion, such as Kellogg’s All-Bran and own-label Bran Flakes. These are aimed towards health conscious consumers and senior citizens (BusinessCaseStudies, 2014). 17.6% of the Czech population are over the age of 65, which is a sizeable market for Kellogg’s to target (IndexMundi, 2013).
Chapter 7 | Recommendations

Based on the extensive research carried out for the purpose of this report, the researchers believe that Kellogg's can profit from entering the Czech Republic. As presented in the SWOT analysis, Kellogg’s can use the strength of their large brand portfolio and expertise as market leaders to penetrate the Czech market. Their high rankings from different organizations show huge favoritism from the public, and it is highly possible that the Czech are already aware of the Kellogg’s name.

Kellogg’s will have to focus on winning the Czech market over against the current market leaders of the Czech Republic, and must focus on adapting to the purchasing habits of the emerging market, such as selling through large retailers. Each of the current competing cereal companies in the Czech Republic specialize in only few market segments. EMCO mainly target health conscious consumers, Bona Vita target children, and Nestle is seen as a luxury item, therefore targeting middle to upper class citizens. Kellogg’s cover all of these segments within their 246 products under their 29 different brands.

A major threat Kellogg’s may face if entering the Czech Market is the competition against private labels. To overcome these private labels, Kellogg’s will have to reassure the differences between their products from the competitors though the quality of the products and brand equity. By making adjustments to their products to better fit the local market preferences, but keeping the elements of their products that they are famous for, Kellogg’s can sway the Czech market away from the private labels in exchange for their higher quality products. After
all, as mentioned before, the Czech spend more of their annual income on food than in Kellogg’s home market, the US. This difference in expenditure can either come down to a greater quantity of food being bought by the Czech, or better quality food. Kellogg’s can benefit from both explanations.

A benefit from moving into the Czech Republic is that Kellogg’s would be operating within the EU. This means they won’t be charged for the movement of goods around the EU. With the fluctuation of prices for raw materials posing as a threat to Kellogg’s, importing raw materials from EU countries to the Czech Republic may be cheaper than importing to the US from other countries.

To avoid losing profits, Kellogg’s will need to be aware the threat of large retailers with great bargaining strength. Upon the initial implementation, the products should be distributed from a large number of retailers to avoid dependency on only few retailers. This will also increase the capacity available to be distributed, maximizing Kellogg’s potential of reaching all Czech consumers.
Bibliography


