

"Crab" chips, fruity Oreos? They're big overseas

Posted: 05/06/2012

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NEW YORK - Russians prefer their Lay's potato chips dusted in caviar and crab flavors. The Chinese like their Oreos stuffed with mango and orange cream. And in Spain, Kellogg's All-Bran cereal is served floating in hot coffee instead of cold milk.

Americans might get squeamish at the thought of their favorite snacks being tweaked. But what works in the U.S. doesn't always work everywhere.

In other words, Lee Linthicum, a market researcher, says: "It can't be some generic mix of spices that might fool an American."

Food makers long have tinkered with their products to appeal to regional tastes, but getting the recipe just right is becoming more important than ever. That's partly because people in developing nations such as China and India are gaining more of an appetite for American-style "on-the-go" foods as they work longer hours and have less time to cook. But it's mostly because snack makers increasingly are looking for growth in other parts of the world as sales slow at home.

Growth in the snack food industry has been virtually flat in the U.S. for the past two years, according to market research firm Euromonitor. Meanwhile, combined sales in China, Brazil and Russia -- three major developing markets -- rose 15 percent in 2010 and 11 percent last year to \$17 billion. That's half the size of the U.S. market but it's growing.

SNACKS IN A DIFFERENT LAND

The challenge for snack makers is that people in other countries have different tastes. Consider the Oreo, which Kraft Food Inc. introduced in China in 1996. Sales of the vanilla cream-filled chocolate cookie sandwich were respectable there, but the Chinese didn't completely take to it.

So Kraft decided to tweak the Oreo. But executives of the Northfield, Ill.-based company knew that they had to proceed with caution. "When you have a brand that's 100 years old, you don't mess with the recipe thoughtlessly," says Lorna Davis, head of the company's global biscuit and cookies business.

In 2006, Kraft began offering the Oreo as a wafer, a popular cookie throughout Asia. It is made up of cream sandwiched between crispy wafers. The plan was to help familiarize more Chinese customers with the brand. Three years later, the company decided to go a step further.

Kraft worked with a panel of consumer taste experts from around the world to identify the characteristics of the Oreo -- including color, crunchiness, bitterness, color -- that were likely to appeal to Chinese tastes. Executives learned through research that the Chinese don't like their treats as big or as sweet as Americans do. So the company rejiggered the recipe to create a cookie that was a tad smaller and a touch less sweet.

To test the new recipe, hundreds of Chinese consumers tasted the new Oreo. It was a hit. "It made us realize the



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smallest of details make a big difference," Davis says.

But the company wasn't finished. After noticing sales of Oreos were lagging in China during the summer, Kraft added a green tea ice cream flavor. The cookie combined a popular local flavor with the cooling imagery of ice cream. The green tea version sold well, and a year later, Kraft rolled out Oreos in flavors that are popular in Asians desserts -- raspberry-and-blueberry and mango-and-orange.

The result? Over the past five years, Kraft said sales have grown an average of 60 percent a year, although it declined to give revenue amounts. The Oreo now is the top-selling cookie in China with a market share of 13 percent. The previous top cookie was a biscuit by a Chinese company.

Kraft, which operates in more than 80 countries, is taking a similar approach with other snacks. In Saudi Arabia, Kraft offers its Tang powder drink in a lemon-pepper flavor. In Mexico, it comes in tropical fruit flavors like tamarind and mandarin, and a hibiscus version fashioned after the flower. Sales have nearly doubled to \$1 billion worldwide since Kraft rolled out the localized versions in 2006.

Kraft's ability to adapt to local tastes is increasingly important as it looks for growth overseas. The rise in international revenue at Kraft was more than double the increase in North America last year.

Kraft also plans to split into two separate units by the end of the year. The largest will be a global snacks company called Mondelez International, pronounced "mohn-dah-leez," to sell its Trident gum and Cadbury chocolates in fast-growing countries worldwide.

CAFFEINE WITH YOUR CEREAL?

Kellogg Co., the world's largest cereal maker, also has intensified its focus on catering to local tastes as it attempts to grow its snack business overseas.

Last year, the company's revenue in Latin America topped \$1 billion for the first time. And in February, Kellogg said it agreed to buy Pringles chip brand from Procter & Gamble for \$2.7 billion. The deal will nearly triple its international snack business, making it the world's second-largest snack maker behind PepsiCo Inc.

The company, based in Battle Creek, Mich., already sells products in more than 180 countries.

It's learning that on-the-ground insights can pay off. In Europe, for instance, Kellogg for many years had marketed its cereals there just as it did in the U.S. But it failed to take into account that many in the region don't drink cold milk in the morning.

Now, an American traveling in Spain might find it surreal to see TV ads showing All-Bran cereal floating in a steaming cup of coffee. Kellogg, which makes Keebler, Cheez-It and Kashi bars, declined to give details on how well the cereal is selling there, but it said the marketing has resulted in "great results."

A similar story played out for PepsiCo. For the first time last year, revenue from the company's international snacks division surpassed revenue in North America. To achieve that, PepsiCo has had to adjust its recipes.

In 2005, PepsiCo's food division began a quest to make its Lay's potato chips more appealing to local tastes in Russia. It wasn't easy. Russians still like packaged versions of a Soviet-era snack -- stale bread slathered in oil and baked to a crisp.

"Potato chips were not big in the Communist time, so it's something we're gradually building," says Marc Schroeder, who heads PepsiCo's food division in Russia.

To get a better sense of what Russians like, employees traveled around the country to visit people in their homes and talk about what they eat day-to-day. That was a big task. Russia has nine time zones and spans 7,000 miles,

with eating habits that vary by region.

The findings were invaluable for executives at the company's Purchase, N.Y. headquarters. In the eastern part of the country, PepsiCo found that fish is a big part of the diet. So it introduced "Crab" chips in 2006. It's now the third most popular flavor in the country.

A "Red Caviar" flavor does best in Moscow, where caviar is particularly popular. "Pickled Cucumber," which piggybacks off of a traditional appetizer throughout Russia, was introduced last year and is already the fourth most popular flavor. Other favorites include onion, bacon and "sour cream and herbs," which is a bit sweeter than the American version.

The chip translations are paying off; sales of Lay's have more than doubled in the past five years. As for the classic Lay's -- an American favorite -- Russians still aren't biting.

"They find it a very boring flavor," Schroeder said.

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