but there was no question we were selling less. We were losing market share and this became our primary concern."

THE HOT DOG INDUSTRY

A good deal of disagreement exists over the origin of the hot dog. People in Frankfurtum, Germany, claim they discovered the hot dog in 1487. Others argue that it was Johan Georghehner, a butcher from Coburg who traveled to Frankfurt to promote this product — which he called the "dachshund" because of its shape — in the late 1600s. Others in Vienna point to the name "wiener" as evidence of the product's Austrian roots.

In the United States, the origins of the hot dog industry can be traced to the arrival of a German immigrant by the name of Charles Feltman who opened up the first Coney Island hot dog stand in 1871. In 1893, Chris Ahe, the owner of the St. Louis Browns baseball team, started selling hot dogs in his ball park. This laid the groundwork for what would become an inseparable connection between hot dogs and the game of baseball.

The actual phrase "hot dog" was coined in 1901. It all started on a cold April day in New York City when concessionaire Harry Stevens became frustrated with losing money selling ice cream and soda. He ordered his assistant to go out and buy all the long, skinny sausages he could find and to sell them from portable hot-water tanks while yelling "get your red hot dachshund while they last!" Sports cartoonist Ted Dorgan became quite amused with the scene, and did a cartoon strip on it. When he had trouble spelling "dachshund," he substituted the term 'dog," and the rest, as they say, is history.

The Industry Today

At the aggregate level, per capita demand for hot dogs was slightly higher in the United States than in Canada. In 2000, consumers in the United States spent nearly $1.7 billion on hot dogs in retail outlets. The average U.S. household purchased 7.65 pounds of hot dogs annually which translated to about 65 hot dogs per person per year. In 2000, total Canadian hot dog market sales were just over $220 million, which represented approximately 52.5 million kilograms of hot dogs. This translated into an annual consumption rate of about 52 hot dogs per person in Canada. Sixty-four per cent of hot dogs sold in Canada were pork and meat combinations, 24 per cent were all-beef hot dogs, and 12 per cent were made from poultry.

Demand for hot dogs was consistently strongest during the summer months. Since the turn of the century, hot dogs in buns at baseball games, summer picnics, backyard barbecues and roadside diners had become a tradition in North American culture. Hot dog sales from May to August represented more than 44 per cent of the annual total, with July — National Hot Dog Month in the United States — leading the pack. In both Canada and the United States, hot dogs were popular at barbecues and entertainment events. Four hot dogs were consumed for every 10 baseball tickets sold, so it was projected that there would be more than 26 million hot dogs consumed in major league ballparks in 2001.

Hot dog consumption preferences were subject to significant regional differences in Canada. Western Canadian consumers had the strongest demand in Canada for beef hot dogs. The Quebec market was partial to hot dogs in a specific (lower) price segment — due to the influence of "steamies" or "toasties" — hot dogs that were prepared using unique cooking methods. (In this market, lower priced hot dogs were considered adequate since any hot dog could be prepared in the preferred manner.) Atlantic Canada had the largest per capita consumer of low-fat hot dogs, due in part to the higher average age of the population versus other parts of Canada.

Hot dog consumption was consistently uniform throughout all income levels. Wealthy and low income Canadians appeared to consume approximately the same volume of hot dogs on an annual basis. Larger families with five or more members tended to eat larger numbers of hot dogs, as did younger families where heads of households were under the age of 35. Children were heavy influencers in hot dog purchase decisions.

Despite their broad consumption, hot dogs had always been subject to considerable consumer scrutiny concerning their content and manufacture. For some time, consumers had been concerned about the presence of "mystery" meat in hot dogs. Both the Canadian and U.S. Departments of Agriculture required by law that meats used in hotdogs include only muscle meat. In addition to meeting this requirement, there was a movement in the industry to introduce all-meat, byproduct-free hot dogs.

Competitive Landscape

In 2001, the competitive landscape of the hot dog industry in Canada was dominated by two organizations: MLF and Schneider Foods (JMS). Each had over 20 per cent share of the national market (see Exhibit 2). Other competitors were relatively small (less than one-quarter the size of MLF and JMS) and were regionally focused.

Based in Kitchener, Ontario, JMS had over 110 years of experience in producing and distributing meat products throughout the Canadian marketplace. JMS also had a reputation as a tough competitor; it fought for every inch of shelf space and was tactically reactive and retaliatory. It also knew the hot dog business well and had loyal employees.

In June of 2001, JMS led the industry, possessing over 28 per cent of the dollar share of the hot dog market in Canada. The company was not only the largest hot dog producer in Canada, it was the fastest growing. Between mid-2000 and mid-2001, JMS's dollar sales increased by nearly three per cent; in contrast, MLF's overall sales declined by just over two per cent. JMS had strong national brands that it supported with consistently effective promotional campaigns. It was also very aggressive on pricing. While MLF raised hot dog prices in both 2000 and 2001, JMS held firm to it prices and picked up market share.

In assessing JMS's performance in the Canadian hot dog market, one MLF insider commented:

> Schneider has done a great job of managing its product line from a quality perspective and overall consistency. It has done very little to its hot dog product line over the years. It has not proliferated sub-brands as we did. It did not change packaging on a regular basis as we did. It has also had great consistency in its sales and marketing staff — as we did not. Also, Schneider has done a great job managing its trade relations.
>
> Consumers consistently tell us that JMS means quality, heritage and great-tasting products. This is something that Consumer Foods has to overcome!

Hot Dog Segmentation

For marketing purposes, MLF segmented the hot dog market in two ways: 1) by target consumer (adult or family), and 2) by price (premium, mainstream and value/economy). While there were plenty of small niche players, both JMS and MLF competed in all major hot dog markets in Canada.

Target Segment

The adult segment consisted of franks and sausages. Franks had a larger diameter, slightly more course emulsion (meat blend), larger particle definition and more spices than wieners. Also, franks were at least six inches long and by weight were usually about six per pound (2.5 ounces each). Sausages were curved and by weight were three to five per pound (three to five ounces each). Unlike franks, which were always sold pre-cooked, sausages could be sold either uncooked or pre-cooked. In 2001, the adult segment was growing at a rate of about 11 per cent industrywide, but this segment still represented approximately only 16 per cent of the total hot dog industry. In the adult segment, MLF's brands included ML 100s, Overlander and Shopsy's Original Recipe. JMS's primary adult segment hot dog was Juicy Jumbos.

Products targeted towards the family segment were called wieners and represented 84 per cent of overall industry sales. Wieners were also six inches long but had a finer emulsion than franks and by weight were generally about 12 per pound (1.3 ounces each). Across the industry, the family segment was growing at a rate of about two per cent per year. Industry observers believed that, increasingly, consumers were trading up towards adult categories. In the family segment, JMS offered Red Hots (in Ontario) and an identical product simply called "Wieners" for the rest of Canada. MLF's brands in the family segment included Top Dogs (Regular and BBQ), Lean 'n Lite (Regular and all-Beef), Beef Dogs and Shopsy's Beef.

Price Segment

Premium hot dogs sold at a price point greater than $3.50 per pound and contained franks and sausages. In addition, Maple Leaf competed in this segment with Top Dogs Singles which were premium priced to reflect the quality of their ingredients and high packaging and high labor costs. Mainstream hot dogs were the largest price segment and included all hot dogs priced between $2.50 and $3.50. MLF's Top Dogs, Lean 'n Lite, Beef Dogs and Shopsy's Beef fit into this segment. Hot dogs in the value segment sold for between $1.89 and $2.50 per pound. MLF's products in this segment included Maple Leaf Original (Regular and Beef), Burns (Regular, Beef, and 6+6), Hygrade (Regular and Beef), and Shopsy's (Regular and BBQ). Wieners in the economy segment were priced under $1.89 per pound; MLF produced several retail brands in this segment including No-Name and Smart Choice. JMS's Red Hots and Wieners were both considered mainstream hot dogs. However, during 2001, both products were heavily discounted (to $1.99) which gave them about a 10 per cent to 20 per cent price advantage over MLF's value-price products.

MLF'S CURRENT BRAND STRATEGY

In mid-2001, MLF had nine different brands competing in the Canadian marketplace. Exhibit 3 summarizes the positioning of each of the Maple Leaf hot dog brands. While MLF had strong regional brands, none of the company's brands had a strong national presence. Instead, Shopsy's brands were sold only in Ontario, Burns and Overlander brands competed only in Western Canada, and Hygrade was distributed only in Quebec.

For some time, MLF had emphasized different brands for different geographic regions within Canada. This development had resulted in strong brand equity in each of Canada's major regions. The Burns brand was strong in Western Canada. In the late 1990s, Burns lost substantial market share due to a cost-plus pricing structure which drove prices substantially higher than key competitors. MLF had recently fixed the pricing formula and had moved to reduce production costs, thereby stabilizing the brand. The Hygrade brand was a leader in the Quebec hot dog marketplace, possessing a 25 per cent share in that province (eight per cent nationally). The Shopsy's brand boasted an eight per cent market share in Ontario (two per cent nationally). All MLF hot dog products were produced at the company's manufacturing facility in Stoney Creek, Ontario. Despite brand distinctions and minor taste differences, there were essentially no major differences in the hot dog products within each price segment. At MLF, the senior marketing director did not have direct authority over, or responsibility for manufacturing.

When interviewing for her current position, Gervin had asked about the origins of regional hot dog branding at MLF. To her surprise, no one in MLF could fully explain why the company had so many regional brands. Some believed it was the result of the company's numerous mergers and acquisitions and the desire to preserve the strength in each new brand that was acquired. Others felt the brand differences could be traced to the different consumer preferences in each region. Notwithstanding these explanations, one of the first things that Gervin noticed about the MLF hot dog portfolio was that often as many as six different MLF brands competed for shelf space in any given retail outlet at the same time.

In 1994, MLF launched Lean 'n Lite brand hot dogs. The product was introduced in an effort to meet increasing consumer demands for low-fat food products. The initial launch was very successful and produced strong profit margins for the company. However, sales for Lean 'n Lite peaked in 1997, and between 1998 and 2001, sales dropped every year. Many at MLF believed that the decline was the result of growing consumer unwillingness to compromise taste for low fat. However, this belief had not been substantiated with market research. Furthermore, the company was familiar with national consumer research that showed that 70 per cent of consumers were interested in low-fat products with acceptable taste.

In 1999, MLF introduced Top Dogs as a national hot dog. The launch was in response to consumer trends that seem to emphasize healthy and natural food products and ingredients. The all-meat product was designed to appeal to both children and parents and was initially launched with vitamins and protein added. Top Dogs were the first — and only — hot dogs sold in North America that were nutritionally enhanced. The product was launched with a value price of $1.99 per package and initial consumer demand was strong. However, in the summer of 2000, the price was increased to $2.49 and sales declined noticeably. The perception was that the new price alienated many price-sensitive shoppers. Also, during this period, the formulation for Top Dogs was altered several times in an attempt to lower per unit costs. The result was a product that was priced too high and that, in the minds of many consumers, lacked good taste. By June 2001, Top Dogs had captured just 2.8 per cent of the national market (4.6 per cent in Western Canada, 2.6 per cent in Ontario, 2.3 per cent in the Maritimes and 1.7 per cent in Quebec).

Based on the initial success of Top Dogs, MLF launched Beef Dogs in 2000. The launch was designed to replace the company's existing beef hot dog product called Maple Leaf All Beef Hot Dogs. Beef Dogs were fortified with calcium and iron. Initial taste tests were positive. However, the product's formulation came under the scrutiny of the Canadian Food Inspection Agency (CFIA) which raised concerns over the sourcing of calcium for Beef Dogs. Beef Dogs were then reformulated to incorporate a new source of calcium. Several internal taste panels concluded that the newly reformulated Beef Dogs tasted chalky and somewhat artificial. By June 2001, Beef Dog sales were down seven per cent from 2000 levels.