

One Good Thing

A unique start-up

Ian Marcousé examines the business model of start-up *One Good Thing*.



Sustainable food and drink start-up One Good Thing (OGT) has unveiled the world's first wrapper-free snack bars. Featuring an edible, waterproof coating – made from beeswax and other natural ingredients – the bars are intended to be rinsed under the tap before eating, like an apple.

While certainly innovative, OGT chief executive Kieran Stanbridge admits the brand has a lot of work to do to tackle consumer perceptions about hygiene, which could be a barrier to purchase. Stanbridge wants to emphasise the benefits of the packaging, explaining that the idea came from co-founder Mike Bedford, who found it depressing to see so much litter at the roadside when on bike rides. He asked himself, why not make packaging edible? The innovation was the result of three years' development and £2 million of investment from private sources.

The bars, which each weigh 39g, are available to order direct-to-consumer from OGT's webstore. The standard snack bars are available in seven different flavours, including Mango & Passionfruit, Strawberries & Cream, Rhubarb & Custard and Cherry Bakewell.

There are also seven protein bar flavours available, including Apple & Cinnamon, Sticky Ginger, Berry Burst and Butterscotch. Each provides 7g of protein per serving. Snack bars are priced at £2.20 per unit for one-time purchases, or at £1.54 when users sign up for a subscription. Protein bars are priced at £2.50 per unit for a one-time purchase and £1.75 on subscription.

The protein bars have to stand up against the marketing powerhouse that is 'Grenade'. Grenade bars are priced at £2.75 but weigh 60g and contain 20g of

protein. They have widespread distribution in all the main supermarket chains. By contrast, OGT is starting up on a direct-to-consumer (DTC) online basis only. It wants to sell boxes of 6 or 12 bars, and even hopes that customers will take out a subscription for, say, 6 Butterscotch protein bars a week.

Mr Stanbridge says he has a Plan B in case consumers seem too worried about the wrapper-free bars. When the products achieve shop distribution the OGT coating could be applied to the inside of paper snack bar wrappers. He also has a plan to tackle consumer scepticism, using social media to take consumers behind the scenes, explaining the effectiveness of the coating and the company's microbial testing methods. OGT has a unique selling point (USP), but is it a turn-on or a turn-off?

Questions

30 marks, 35 minutes

- 1 In a lengthy article with *The Grocer*, Mr Stanbridge made no mention of market research. Assess how he might have used market research to give OGT the best chance of sales success. (10 marks)
- 2 Assess the purpose of the product differentiation OGT has achieved through its wrapper-free innovation. (10 marks)
- 3 Assess the importance to OGT of the decisions it has made about distribution. (10 marks)

Answers and marking

- 1 Stanbridge could have used qualitative research to gain a deeper insight into what consumers really want from high-protein snacks, perhaps by running

focus groups among existing purchasers of Grenade. This might have revealed that Grenade buyers were unlikely to want edible packaging, as their on-the-go lifestyle made them want the packs to be strong and secure. This would have helped steer Stanbridge away from Grenade buyers, to focus more on green consumers for whom litter is an important issue.

Alternatively, Stanbridge could have used quantitative research to try to get a reasonably accurate idea of potential sales volumes. This not only helps with production planning, but also with logistical issues such as warehousing and delivery. Even more important would be to use the sales forecast as part of a last-ditch decision-making process. Even if £1-2 million has been invested in the product, it may still be better to abandon the project rather than go ahead – if the market research forecasts sales that are far below the break-even point. The saying ‘don’t throw good money after bad’ is relevant here.

Perhaps the ideal use of market research would have been to use both approaches, to get psychological insights but also quantification of certain key issues. That would be expensive, but £50,000–£100,000 on research would be better than to launch an expensive flop.

- 2 The purpose of product differentiation is to lower the price elasticity of demand for the product (or service). By lowering price elasticity, you make it possible to have more control over your business. This is because you are able to increase prices without causing too big a fall in demand. If your price elasticity is below 1, of course, your price inelasticity means that a price increase will lead to an increase in total revenue. As there would be some small cut in sales volume there is a double benefit, as revenue goes up while total variable costs fall, pulling total costs down as well.

For a new, small business such as OGT, this is ideal. It means not only that they have a high degree of control over their revenue, but also implicitly a nice buffer against competitors. Even if Grenade cuts its price, OGT’s product differentiation should protect

its sales – as environmentally conscious OGT buyers refuse to switch to Grenade.

Innovation is great when it creates a new product that people want, but is even greater when it helps to lower price elasticity. Given how difficult it is to survive the early days when starting a new business, OGT’s product differentiation should be a huge asset.

- 3 Thinking about distribution channels is at the heart of effective marketing strategy. It starts with a critical decision: whether to go for retail distribution or direct-to-consumer (DTC), which is the e-commerce option. Shop distribution puts products in front of people, enabling impulse purchases to take place – ‘oh, I’ll give that a try’. DTC is a well-known channel, but if you’re having to buy a box of six just to give a product a try, you might not bother.

On the other hand, DTC sales mean that the producer gets 100% of the consumer purchasing price, instead of having to share it with a retailer (and perhaps a wholesaler) who could easily be taking 40% of the sales value. DTC also means that the producer has 100% control over how the brand is displayed and promoted (see www.weareogt.com). This is a very attractive advantage, as long as there’s a way to steer potential customers to the website.

OGT’s decision is to focus on e-commerce at the start, with the hope of spreading to retail distribution later on. This makes sense as it avoids, for now, the fixed overhead costs of employing sales staff to visit and sell to retailers. As starting up is such a challenging time financially, the DTC route should help the business to survive its cash flow pressures. But it will only prove a good idea overall if the business can create digital traffic to its website. It will need to be very clever with social media promotion to get the sales success it wants.

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