In 2011, Chobani was the number one yogourt brand in the United States. It was founded in 2005 by Hamdi Ulukaya, a Turkish entrepreneur. At the time of Chobani’s launch, Greek yogourt occupied only 1 per cent of the total yogourt market in the United States and was perceived to be a diet-based niche product. Ulukaya was able to change this perception through value innovation. By 2011, he made Greek yogourt a mass brand occupying more than 50 per cent of the U.S. yogourt market. Furthermore, because of its customer-centric innovation philosophy, Chobani became the market leader in the overall yogourt category. In 2012, Ulukaya was granted the U.S. Small Business Administration’s National Entrepreneurial Success of the Year Award.

However, in 2011, competitors such as Danone and Yoplait began to respond by launching their own Greek yogourt varieties. In addition, in a short span, consumers became bored with Greek yogourt, and from 2013 onward, demand fell in the United States. Chobani faced some quality issues with one of its batches, which was recalled in 2013. It also faced problems of excess capacity due to large plant size and other procurement-related issues. These factors led to a quick downfall for the company starting at the end of 2012.

After suffering interim losses, Chobani reacted with several measures, such as obtaining financial investment from private equity firm TPG Capital. Leveraging on value innovation, in August 2016, Ulukaya and TPG Capital were still trying to bring Chobani back to profitability. How did Chobani initially manage to implement value innovation in the Greek yogourt market? Would it be able to retain its leadership and profitable position going forward? If so, how would it fuel its growth?

COMPANY BACKGROUND

Chobani’s founder and chief executive officer, Ulukaya, migrated to the United States from Turkey in 1994 to study business. While in the United States, he noticed a gap in the market for authentic dairy products, especially Greek yogourt, at affordable prices. In 2005, as he was glancing over classified advertisements in newspapers, he became intrigued by an advertised sale of a manufacturing plant in central New York, built by Kraft in 1885. Following his intuition, Ulukaya decided to purchase the plant with the help of a loan from the Small Business Administration. His goal was to provide high-quality, reasonably priced Greek yogourt for the mass market.
Between 2005 and 2007, Ulukaya worked with four former Kraft employees to perfect the recipe for authentic Greek yogourt, branding the product as Chobani. In 2006, Ulukaya hired Kyle O’Brien, Chobani’s first salesperson, who was experienced in packaged food start-ups. Together, they set a goal of initially selling 20,000 cases of Chobani in a week. Unlike traditional Greek yogourt, which in the United States was available only at specialty stores or in the gourmet sections of supermarkets, Chobani yogourt was to be sold in the dairy aisles of supermarkets, easily accessible to all. Instead of bargaining with distributors, Ulukaya and O’Brien approached retailers directly. In October 2007, the first lot of Chobani yogourt—300 cases—was shipped to a supermarket in Long Island. Within a week, not only were all the cases sold, but also consumers were returning to the supermarket for more and telling their friends. The supermarket immediately ordered 300 more cases, and by the middle of 2009, Chobani was selling 200,000 cases per week. By 2011, Chobani had become the U.S. market leader not only in Greek yogourt but also in the overall yogourt category.

CHOBANI’S PHILOSOPHY ON GREEK YOGourt

In the United States, yogourt was traditionally perceived as a functional or health food. It was viewed as a diet food with nutritional benefits and was positioned as an aspirational product meant only for the richer segment of society. Chobani’s philosophy on Greek yogourt was built around a “back-to-basics” approach: yogourt was to be real, natural, and simple, just like yogourt made by one’s mother at home. The only difference, Ulukaya felt, between homemade yogourt and Chobani’s yogourt should be manufacturing scale, since millions of pounds of yogourt had to be processed in a manufacturing unit. Also, yogourt manufactured by Chobani had two times more protein than regular yogourt and was free from milk protein concentrate or animal-based thickeners. Chobani used milk obtained from cows that were not treated with recombinant bovine somatotropin (rBST). The product had zero grams of trans fat, contained less than 5 per cent lactose, and was gluten free. As a consequence, the yogourt was kosher certified and safe for consumers who had corn, soya, or nut allergies. Ulukaya was clear that all of this was to be provided at the affordable price of one dollar for a cup of yogourt.

STRATEGIC INITIATIVES TO MAKE CHOBANI A SUCCESSFUL BRAND

Packaging

In 2007, due to resource constraints, Chobani could not advertise much; therefore, for Ulukaya, packaging was as important as the product itself. Chobani’s engineering team focused extensively on packaging and developed a unique design. Typically, Greek yogourt cups were long and cylindrical. Chobani’s engineering team decided to change this tradition, creating a round and flat bowl-shaped package that was more spoon friendly. Similarly, yogourt labels were traditionally printed directly onto yogourt cups. However, this practice resulted in labels with poor image quality and dull colours. To differentiate its packaging and make it more attractive, Chobani’s engineers used a special technique called rotogravure to print graphics on the package. Professional-quality photographs of real fruits and other ingredients in the yogourt were pasted on the plastic sleeve of the package. “We photographed the real ingredients in an actual photoshoot; there are no stock images,” commented one of Chobani’s executives. This packaging method helped provide a personality for the flavours. Each flavour had packaging with a unique font, fun colours, and specific flavour-related attributes. The unusual packaging especially helped to entice children, which was important.
after Chobani launched its yogourt variant for kids in 2014. The watermelon and lime flavoured yogourts were packed in tubes with labels prominently portraying Disney and Marvel characters.13

Capacity Expansion

Chobani’s sales continued to grow. By 2011, sales orders rose to 1.2 million cases. At this point, it was becoming challenging for Ulukaya to procure enough milk from New York, where his manufacturing plant was located. New York farmers were reluctant to expand their herds as the price of milk was largely controlled by the government. However, Ulukaya quickly met the increasing consumer demand by purchasing a US$450 million14 plant in Twin Falls, Idaho, in December 2011. This plant, with one million square feet, was the largest yogourt plant in the world and had a capacity to produce one million cases of yogourt weekly.15

Understanding Consumers

As Chobani was gaining traction among U.S. consumers, it specifically appealed to athletes and young consumers in the age group of 18–34 years because of its high protein and calcium content. Nevertheless, average individual consumption of yogourt in the United States was only between seven and 10 pounds per year in 2004–2007. This was far less than yogourt consumption in other regions such as Canada or Europe, where the average individual consumption was 20 pounds and 40 pounds, respectively.16 In Canada and Europe, yogourt was often consumed throughout the day, not only for breakfast, but also for lunch, snacks, and desserts; it was even used for cooking. As a leader in the yogourt market, Ulukaya decided to educate American consumers to increase their per day consumption of yogourt. He also recognized that there was a significant population in the United States that was not consuming Greek yogourt. One of these segments was children and toddlers.17 Ulukaya decided to launch several variants of Greek yogourt for this untapped segment, as well as additional variants for Chobani’s current consumers.

Innovation Philosophy with Customer Involvement

Chobani’s innovation philosophy was driven by DNNA, meaning that the product was supposed to be “delicious, nutritious, natural, and accessible.”18 Chobani implemented innovation more quickly than any other consumer goods firm. The company’s innovation cycle, from concept ideation to delivery, was less than six months.19 Part of the reason for its fast innovation was customer engagement. Chobani followed what it called a “phigital approach of innovation.”20 In this approach, consumers not only shared their experiences over social media in consuming Chobani products, but also made suggestions for product improvement and new product uses. “Phigital” referred to integrating consumers’ physical experiences with their digital or social media use. Chobani’s marketing team also tracked how fans were “pinning” pictures on Pinterest and Instagram, and the different ways they used the yogourt. Chobani minutely noted these observations. Consequently, almost every new flavour or yogourt use that the company introduced came from customers describing their experiences over social media. For example, a bestselling Chobani flavour, black cherry, was based on a consumer’s suggestion.21

Similarly, in 2013, when the company launched Chobani Flip—a combination of yogourt with granola on two sides of the container—it tracked how consumers were mixing granola with yogourt. Unlike other fruit-based Greek yogourt, Chobani Flip was not positioned as a breakfast option but rather as a snack to satisfy hunger between lunch and dinner. Chobani Flip, billed as the future of snacking, reported a run rate of $300–350 million in 2013. It attracted not only regular yogourt consumers but also new yogourt consumers.
The trial rate was 5 per cent, but the repeat purchase rate was 50 per cent. The year-on-year growth for the Flip mix was expected to be 30 per cent. Chobani also diversified by launching its SoHo Café in 2012 in New York, a restaurant service that offered yogourt-based products ranging from rice pudding to sandwiches made with yogourt cheese. SoHo Café provided a platform for testing new yogourt flavours where consumers could share their experiences of the yogourt, both in person and on social media. Bestselling flavours based on consumer recommendations were then manufactured on a large scale for retail selling.

**Targeting International Consumers**

Apart from product-line extension, Chobani expanded internationally. In 2011, it started establishing a footprint in Australia. After upgrading the company’s newly acquired $30 million plant in Melbourne, Australia, Ulukaya intended to export yogourt to all Asian markets. By 2013, Chobani opened an international sales office in Amsterdam. It also established a presence in the Greater Toronto Area, Canada, and New South Wales, Australia. In August 2016, to further expand its international market, Chobani began exporting its Greek yogourt variants from the United States to Mexico.

**FINANCIAL AND NON-FINANCIAL ACHIEVEMENTS**

As a consequence of its efforts, by 2011 Chobani had become the number one Greek yogourt brand in the United States. Retail sales had risen from zero in 2007 to $1.1 billion by the end of 2011 (see Exhibit 1). By early 2014, Chobani’s market valuation was estimated to be about $5 billion. Due to a healthy corporate culture encouraged by Ulukaya, hardly any employee left the firm after joining. Ulukaya paid his employees above the market rate and gave them full employee benefits. Ulukaya also believed in maintaining a good relationship with stakeholders at large, including farmers, vendors, and people in the local community. As a part of community development, he established the Shepherd’s Gift Foundation, to which he contributed 10 per cent of Chobani’s profit after tax.

Chobani was also socially responsible: to avoid overuse of plastics and cardboard, the company took several initiatives that reduced its plastic requirement by 10 per cent. In 2012, due to his astonishing achievements in business in a short time span, Ulukaya was granted the U.S. Small Business Administration’s National Entrepreneurial Success of the Year Award. In 2013, he was also named as the Ernst & Young World Entrepreneur of the Year. Building on his spirit of social responsibility, in July 2016, Ulukaya started an incubator program to train talented entrepreneurs in managing start-up food companies.

**CHOBANI’S FALL**

In 2012, problems started slowly plaguing Chobani at three ends: competition, decrease in demand for Greek yogourt, and internal problems.

**Competitive Rivalry**

Apart from Chobani, there were three other dominant players in the U.S. yogourt market: Danone, Yoplait (of General Mills), and Fage. To compete with Chobani, these companies launched new flavours. Chobani, due to its small size, had a limited distribution network. Rivals leveraged their superior logistics and market
power to capture shelf space in retail outlets. In addition to focusing on distribution, Danone and Yoplait ran comparative ads in 2011–2012, with messages claiming that their yogourt tasted better than Chobani’s. Consequently, by the end of 2012, Chobani’s market share in the Greek yogourt market declined for the first time (see Exhibit 2).

Before Chobani, the Greek yogourt market in the United States was a mere 1 per cent of the total yogourt market. However, because of the rise of Chobani, Greek yogourt occupied 50 per cent of the yogourt market by 2011. To imitate the success of Chobani’s Greek yogourt, smaller start-ups mixed different forms of starch, obtained from corn or tapioca, with regular yogourt. There was no legal definition of Greek yogourt, which hurt Chobani. “You could make a bowl of macaroni, call it Greek yogourt, and nobody could do anything to you. Which is sad!” explained Ulukaya. By 2015, various start-ups had launched 800 different Greek yogourts on retail shelves. The cumulative impact of competition from large and small players became more intense. Apart from market share, even in terms of year-on-year retail sales, Chobani reported lower sales in 2015 compared to 2014 (see Exhibit 1).

Decrease in Yogourt Demand

Though consumers were enjoying savoury yogourt with their breakfast, the overall demand for Greek yogourt fell. Reported sales growth for this category declined from 114 per cent in 2011 to 15 per cent in 2014. Research by Euromonitor in 2015 indicated that demand for most food products slowed down rapidly in the United States. Even though U.S. consumers loved new foods or diets, they became bored quickly and started looking for other products. “We grow tired of things pretty quickly here in the United States,” commented an executive from Euromonitor. This slowdown in yogourt demand raised indirect competition for Greek yogourt manufacturers from other food industry players. For example, fast food restaurants such as McDonald’s widened their breakfast options with items such as egg sandwiches.

Internal Problems

In 2012, when Ulukaya purchased a new plant in Idaho to expand production capacity, critics said he made the investment assuming that the yogourt market would expand at the rate it was growing until 2011, which was more than 100 per cent. However, the absence of proper demand forecasting led to excess capacity because demand for yogourt, and more specifically Greek yogourt, did not grow at the 2011 rate after 2013. Furthermore, according to experts, Chobani did not invest in either supply chains or talent acquisition, both important in managing such a large organization.

Though the new plant in Idaho, which was 2,000 miles away from Chobani’s New York plant, solved the company’s dairy supply needs instantly, there were clear differences in the milk protein composition between the Idaho and New York plants. This quality issue occurred because Chobani quickly set up its new manufacturing facility in order to reach the required production level in less than a year’s time. Ulukaya did not invest in proper training of workers, and even safety measures were treated leniently. Consequently, in 2013, some batches of Chobani were contaminated with mould, which affected several hundred consumers. Although Chobani voluntarily recalled the entire batch of Greek yogourt and Ulukaya apologized publicly, the company nonetheless suffered damage.

Decreasing consumer demand, Chobani’s internal problems, and increasing competition from already established yogourt brands and upcoming private label brands negatively affected Chobani’s revenues. The impact of all of these cumulative factors was so strong that by the second quarter of 2013 Chobani reported losses of $115 million, whereas in the first quarter of 2013, it had achieved profits of $40 million.
Gradually, its Greek yogourt market share fell by 15 per cent in 2015, compared to its 47.3 per cent share in 2012. Thus, by 2015, Chobani’s market share in the U.S. yogourt industry dropped to 40 per cent from a high of 50 per cent in 2011.33

CHOBANI’S TURNDOWN

To turn around the crisis and improve its financial health, Ulukaya took several measures.

Continued Focus on Customer-Centric Innovation

Through customer engagement and its own innovation team, Chobani significantly expanded its portfolio in 2014. There were six major product innovations: Chobani launched Greek yogourt oats, which contained strained Greek yogourt, real ripe fruit, and whole grain steel-cut oats. Yet another cereal variant included roasted rice crisps with mango-flavoured Greek yogourt, sesame sticks, and salted cashews. Similarly, Chobani launched a Greek yogourt-based dessert and new flavours for kids, such as grape, watermelon, and chocolate, in innovative tube packages. For more health conscious consumers, Chobani launched Simply 100 Greek yogourt in key lime and pineapple coconut flavours. Following consumption patterns in other countries, Chobani launched a 4 per cent whole milk yogourt, Chobani Kitchen, intended for use as a cooking ingredient in dishes like baked potatoes and fajitas. To position yogourt as a daylong consumption product, Chobani launched a beverage called Drink Chobani in 2016. Like the yogourt, this drink was free from any artificial additives and contained only natural ingredients. Chobani also launched savoury dips, in which yogourt was mixed with real herbs and spices.

Customer-Centric Marketing Initiatives

Although Chobani had high repeat purchases, its product awareness was low. By 2012, only 37 per cent of the U.S. population was aware of the Greek yogourt brand. To enhance awareness and encourage repeat purchases, Chobani resorted to various new methods of marketing and promotion. It spent between $30 million and $56 million in 2012–2015 to promote its products.34

National TV Advertising

The first national TV ad for Chobani was launched in 2012 during the live broadcast of the London Olympic Games. The ad was titled “Proudly with You.” It portrayed how members and farmers of Chenango County, where Chobani’s New York plant was located, alongside Chobani’s employees, contributed to the company’s success.35

The second ad, released in 2014, was called “Naturally Powering Team USA” to highlight how Chobani was an important component of the diet plan of athletes. In the ad, Allison Jones, a U.S. Paralympic medalist, commented, “I’m training or competing for gold.” She further stated, “It’s made a noticeable difference in my nutrition plan, and I’m excited Chobani has committed to being a Team USA sponsor for the long term.”36

To further raise awareness, Chobani advertised during the 2014 Super Bowl in the United States. This time it engaged the audience by showing the “how” of manufacturing Chobani. A male voice in the ad’s background exclaimed: “It’s hard these days to find food made with only real natural ingredients. But at
Chobani, it’s the only way we know how.” The ad used the tagline “How Matters,” highlighting Chobani’s quality and manufacturing process. Then in the summer of 2015, Chobani launched “The Break You Make” ad, which was aimed to position Chobani Flip as an afternoon snack yogourt. Within a few days of the ad launch, sales grew by 300 per cent.\(^{37}\)

The next step for Chobani was to entice consumers by promoting the yogourt-eating experience, rather than presenting yogourt as a quality or healthy product. The company presented an ad with the tagline “To love this life is to live it naturally.” The chief marketing officer explained, “We kind of went from how our yogourt is made to how our yogourt makes you feel.”\(^{38}\)

Finally, in January 2016, Chobani resorted to comparative advertising when launching its low calorie Simply 100 yogourt in order to compete against Danone and Yoplait, two of its strongest competitors. Ads highlighted that Chobani’s yogourt was natural, unlike that of its competitors, which was filled with artificial ingredients such as sucralose. Further targeting Yoplait, the ads indicated that Yoplait contained preservatives that were also used in pesticide sprays.\(^{39}\)

**Sports Marketing**

Chobani not only launched ads during sports events, but also sponsored the 2012 London Olympic and Paralympic Games on U.S. national television. Furthermore, in extending its partnership with the United States Olympic Committee until 2020, Chobani became the official yogourt provider for Team USA. Talking about the partnership, the U.S. Olympics Committee chairman commented, “Through its ongoing commitment to creating healthy products and promoting healthy lifestyle choices, Chobani has been an integral partner in our mission to support the competitive aspirations of current and future Team USA athletes, many of whom include Chobani in their diets and training regimens.”\(^{40}\) Chobani also announced partnerships with 17 schools to engage with college athletes.

**Promotional Events**

**Social Media Marketing**

Through social media, Chobani encouraged consumers to share their yogourt experiences. In 2012, the company had nearly 600,000 fans on Facebook, exceeding some large multinational corporations such as Nestlé (with 570,000 fans).\(^{41}\) Fans of Chobani were specifically called “Chobaniacs.” Whenever Chobani launched a new variant or flavour, these fans received free samples of the product. A team of five employees monitored social media keenly and responded promptly to customer complaints, requests, and queries. Furthermore, consumers were encouraged to share their ideas over Facebook, Pinterest, and Instagram. On its website, Chobani posted recipes, photos, and spotlights (such as customer profiles) to entice consumers.

**Public Relations (PR) Management**

Although Chobani did not heavily use PR as a platform to promote its yogourt, it did rely on PR to resolve the crisis it had faced since 2013. First, there was a product recall of some batches in 2013, which were found to be tainted with mould. Instead of designating a PR or marketing employee as a representative to handle consumers’ concerns, Ulukaya himself responded to customer queries and sent 150,000 personalized letters to customers who contacted the firm. Chobani went a step further and distributed free yogourt to consumers who had had bad experiences with its product. The company did not give the media any
opportunity to dramatize the crisis by proactively admitting its mistake, apologizing to consumers, and explaining the reasons behind the crisis.

When another crisis occurred in 2015 with the launch of the Simply 100 yogourt, Chobani again relied on PR to communicate with consumers. Some packages of Simply 100 yogourt had the following tagline written on the bottom of the lid: “Nature got us 100 calories, not scientists. How matters.” This tagline offended the scientific community. Chobani immediately issued an apology online and explained, “It was meant to be competitive against our competitors. It certainly wasn’t meant to be an indictment of science, but more of a celebration of nature.” Chobani’s team personally went to the Massachusetts Institute of Technology to interview scientists about their viewpoints, followed by offering free Chobani gifts.42

**Partnering with the Venture Capital Firm TPG Capital**

To improve its financial condition, Chobani also sought loans from private equity firms. In early 2014, TPG Capital (formerly Texas Pacific Group), a private equity firm, granted Chobani a loan of $750 million in exchange for 35 per cent of preferred stock in the company. TPG also appointed its partner, Kevin Burns, as head of Chobani’s global operations and interim president. Soon after joining Chobani, Burns identified $10 million of cost savings in procurement and $76 million in preventing wastage, mainly bad yogourt. To further expand its distribution network, Chobani sought to sell a minority stake to a larger food company and thereby access the company’s well-established distribution network.43 In 2015, PepsiCo (Pepsi) showed a keen interest in buying a stake in Chobani; however, Ulukaya denied the offer as Pepsi wanted a majority stake in the firm.

In early 2016, Ulukaya decided to make Chobani’s 2,000 employees partners, giving them 10 per cent of the company stock. He did this to reward employees for their support during the company’s hard times. Shares were given on the basis of tenure—the more years spent with Chobani, the greater the number of shares.44

**THE ROAD AHEAD**

Chobani became synonymous with Greek yogourt in the United States. However, with increasing competition, the company continued to face several challenges. As a result of an ad on January 6, 2016, Chobani’s competitors, Danone and Yoplait, took the company to court. In the ad, Danone and Yoplait yogourts were shown to contain artificial flavours that had adverse health effects. Chobani had to withdraw the ad. Nevertheless, to cope with competitive challenges, the company constantly focused on incremental innovation. For example, instead of competing against fast food restaurants in the breakfast category, in February 2016, Chobani partnered with McDonald’s, which agreed to use Chobani Greek yogourt in its parfaits and smoothies.45

Founder Ulukaya believed that innovation and independence were Chobani’s key assets.46 To enhance innovation, he hired a chief creative officer in July 2016. To retain independence, he denied Pepsi a large stake in Chobani but offered Chobani’s employees shares in the company. Critics of this move believed that Ulukaya did not intend to give thanks to employees or develop a partnership with them for the future growth of Chobani; rather, they alleged that he intended to dilute TPG Capital’s stake.

On one hand, Chobani wanted to remain a private firm, but on the other hand, to compete against large corporations, it needed a significant financial investment to build up distribution networks and a strong group of business professionals. Due to scarcity of such network resources and despite continuous efforts
on other fronts such as innovation, retail sales for Chobani continued to fall (see Exhibit 1). Industry experts were keen to observe how Chobani would manage its growth without considering any further external equity and without using seasoned professionals. “At that point, he has to realize he can’t run a good company without professionals,” remarked one of these industry veterans. Under these challenging circumstances, how would Chobani fuel further growth? Critics believed that it would be a watch-and-wait situation.
EXHIBIT 1: CHOBANI’S U.S. SALES OF GREEK YOGOURT IN 2007−2015 (US$ BILLION)


EXHIBIT 2: CHOBANI’S MARKET SHARE IN THE U.S. GREEK YOGOURT MARKET

ENDNOTES

1 This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Chobani or any of its employees.


7 rBST is a growth hormone that is administered to cows so they can produce more milk. Administering this growth hormone results in a more efficient conversion of cow feed to milk. Though the U.S. Food and Drug Administration has not found in its tests any adverse effect on humans when they drink rBST-administered cow’s milk, some retailers avoid stocking milk that is produced by cows who have been administered this growth hormone (see “What is rBST?” AnimalSmart.org, accessed September 21, 2016, http://animalsmart.org/feeding-the-world/food-safety/rbst).


9 Vanessa V. Edwards, op. cit.

10 Rotogravure is a printing process that allows the printing of rich, colourful images in large quantities. This process is extensively used for producing fine and detailed photographs or images for newspaper supplements, catalogues, calendars, etc. Nevertheless, rotogravure is an expensive printing process. Compared to the traditional lithographic press, a rotogravure press is 10 times more expensive (see “Gravure Printing,” Printers’ National Environmental Assistance Center, accessed September 21, 2016, www.pnec.org/printprocesses/gravure/).

cup.

yogurt-experience.


14 All currency amounts are in US$ unless otherwise specified.

15 Bryan Gruley, op. cit.


19 Monica Watrous, op. cit.


23 Bryan Gruley, op. cit.

company.html?_r=1&module=ArrowsNav&contentCollection=Business%20Day&action=keypress&region=FixedLeft&pctype=article.

25 The Chobani Story, op. cit.


Ibid.


United States Olympic Committee, op. cit.


Craig Giammona, op. cit.

Stephanie Strom, op. cit.


SCDigest Editorial Staff, op. cit.