A1 steak sauce

Business, Marketing

A1 Steak Sauce and Marinades| To:| Smith, Chuck | From:| | CC:| | Date:| | Re:| Lawry's Defense| Comments:| Issue Lawry is attempting to release a new steak sauce that should penetrate the market by early April. Obviously a new player in the market is not a major concern to A1/Kraft, having over 50 percent of the market share. The best case scenario for Lawry is that they will only gain ten percent of the market share. The direct threat for A1 lies with Lawry's marketing tactics. Lawry is attempting to launch a Memorial Dayadvertisementwith Publix, offering a two-for $5 promotion.

The issue is that retailers generally support only one brand in a particular category in a given week. In recent years A1 has always locked in that spot. Aside from Lawry's promotion dates, their promotion price is also a major concern. A1 sells over ten percent of their yearly volume each promotion during the summer holiday promotion weeks of Memorial Day and the Fourth of July. Generally A1 would run a fifty cent off promotion with the unit sale price lowered to $4. 49. As the category leader in the steak sauce, A1 has been able to continually increase sales revenue by relying on price increases.

The price increase is the primary way that A1 is able to increase revenue since volume has been stagnant the past few years. [Appendix A is a SWOT analysis displaying the internal and external factors that contributes to A1's current dilemma] Evaluating Alternatives A1 Steak Sauce has several alternatives to evaluate. A1 can be proactive or reactive. By taking the proactive approach, A1 can beat Lawry at its own game of strategic pricing. Option 1: A1 can directly price match and copy the promotions of Lawry. A1

Steak Sauce will considerably drop its prices, which will clutch all of Lawry's forecasted sales.

However, it will not only affect Lawry but it will decrease A1's potential of future revenue too. Option 2: A1 can do a similar price match of a " two-for" special. Rather than a two-for-$5, A1 could shoot for a more reasonable approach of two-for- $8. Although both scenarios will require the same amount of units sold (sold in pairs) in order to breakeven. [Appendix B shows Pro Forma for Option 1 and Appendix C shows a Pro Forma for Option 2] A1 can also take a reactive approach by increase its advertising while Lawry is running its two-for-$5 promotion.

A1 Steak Sauce can pay for more efficient shelf spacing in the retail outlet. This will include end caps, more facings in the stores, larger and increase signage (bigger and better than what they have done in years past). A1 can also use their brand recognition to their advantage by ensuring more restaurants that publically use A1 display their products, rather it's on the menu or tables. Currently A1 spends roughly 15% of total revenue on advertising. Option 3: A1 could simply increase their percentage of revenue to marketing and adverting from 15% to 20%.

This approach will decrease A1's net profit by roughly 7. 5million (with the worst case scenario that A1 will not increase sales at all) but it will allow A1 to increase its brand awareness and make it substantially harder for Lawry to penetrate the market with its new steak sauce. [Appendix D displays A1's pro forma with the original 15% of revenue funding its marketing while Appendix E displays an increase to 20% of revenue funding marketing initiatives]Recommendation: Based on the financial analysis of each option, Option 2 would be the best approach for A1.

Although each scenario is profitable, Option 2 has more incentives than the other options. Option 2 would be a better deal for A1 because it will generate over 17 million dollars more in profit than Option 1. It will take 38k units to breakeven or 19k pairs on sale for two-for-$8. The breakeven amount is not that far off from what A1 is already accustom to meeting. The price cut alone would be also be great incentive for the customers because they will save $2 ($1 per unit) rather than the normal fifty cent.

That $2 reduction will be very favorable for A1 granted that it’s will go into effect during the holiday season when shoppers are looking for a bargain, especially while the cost of beef is going through inflation. Additionally, the amount ofmoneyspent on advertising will not increase compared to Option 3, so A1 can stick to their normal tactics and not have to focus on cutting cost elsewhere to cover the increase in advertising. | APPENDIX Appendix A: SWOT Analysis