Assignment 1 procter and gamble company case

Assignment 1: Procter & Gamble Company (A) Case Analysis (Submitted in fulfillment of the assignments for Marketing Management) Indian Institute of Foreign Trade, Delhi Table of Contents Assignment ……………………………………………………………………… 4 Executive Summary ………………………………………………………………… 4 2. Analysis ……………………………………………………………………… Recommendations ………………………………………………………………… 13 Assignment To analyze the Procter & Gamble Company (A) Case to take decision related to LDL brands from the available options. What effect would each option have on each of the existing LDL brands? To make recommendations based on understanding of the long- and short-term profit and volume implications of each of the options. Executive Summary

Chris Wright, associate advertising manager of Packaged Soaps and Detergents(PS&D) division at Procter and Gamble (P&G) needs to evaluate how to increase the volume of its light duty liquid (LDLs). 3 alternatives for volume growth are considered for analysis based on the market segment (price/ performance/mildness): (1) Introduction of a new brand like converting H-80 a research development into a product (2) Product improvement of an existing brand (3) Increased marketing expenditures on existing brands.

Ultimately he must make recommendations on the above. Packaged Soap & Detergent Division (PS&D) is facing an issue on how to retain its brand position while at the same time increase volume share and profits. 1. Introduction The Light Duty Liquid Detergents (LDL) Market: Market Statistics (1981): – Market Size:$ 850 Million – Volume: 59 million cases – Packaging:

Popular 32 oz and 22 oz1, Medium Size Packages were beneficial. May be because of the consumption pattern – Market Penetration: 90 % Of US household in 1980 to rise to 92% by1990.) Not much growth opportunity in market 2) Brand Association / Loyalty. 3) Products are in maturity phase. 4) Price completion high. 5) Key driver is volume 6) New entry by new player is though LDL Market Segments: Performance brands: which provide better cleaning benefits (35% volume) Mildness segment: which are gentle to the hand (37% volume /44% sales) Price segment: which are primarily low cost with no brand loyalty (28%volume) The LDL market is a mature market with the introduction of a new brand every 2? ears and an average of 2 price brands (which were sold to retailers for an average of $7. 5 per statistical case versus $17 per statistical case for premium priced mildness & performance brands) introduced and discontinued per year. P&G has 42% market share, followed by Colgate-Palmolive with a 24% share and Unilever with a 7% market share. The remaining 27% market is mainly generic and private labels. P&G LDL Brand: In the LDL segment P&G manufactures mainly 3 products i. e. Joy and Dawn in the performance segment and Ivory in Mildness Segment Performance | Mildness | Brand | Effect | | High | Medium | Dawn | Growth Opportunity | | | |(performance) | | | Medium | Medium | Joy | Unable to place the product as 2| | | |(performance) | times re-branding was done | | Medium | High | Ivory | Limited Market | | | |(mildness) | | 2. Analysis Procter & Gamble Company Situation Analysis: P&G is strongly positioned in Light-Duty liquid detergent (LDLs) category.

The LDL market can be segments on the basis of 3 benefits performance, mildness and price sensitivity. P&G has 3 products: Joy (Performance, 12.

1%), Ivory (Mildness, 15. 5%) and Dawn (Performance, 14. 1%). Wright is looking into the possibility of volume growth in terms of one of the three options: (a) Introduction of a new brand (b) Product improvement on existing brand (c) Increased market expenditure on existing brand Major Issues: In 1981, the Packages Soap and Detergent division of Procter and Gamble held 42% of light-duty liquid detergent industry sales. The market became quite static with limited growth forecasted in the future. Growth opportunities included the following: a) Brand introductions (price, mildness or performance) (b) Performance product improvements to all LDL's (Ivory, Dawn or Joy) (c) Increased marketing expenditures on a current brand New Brand Introduction issues: • A new brand is an appealing idea considering the success of the performance of brand Dawn. In two years, it rose to the number two position in the LDL category. Thus, the introduction of the higher performance product with formula H-80 was an important consideration. • The addition of H-80 would also mean PS&D division would sell three performance brands. If the brand is introduced, it can be reasoned that an initial market share of 2% could be attained.

This is due to the relative satisfaction of customers with their current brands and only 20% of people disliking scrubbing and cleaning greasing items. The 2% market share was also selected due to the results of past competitors like Colgate, having new brand introductions. • Additionally, the new product was estimated to grow at . 5% per year. This is slightly lower than the industry forecast of 1% growth for all LDL's. We feel this is further justified by low consumer interest due to their satisfaction with current brands. • Introducing a mildness brand is a logical consideration based on research

results on consumers wanting mildness more than other benefits. However, results also showed that other benefits had nearly equal appeal.

The new mildness brand will capture an estimated 3% share of market upon introduction. This rate is higher than the 2% performance brand because responses show customers want mildness more than any other attribute. The estimated growth rate is again . 5%per year for the same reasons as the performance brand. • Adding a new price detergent would diversify the current brand LDL portfolio. The LDL price segment market has been on a relative decline since 1973 (Exhibit 1). There is potential for growth if a product with equal benefits to competitors was introduced. Consumers are sensitive to LDL prices. 72% of respondents found LDLs economic to use.

However, it seems that price remains the smaller part of the market with 28% in 1981, thus we can reason that introduction into the market will also be relatively low. 1% initial market share is the estimate. Again the same growth rate of . 5% will apply for the next 4 years. [pic] • Overall, new brand introductions must take into consideration the affects of cannibalization. A new brand could capture 60% of its share from competitive brand, but the remaining 40% would come from Joy, Dawn and Ivory. Management must weigh the affects of cannibalization over a five-year period to see if sales and profit will be affected. As Exhibit 6 shows, the LDL industry is expected to sell 59. 4 million cases in 1983, 59. million cases in 1984, 60. 8 million in 1985, and 61. 1 million cases in 1986. For 1982, of the 59. 4 million cases, Ivory will hold 15. 5% share volume with 9. 2 million cases. Dawn will hold 14. 6% market share with 8. 6 million cases. Joy will hold 12. 1% market share with 7. 2 mill cases. Thus competitors are projected to sell 34. 4 million cases in

1982. This is calculated by subtracting P&G volume from the total industry volume. • Thus, the next step is to calculate volume gained from competitors and volume cannibalized from P&G brands. For a new performance brand, the first year market share is expected to be 2%. It is expected to grow at . %each year. Thus in year 1, 60% of the 2% will be attained from competitors, which equals 1. 2%. The remaining 40% will come from P&G brands, which equals . 8%. The 1. 2% is then applied to the 34214400 industry volume without PS&D products to calculate the volume gained from competitors, which equals 410572. 8. The . 8% is then applied to the sum of the 3 P&G brands projected to be sold in year 1. Summing Ivory, Joy and Dawn cases sold from above, a volume of 25185600 is estimated as seen in the PS&D volume without cannibalization. . 8% of the 25185600 cases is cannibalized and equals 201484. 8. Adding 410572. 8 gained from competitors and 201484. cannibalized from Joy, Dawn and Ivory equals 612057. 6 of new product total volume earned for the introduction of a new performance brand. PS&D volume after cannibalization equals 25596172. 8 which is the sum of cases sold for the 3 P&G brands, less the cannibalized volume from PS&D. Total volume for P&G with the inclusion of the new performance brand is PS&D volume after cannibalization of 25596172. 8 which includes 612057. 6 of new product total volume earned. [pic] • This same logic applies to the introduction of mildness brand with its initial market share of 3%, growing at . 5% each year. The same calculations can be done for the price brand. pic] Product improvement of an existing brand: Improving the current portfolio of products would allow P&G to lessen the costs of marketing expenditures while at the same time benefiting from the affects of H-80. Improving a current brand will eliminate the costs arising

from cannibalization. Improving on Ivory liquid, a mildness brand will increase market share due to the combination of the two highly preferred characteristics, mildness and performance. Ivory will capture a projected 17. 5% market share in the first year. At the end of 5years it is forecasted that Ivory will hold a 19. 5% market share. [pic] Behind Ivory, Dawn will hold a 16. % market share after the first year's H-80improvement. At the end of 5 years, 18. 6% of market will be attained by Dawn. The remaining brand, Joy will capture 15. 1% market share in the first year. Joy'sprojected profits represent forecasts for Ivory, Dawn and Joy if they maintained their current expenditures. 2. 5 New Brand Introduction: [pic] The introduction of a price brand is also not recommended. If PS&D was tointroduce a non-premium brand, the profit level will drop below 12% to roughly 6%. A1% market share, . 5% growth rate and 6% revenues will not come close to coveringthe 20 and 60 million needed to introduce a product. As a market leader PS&D isadvised to write off this option. 2. Product improvement of an existing brand: The projected market share volume is multiplied $17 and divided by 12% to determine profits. The 5-year profits are totaled and capital costs of 20 million and marketing expenditures of 10 million are subtracted out. This leaves bottom line of profits made with improvements to current brands. Below the improvements bottom line, the forecasted volume without improvements is given. This number is again multiplied $17 and divided by 12%. This leaves the profits for the current brand without improvements. Improvements to the Ivory brand after subtracting out capital costs and market expenditures will bring about a profit of 83 million.

This falls below the profit of 95million that Ivory will make without the expenditures. It is therefore recommended that PS&D maintain current actions without improvements to Ivory due to the high costs eating into profits. The same scenario applies to Dawn. 78 million can be made with the costs applied to improvements versus 95 million earned without altering. The same ‘ no go’ course of action is recommended for Dawn that was recommended for Ivory. The opposite holds true for Joy. It is recommended that Joy pursue improvements to its current brand. The difference in this case is that only 10 million is expected in marketing expenses with the ‘ no spot’ formula improvement.

With only 10 million being subtracted out over the previous 30, Joy is able to forecast profits of 101million. This falls above the 86 million projected for maintaining current expenditures. [pic] 2. 7 Increase Market Expenditures Considering the product features and their brand we try to get the brand equity for P&G products using brand resonance model [pic] Ivory is asking $ 4 million extra to increase the volume growth. Assuming that this will be one time expenditure and the increased imagery will help to retain increased volumes over the years, increasing market expenditures could have positive affects for the bottom line. [pic] Assumptions Recommendations

A combination of increased market expenditures and product improvements could increase the LDL’s market growth. Specifically, the Joy ‘ no spot’ formula would make$15 million, justifying a ‘ go’ decision for increased market expenditures and improvements. Although, H-80 would be a stronger performing formula for Joy, it is not demanded highly by consumers because they are satisfied with their current brands. The benefits associated with H-

80 can be attained through the use of Joy ‘ no spot’ at a less cost. Virtually they achieve the same objective of increasing performance but one is at a lower cost. Joy using ‘ no spot’ formula will be more commercial decision over implementing H-80 to it.

Promotional advertising from increased market expenditures can be executed by placing coupons in supermarket aisles and utilizing the Sunday paper insert section. Also, when people purchase any competitor brands, their receipts should provide a coupon for Joy with them. This will attempt to switch the consumer to the P&G brand. The other 2 million dollars will be aimed at keeping the slogan ‘ Joy cleans down to shine, and that’s a nice reflection on you. ’ Emphasis should be placed at ‘ no spot’ formula to educate customers. Additionally, ads placed on daytime talk shows and soap operas will appeal to the homemaking consumers. These marketing plan suggestions will lead to an estimated 15 million increase over a 5 year time period.