

Arctic power – a case analysis essay



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ARCTIC POWER—A CASE ANALYSIS

CURRENT SITUATION

It is the summer of 1987. Arctic Power laundry detergent has contracted with the consulting firm of Smith and Jones, LTD to assist Arctic Power in determining their strategic direction and their product positioning.

BACKGROUND AND HISTORY

Arctic Power, a laundry detergent specially formulated to clean in cold water, is part of Colgate-Palmolive Canada family of products. Colgate-Palmolive Canada is a wholly owned subsidiary of the multinational corporation Colgate Palmolive.

In 1986 Colgate-Palmolive had worldwide sales of \$4.9 billion with profits of \$178 million, with Colgate-Palmolive Canada having sales of \$250 million.

Colgate-Palmolive Canada (CPC) has a wide variety of household and personal care products. Among the most popular CPC brands are ABC, Arctic Power, and Fab laundry detergents, Palmolive dish soap, Ajax and Irish Spring body soaps, Ultra Brite and Colgate toothpaste, and Baggies storage bags.

Colgate-Palmolive Canada uses a product management system in which product managers are assigned specific responsibility for a specific brand such as Arctic Power. Their overall goals are to increase sales and profitability of their brands. The project manager is responsible for all the marketing functions, including planning, advertising, selling, promotion, and

market research. An assistant product manager is assigned to work with the product manager.

Prior to the late 1970's Colgate-Palmolive Canada supported their brands on a national basis, then changed strategy as CPC realized they were spreading their resources too thin. During the late 1970's through the early 1980's, CPC shifted to a regional strategy.

While Arctic Power was still distributed nationally, by the end of 1981, its share of the Canadian national market was 4% (consisting of an 11% share in Quebec, 5% in the Maritimes, and 2% elsewhere in Canada). As a result, Arctic Power was heavily marketed in Quebec and the Maritimes, with promotion support being withdrawn from the rest of Canada. This regional approach was successful as Arctic Power's share of the overall Canadian market increased to 6.4% in 1985, capturing 18% of Quebec, 6% of the Maritime markets while dropping to less than 2% elsewhere in Canada.

1986-87: THE WESTERN CAMPAIGN

With the success Arctic Power had in their regional strategy, Arctic Power launched a campaign to increase their market share in the provinces of British Columbia and Alberta. Their 1986 campaign's objectives were to maintain modest overall volume growth in Quebec and the Maritimes while developing the B. C and Alberta markets.

The short-term objective was to sustain unit growth while building cold water washing dominance.

The long-term objective was to become the number three brand of detergent with a 12% market share and deliver an 18% contribution margin.

Arctic Power's marketing strategy was to target women between ages 18-49, skewed towards the 25-34 age segment. This was to be accomplished through advertising in the media, consumer promotions, and trade promotions.

The media strategy objective was to achieve high levels of message registration through high message continuity and frequency.

The objective of the consumer promotions campaign is to increase the rate of usage in Quebec and the Maritimes by increasing purchase frequency. The objective in British Columbia and Alberta is to increase the rate of trial.

The copy strategy in Quebec/Maritimes was to convince consumers Arctic Power is the superior detergent for cold water washing. The benefit is when consumers are washing in cold water, Arctic Power will clean clothes and remove stains more effectively.

The copy strategy in B. C./Alberta was to convince consumers cold water washing is better than hot. The benefits from cold water washing are it reduces shrinkage, color run, and, energy costs.

The objective of the trade promotions is to maintain regular and feature pricing equal to Tide (the #1 detergent by far in the Canadian market) and encourage prominent shelf facings. Distribution targets are 71% in B. C and 56% in Alberta. A total of \$3. 46 million will be spent on trade promotions with \$1 million targeted to B. C. and Alberta.

Results of the Western Campaign

The results of the campaign clearly had an impact, particularly Alberta where brand and advertising awareness had increased. However, market share had risen and then it dropped towards the end of the campaign.

While the gain in market share in a mature, slow growing market can be encouraging; the cost of this growth was very high. With over \$2 million spent on targeting B. C and Alberta, it will take Arctic Power four years to recover their investment if they maintain market share and reduce spending to normal levels. Furthermore, their competitors in the Alberta market, frustrating Arctic Power in meeting their goals, were matching their promotions.

ARCTIC POWER'S MARKET SHARE

Region 1983 1984 1985 1986 1987*

National 4.7 5.6 6.4 6.5 6.7

Maritimes 5.3 5.7 6.3 6.3 6.3

Quebec 12.3 13.8 17.7 17.5 18.0

Ontario 0.9 1.1 1.1 0.8 1.0

Manitoba/Saskatchewan 0.2 0.2 0.1 0.1 0.1

Alberta 0.7 2.3 1.7 2.1 2.0

British Columbia 3.2 4.0 3.9 5.5 6.0

* Estimated

THE CURRENT DEBATE

Senior Product Manager Linda Barton favors using a regional strategy to promote Arctic Power. She believes a national campaign will provoke the competition, particularly Tide, into a trade promotion battle that will make obtaining market share and profitability margins extremely difficult to achieve. Assistant Product Manager Gary Parsons favors a national campaign. He believes Arctic Power is a quality product (equal to Tide), and if they can duplicate their British Columbia success nationwide, they will “turn the market on its ear.”

The doubling, in recent years, of Colgate-Palmolive Canada’s ABC detergent’s market share has to play a role in Arctic Power’s desire to achieve dramatic results. Any decision Barton and Parson agree on will have to be approved by the senior management of CPC.

EXTERNAL ANALYSIS

Customer Analysis

When it comes to laundry detergents, Canadians primarily think of one name, Tide. Procter and Gamble’s Tide detergent has captured over one-third of the market and is twenty percentage points ahead of its closest competitor in market share.

When people were asked about the benefits of washing in cold water, the results were astounding. The eight most common answers could be easily

divided into two categories – those who were money saving in nature (saves energy, cheaper, saves hot water, saves electricity) and those who related to the quality of the job performed (stops shrinkage, prevents color running, colors stay brighter, easier on clothes). The chart indicates that Quebec, the Maritimes, and British Columbia are more interested in the cost saving aspects of cold water washing. Conversely, Ontario, Alberta and the Manitoba/Saskatchewan believe cold water washing's positive treatment of clothes is its greatest benefit. The nation is actually divided on its perception of the benefits of cold water washing.

Arctic Power considers itself a premium product, using the same amounts of cleaning ingredients as Tide. However, Canadian consumers do not regard Arctic Power as a premium product. Clearly this is a substantial weakness for a product that is priced similarly to Tide and costs as much to produce as Tide. Alarmingly, Arctic Power is regarded roughly the same as Sunlight, and clearly inferior to Tide in cold water cleaning by Canadian consumers!

Thirty-nine percent of the Canadian market is held in Ontario and also Ontario has the highest return on media expenditure of any region. Ontario is changing the way it washes clothes. The proportion of households in Ontario that use cold water washing has increased from 14% in 1981 to 17% in 1986.

On average, Canadians kept 1.3 laundry detergents in their homes. This means one-third of buyers purchase more than one detergent.

BRAND IMAGES BY REGION (1986)

Image Measure (-5 to 5 points) National Maritimes Quebec Ontario Man/Sas
Alberta B. C

Arctic Power

Cleaning and removing dirt 1. 4 2. 0 2. 5 0. 8 0. 4 1. 0 1. 2

Removing tough stains 1. 1 1. 6 1. 9 0. 7 0. 3 0. 7 0. 9

Being a good value for the price 1. 1 1. 4 2. 6 0. 3 0. 2 0. 5 0. 9

Cleaning well in cold water 1. 6 2. 1 2. 8 1. 0 0. 4 1. 2 1. 3

ABC

Cleaning and removing dirt 1. 0 1. 9 0. 5 0. 9 1. 2 1. 2 1. 6

Removing tough stains 0. 5 1. 1 0. 0 0. 6 0. 7 0. 7 0. 9

Being a good value for the price 1. 5 2. 4 0. 8 1. 5 1. 7 1. 7 2. 1

Cleaning well in cold water 0. 6 1. 0 0. 1 0. 7 0. 7 0. 7 0. 7

Sunlight

Cleaning and removing dirt 2. 0 1. 9 1. 8 2. 4 1. 9 1. 6 1. 6

Removing tough stains 1. 6 1. 6 1. 5 1. 9 1. 4 1. 2 1. 2

Being a good value for the price 2. 0 1. 7 1. 9 2. 4 1. 8 1. 7 1. 5

Cleaning well in cold water 1. 4 1. 1 1. 5 1. 7 1. 2 1. 1 0. 7

Tide

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Cleaning and removing dirt 3. 4 3. 7 3. 2 3. 6 3. 5 3. 3 3. 2

Removing tough stains 3. 0 3. 1 2. 8 3. 3 3. 0 2. 7 2. 7

Being a good value for the price 3. 1 3. 1 3. 3 3. 1 2. 8 3. 0 2. 4

Cleaning well in cold water 2. 4 2. 3 2. 6 2. 5 2. 4 2. 3 1. 9

Competitive Analysis

CPC's competitors consist of two large consumer packaged goods companies: Procter and Gamble—with annual sales exceeding \$1 billion, and Lever Detergents—with annual sales in excess of \$400 million. Both are subsidiaries of multi-national firms. Each firm has talented and experience marketers, but they compete in a low-growth market where increased sales could be achieved only by taking market share from competitive brands.

While Tide and Arctic Power are equivalent brands in terms of cleaning power, Tide outsold Arctic Power by a 5 to 1 ratio in 1986. The market share for Tide has remained level (at approximately 34%) during the same time Arctic Power has enjoyed a market share increase from 4% to 6. 5%. Due to Tide's dominance in the detergent market, it will play an important role in any major change in Arctic Power's strategy.

Strengths:

Deep pockets

Solid market share

Talented and experienced marketers

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Weaknesses:

Low-growth market

Industry Analysis

The laundry detergent market in Canada can be described as mature, with unit sales increasing by approximately 1% annually and dollar sales increasing by about 5% annually.

Environmental Analysis

Regular cold water washing has increased nationally from 20% in 1981 to 29% in 1986. Another 25% of consumers could be described as occasional users of cold water for washing. Hence, 54% of Canadians wash in cold water.

INTERNAL ANALYSIS

Strengths

Arctic Power has the skill and resources of an international conglomerate (Colgate-Palmolive) to assist it in achieving its goals. This gives them plenty of stability and credibility with their customers, suppliers, and retailers. This also allows for them to have the advantages of economies of scale where they can negotiate favorable prices from suppliers and have display prominence from retailers. Colgate Palmolive has solid financial stability allowing it to obtain credit on favorable terms.

Weaknesses

Arctic Power is a quality product victimized by poor product positioning and marketing. While Arctic Power has the same amount of active ingredients as Tide, making it expensive to produce, it is viewed as a mid-level laundry detergent, or a cold water specialty product by Canadian consumers.

Consumers are reluctant to purchase an expensive detergent they feel is lacking in quality.

While Colgate-Palmolive is a large corporation, Arctic Power does not have a large enough market share to enable it to have the resources to compete nationally with the detergents having the largest market shares as its own brand. While Arctic Power expanded its market share during the campaign in western Canada, the costs of customer and trade promotions left it in an even more precarious financial situation. Arctic Power would be best served as being part of a concerted trade promotion strategy by Colgate-Palmolive supporting all Colgate-Palmolive brands.

Key Success Factors

In order to compete in the Canadian laundry detergent market, a company must have:

Sufficient manufacturing capacity to take advantage of economies of scale.

Sufficient financial resources to promote and sell your product on a regional or national basis.

A loyal customer base.

A distinctive quality to set it apart from its competitors.

Arctic Power clearly has the capability to compete and survive in the Canadian laundry detergent market, what must it do to thrive in the Canadian market?

OUR STRATEGY FOR ARCTIC POWER

It is the view of Spiel and Dimick, LTD, 1) Arctic Power must focus its strategy on becoming THE cold water laundry detergent; 2) align the products price and production costs to match the perceptions of the Canadian market; and 3) if possible, avoid competing head to head with Tide.

To arrive at our specific suggestions, we identified our strategic issues using the following criteria:

Does the option take into account current overall market trends?

Does the option consider trends in cold water washing?

Are we utilizing the use of ingredients in such a way that we can maximize market share and profitability?

As a result, we established the following strategic issues to be addressed:

How is our brand perceived in relation to other brands of laundry detergents?

How to increase awareness of the benefits of cold water washing?

How to overcome our weak market position in the critical Ontario market?

How to adjust our costs and prices to remain competitive and profitable, even when our competitors respond vigorously with promotion efforts of their own?

Options

We considered the following plans of action:

Continue with our current strategy of expanding in western Canada while maintaining our base in eastern Canada.

Duplicating our campaign in western Canada on a national basis as a premium detergent.

Target the cold water and second detergent market, while reducing the number of ingredients used and our prices.

We evaluated each option by asking some strategic questions: Does the plan adopted make Arctic Power a stronger, more profitable brand than it was previously? Are the revenues from expansion in new markets greater than the promotion and other costs associated with such expansion? Does the option help the “ bottom line?”

We rejected continuing on Arctic Power’s current course because the costs associated with expanding into western Canada were far greater than the increase in revenues. Furthermore, our competitors, particularly Tide, responded strongly to our efforts with promotions of their own, causing Arctic Power to further reduce prices and profitability. In the unlikely event that Arctic Power could reduce its promotional efforts to the levels before the

expansion into western Canada, it would take four years for the revenues from the increased sales to offset the increased promotion costs.

If continuing on Arctic Power's present course is a bad idea, then a national campaign as a premium detergent is an even worse idea. A national effort would provoke an all-out war with Tide, and Arctic Power does not have the resources to go head to head with Tide on a national basis. Such a course could even doom Arctic Power as an entity.

Our Choice

We decided the best course of action for Arctic Power was to target the growing cold water market and to become Canada's leading choice as a second detergent. While the option we chose is not as glamorous as competing to be Canada's number one premium laundry detergent, it is the most sustainable. An added benefit is we can lower the number of active ingredients used, allowing Arctic Power to:

Lower production costs and prices.

Retain profitability in the face of competitors' promotions.

Reduce Arctic Power's use of consumer promotions due to their overall price reduction strategy.

Our marketing strategy would consist of a national television advertising campaign to emphasize the benefits of cold water washing and to promote Arctic Power's position as the leading cold water washing detergent. We would immediately implement our cost reduction strategy while phasing in

our price reductions through the use of “ discount” coupons. This would allow Arctic Power to increase its margins while the brand is being repositioned. Once our price reduction strategy is complete, there will be less need for consumer discount coupons as our prices will already be lower. Arctic Power’s lower cost/price structure would allow it greater flexibility to respond to competitors’ promotion strategies.

Budget

Despite facing cutthroat competition that has seen the cost of goods sold rise 15% during the past three years and prices rise only 5%, Arctic Power should be able to continue to have an 18% contribution margin for its sales dollars. Our primary budget strategy would be to reduce costs and promotion expenses, while increasing the use of cheaper television and radio advertising. This would allow Arctic Power to increase brand awareness as well as promote the benefits of cold water washing. Arctic Power will also look to new cost saving technologies and other measures to assure profitability over the long run.

14 YEARS LATER: THE CONCLUSION

The year is 2001. Through the efforts of Smith and Jones, LTD’s marketing strategy, Arctic Power is the leading cold water laundry detergent in Canada and has expanded internationally. The 1987 Arctic Power campaign will be widely studied by MBA students from Palm Desert, California to Palm Beach, Florida as one of the great marketing success stories. Spiel and Dimick, LTD, will later go on to help some nerdy Bill Gates kid market this unique idea of his called Windows while assisting Al Gore in his new invention, the Internet.

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